

The Gym Limited

Annual report and financial statements for the year ended 31
December 2016

Registered number 05659669



The Gym Limited

Directors	R Darwin N Henwood (appointed 29 September 2016) J Treharne J G Spaven J Graham (resigned 1 September 2016)
Registered number	05659669
Registered office	5 th floor No. 1 Croydon 12-16 Addiscombe Road Croydon CR0 0XT
Independent auditor	Ernst & Young LLP 16 Bedford Street Belfast BT2 7DT

The Gym Limited

Directors' Report

for the year ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Future developments

The new financial year has started well and in line with the Board's expectations.

In 2017 we anticipate opening towards the top end of the guidance range of 15 to 20 sites. As in 2016, these site openings will be weighted to the second half of the year, with six sites expected to be open in the first half of the year.

Financial instruments

The Company has exposure to the following risks from its use of financial instruments:

- Liquidity risk
- Credit risk

The Board of Directors of the Group has overall responsibility for the establishment and oversight of the Company's risk management framework.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors of the Group. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and operational liabilities and by maintaining adequate cash reserves.

Credit risk

The Company's principal financial assets are bank balances and cash and trade and other receivables. The Company's credit risk is low as it has limited trade receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest rate risk for the business is considered to be low as all borrowings are at a fixed rate and are with intercompany partners.

Going concern

The directors have a reasonable expectation that the company has adequate resources based on continued support from its parent and fellow subsidiary companies, to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The directors who served during the year were:

R Darwin
N Henwood (appointed 29 September 2016)
J Treharne
J G Spaven
J Graham (resigned 1 September 2016)

Auditors


Ernst & Young LLP will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Disclosure of information to auditors

Having made enquiries of fellow directors and of the Company's auditors, each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board



R Darwin
Director
26 May 2017

The Gym Limited

Strategic Report

for the year ended 31 December 2016

Business review

During the year we increased our estate to 89 sites, up from 74 in the prior year. The 15 new sites were in line with our expectations and in the last two years we have delivered 34 new sites overall. The financial and operational results continue to be strong: total year end members increased by 19.1% to 448,000 (2015: 376,000); revenue increased by 22.6% to £73.5 million (2015: £60.0 million). Adjusted EBITDA increased by 34.4% from £17.0 million to £23.3 million. KPIs for the Group are defined in the Group's Annual Report at www.tggplc.com.

The profit for the year, after taxation, is £8.0 million (2015: profit of £5.8 million).

During the year the Company declared an interim dividend of £2.5 million (2015: nil). The directors do not recommend a final dividend (2015: nil).

During the year the company transitioned from FRS 102 to FRS 101 and has taken advantage of the disclosure exemptions allowed under this standard. The effects of the transition to FRS 101 are shown in note 22 to the financial statements.

As well as delivering strong results, we have laid down the foundations for the sustained growth of the business. This will help us to cement our market leadership in the rapidly growing low cost gym sector, as well enabling us to use our increased scale to investigate ways to grow further. The scale of the opportunity and our ability to deliver is as strong now as it ever has been.

Low cost gyms are a fast growing and developing market, and we continue to drive the expansion of the sector by attracting members that are new to the gym market, whilst also attracting members from more traditional gym operators. More than a third of our joiners have never been a member of a gym before. The market opportunity is constantly evolving. Low cost gym operators have an important role in providing affordable gym provision, particularly as some local authorities such as Manchester are seeking to find significant savings from their leisure budgets.

Delivering performance from gyms

The way our new sites mature over time remains predictable. At the year end we had 55 sites that had been open for more than two years. Progress has been made in driving profitability from the mature estate, evidenced by an increase in the mature EBITDA per site of 0.8% to £476,000 (2015: £472,000). This profitability per site has been achieved both from sites opened in the early years of the Group's history, as well as from the newer cohorts that have recently reached maturity: sites opened between 2008 and 2012 have an average EBITDA per site of £483,000, and sites opened between 2013 and 2014 have an average EBITDA of £465,000.

We still have a relatively immature estate with 34 sites having been open for less than two years. Our results benefit from profits earned from these sites even whilst they are maturing. Our new sites opened in 2015 and 2016 earned £3.8 million of site EBITDA during the year (2015: £4.5 million from new sites). The site opening programme was concentrated in the last quarter of 2016 and this had some impact on new site margin compared to 2015. We can expect to benefit from the growth of these sites as they mature during 2017 and beyond.

Improving operating efficiencies

We experienced an increase in the mature EBITDA margin in 2016 to 47.5% (2015: 46.3%). This has been achieved by our ability to deliver a low cost, technology led business model. We operate with disciplined cost control, which begins with selecting the right sites and negotiating acceptable levels of rent and other fixed costs (rates and service charges). The fixed cost percentage was maintained for the mature category at 26% of revenue in 2016 (2015: 26%). Unlike other leisure businesses, we have a known and predictable cost base. We negotiate fixed rental uplifts at years five and ten on the majority of our 15 year leases. The recent rateable value changes have enhanced our visibility on future payment levels. We have contracted on electricity and gas for the majority of our sites until 2019. Equally, our business model means that we are not exposed to significant cost pressures from the National Living Wage or from exchange rates.

This disciplined approach to delivering our cost base enables us to give our members the benefit of low cost gym membership at an average membership fee of £17 (2015: £16). Our offering continues to be consistently and genuinely low cost, with membership fees ranging from £10.99 to £28.99. Our strategy is to be the lowest cost quality operator in any given market and the success of this approach is shown by our rising membership numbers and the strength of our brand.

Achieving our rollout strategy

The low cost model continues to attract different types of operator. Increasingly, The Gym is sought by landlords for the best sites, assisted by the stronger financial covenant following the Group's IPO. Our disciplined approach to site rollout is key in delivering the high returns and sustained performance that we have seen from our mature sites.

We opened 15 sites in 2016. Our programme had a strong London bias with eight of the sites being within the M25. Some of the 2016 openings have been as strong in terms of the number of members at opening as the sites we opened in the earliest years of the business. There remains a substantial growth opportunity to expand our footprint across the UK. The type of space that we can use is highly flexible and varied – a real strength of our business model. In 2016, gyms opened in the lower floors of residential developments (Tooting, Southfields), an old car park (Blackpool) and vacant retail space (Oldham). We also refurbished one of the Fitness First sites that we acquired – this was reopened

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Strategic Report

for the year ended 31 December 2016

after a three week turnaround (Bristol Longwell Green). Small scale acquisitions, such as the four sites we have acquired from Fitness First, are a useful tool in delivering our rollout strategy. Other site opportunities are emerging as retailers look to reduce their amount of available space. In the first half of 2017, we will be opening a new gym at the Sainsbury's site in Murrayfield using some vacant first floor space.

Our new sites continue to trade well, in line with our expectations. Our pipeline is expanding rapidly and we entered the year with our strongest pipeline ever, with 17 sites exchanged. Consequently we are well positioned to achieve towards the top end of our guidance range of between 15 and 20 openings in 2017. Over the medium term we continue to believe that 15 to 20 openings per year will secure the appropriate level of scale and quality to grow our estate.

The strong returns on capital demonstrated from the mature estate are not yet fully benefiting from the reduction in costs that we have achieved in fitting out the new sites. Savings have been achieved on multiple stages of the fit-out process, including build costs, gym equipment and fixtures and fittings. During 2016 our average fit cost was £1.33 million compared to a historical average on mature sites of £1.49 million. The variety of sites that we open does result in this cost varying according to the type of building we select and also depends on the scale of landlord works required. In certain instances, in retail warehouse sheds predominantly in the North, we have achieved fit-out costs as low as £1.11 million.

Developing the customer proposition

The Gym benefited from new branding developed in 2015 and we have upgraded the sites with this new branding when their planned refurbishments became due. Eight sites, including our first ever site in Hounslow, have been refurbished across the estate, including a members' zone, new cardio equipment and rebranding. Refurbishments will continue to be important in sustaining the returns from our business model, with several sites due to be refurbished in 2017 that were opened in 2012.

Further developments have been made to our class offering as we continue to extend our range and number of classes. *Origin, a bespoke high intensity workout for members, is being trialled across The Gym this year. We continue to believe that in a no contract environment high levels of customer satisfaction are fundamental to customer retention and rejoiner levels. Our Net Promoter Score, which measures customer feedback, increased to 62.2% (2015: 60.2%) during the year. Feefo score (our online measure of customer satisfaction) was 91.6%. We intend to introduce member satisfaction as a metric within the incentive programme at site level during the coming year, further reinforcing its importance to the running of a successful gym.*

Focusing on our people

During the year the business has recruited new talent to ensure that we have the appropriate expertise to support continued growth in the medium term. Nick Henwood joined as our first ever Operations Director with previous experience in David Lloyd Leisure, Autoglass and Mothercare. In a business fast approaching 100 sites he is bringing important levels of structure and review to operations. Barney Harrison is our new Commercial and Marketing Director and has joined us from Sky, with experience at SkyBet and Sky Ireland. This is an important role as we seek out ways to improve customer acquisition and retention and to drive ancillary revenue.

The support of our people continues to be key to our success. Our people are highly engaged, passionate and committed to the significant business that we are creating. I have seen this first hand in witnessing their dedication in ensuring the new sites are launched successfully. Recognition of our people's hard work and high standards continues with the Company recently being awarded the Investors in People Gold award, the only gym business to have this accolade.

Our use of technology

Technology and systems are at the heart of our business and facilitate the low cost environment that we operate in. We intend to upgrade our capability in this area with the development of a new member management system in the coming year. In addition, we are working closely with our call centre provider to further improve performance in this critical area for member satisfaction. We have also refreshed and modernised our website to enhance customer conversion levels.

A new email sales platform was adopted in 2016 to improve the way we communicate with new and lapsed members. More of our marketing is now digital as the amount we dedicate to pay per click and search engine optimisation is expanded. We constantly seek ways of improving the efficiency of our marketing communications through text, email and local activity – all key tools in attracting new members in a local area. Increasingly, we are focused on retaining those members that join us through induction and other retention tools. However, we recognise that member attrition is a natural by-product of a no contract, flexible business model and that each member may have several membership events with us during their lifetime. We are also utilising technology in trials to grow ancillary revenue streams.

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Strategic Report

for the year ended 31 December 2016

Principle risks and uncertainties

In order to gain an understanding of the risk exposure of the Company, management reviews each area of our business annually and use a methodology that will assist the Company in measuring, evaluating, documenting and monitoring its risks within all areas of its operations.

We use our risk management process as described to identify, monitor, evaluate and escalate risks as they emerge, enabling management to take appropriate action wherever possible in order to control them and also enabling the Board to keep risk management under review. During the year the Board of the Group carried out a robust assessment of the principal risks facing the Company, including those that would threaten the Company's business model, future performance, solvency or liquidity.

The risk factors addressed below are those which we believe to be the most material to our business model, which could adversely affect the operations, revenue, profit, cash flow or assets of the Company and which may prevent us from achieving the Company's strategic objectives. Additional risks and uncertainties currently unknown to us, or which we currently believe are immaterial, may also have an adverse effect on the Company.

Principal risk	Impact	Mitigation
Competition		
The Company may face increased competition and pressure from competitor pricing decisions.	The ability of the Company to hold or increase prices and therefore achieve performance targets could be affected.	<ul style="list-style-type: none"> • Maintain price discipline and leadership. • Maintain focus on choosing the best sites in a geographical area. • Continue to invest in the member proposition.
Organic rollout		
Site scarcity may affect the delivery of our rollout plan.	Delays to our rollout plan may have adverse impact on growth targets and operational returns.	<ul style="list-style-type: none"> • Our highly experienced property team are focused on site selection and sourcing the best deals.
Member experience		
Failure to provide members with a high quality product and service would damage the Company's reputation.	Reductions in actual or perceived customer service could result in a decrease in membership numbers and revenue generation.	<ul style="list-style-type: none"> • Monitor utilisation, NPS & Feefo scores. • Enhance monitoring and feedback processes. • Ongoing review of equipment usage to ensure we meet member requirements. • Explore further innovations to improve the member experience
Staff retention		
Loss of key staff through retention policy and failure to manage succession.	A lack of experienced and motivated staff will have a detrimental impact on all areas of the business, from operations to central functions.	<p>The Company uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include:</p> <ul style="list-style-type: none"> • Competitive remuneration packages. • Opportunities to own shares in the Company. • Opportunities for training and progression. • Short, clear reporting lines. • Succession planning.

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Strategic Report
for the year ended 31 December 2016

Information technology dependency		
Our ability to enroll members, carry out online marketing activity, process payments and control gym access is dependent on the performance of our IT systems.	Disruption in critical IT systems could have a negative impact on our reputation and our ability to collect revenue.	<ul style="list-style-type: none"> • Our primary data systems are hosted by fully-qualified organisations in suitable data centres. • Our primary IT infrastructure is fully managed by specialist IT companies who provide best-practice architecture and support. • All membership and business information is backed up using third party locations. • Robust disaster recovery and business continuity plans are in place.
Data protection		
The Company holds business critical and confidential information electronically. A breach of security or data protection rules is a key risk.	Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.	<ul style="list-style-type: none"> • The Company's networks are protected by firewalls and secure passwords. • All sensitive online data capture and data presentation is SSL encrypted. Our website and member management system are scanned quarterly to be PCI compliant. Access to the central member database requires 2-Factor Authorisation. • All financial data relating to customers is stored on external PCI Compliant and, where relevant, BACS approved systems managed by external payment providers. The Company does not store or retain any customer financial data in its own online systems.
Outsourcing model		
The Company operates a largely outsourced model, including areas such as information technology systems, payment processing and marketing. It risks overdependence on third party operational delivery.	As the Company grows there is risk that delivery from service providers is either unreliable or of unsatisfactory quality.	<ul style="list-style-type: none"> • Ensure quality suppliers are chosen through well-run tender processes. • Understand and seek to mitigate supplier key-man risks. • Service level agreements for all key suppliers. • Members of management monitor service levels and hold suppliers to account. • Ongoing assessment of whether any services should be moved to an insourced resource.
Operational gearing		
High operational gearing from the fixed cost base.	A limited number of corrective options in the cost base could be made to correct any underperformance in membership numbers, which could have an adverse impact on profitability.	<ul style="list-style-type: none"> • Monthly monitoring and reforecasting of business performance at site level. • Active yield management on a gym by gym basis. • Regular financial management by senior management team and Board.

The Gym Limited
Strategic Report
for the year ended 31 December 2016

Regulatory		
Failure to adhere to regulatory requirements such as the Listing Rules, taxation, the Data Protection Act, health and safety requirements, planning regulations, noise abatement and advertising and marketing regulations.	Potential reputational damage and penalties.	<ul style="list-style-type: none"> • The Board has oversight over the management of regulatory risk and compliance, and delegates specific responsibilities to senior management. • Expert opinion sought where relevant. • Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act. • Third party health and safety risks assessments and audits carried out. Staff conduct periodic health and safety assessments. • Employment and continuous training and development of appropriately qualified staff.

By order of the board



R Darwin
Director
26 May 2017

The Gym Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

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

In preparing those financial statements, the directors are required to

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

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

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The Gym Limited

Independent Auditor's Report

to the members of The Gym Limited

We have audited the financial statements of The Gym Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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 Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements 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 company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Keith Jess (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Belfast

Date: 29 May 2017

The Gym Limited
Statement of Comprehensive Income
for the year ended 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
Revenue	4	73,539	59,979
Cost of sales		(830)	(1,073)
Gross profit		72,709	58,906
Administration expenses		(62,731)	(53,822)
Other income	5	-	1,105
Operating profit	5	9,978	6,189
Finance costs	8	(467)	(2,117)
Finance income	9	19	15
Profit before tax		9,530	4,087
Tax (charge) / credit	10	(1,502)	1,723
Profit for the year attributable to equity shareholders		8,028	5,810
Other comprehensive income for the year		-	-
Total comprehensive income attributable to equity shareholders		8,028	5,810
Reconciliation of operating profit to Adjusted EBITDA			
Operating profit		9,978	6,189
Depreciation of property, plant and equipment	11	12,693	10,907
Amortisation of intangible assets	12	302	308
Exceptional items	6	278	1,048
Other income	5	-	(1,105)
Long term employee incentive costs	20	69	-
Adjusted EBITDA		23,320	17,347

The Gym Limited
Statement of Financial Position
as at 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000	31 December 2014 £'000
<i>Non-current assets</i>				
Property, plant and equipment	11	99,037	85,237	67,510
Intangible assets	12	1,458	738	471
Deferred tax asset	10	-	706	-
Total non-current assets		100,495	86,681	67,981
<i>Current assets</i>				
Inventories	13	159	122	75
Trade and other receivables	14	7,151	5,381	3,723
Cash and cash equivalents		4,710	2,845	5,571
Total current assets		12,020	8,348	9,369
Total assets		112,515	95,029	77,350
<i>Current liabilities</i>				
Trade and other payables	15	35,784	24,752	25,845
Income taxes payable		77	-	73
Borrowings	16	-	-	3,613
Total current liabilities		35,861	24,752	29,531
<i>Non-current liabilities</i>				
Borrowings	16	10,000	10,000	6,556
Provisions	17	544	232	223
Deferred tax liabilities	10	475	-	1,017
Total non-current liabilities		11,019	10,232	7,796
Total liabilities		46,880	34,984	37,327
Net assets		65,635	60,045	40,023
<i>Capital and reserves</i>				
Issued capital	18	13,925	13,925	425
Share premium	19	37,633	37,633	37,633
Capital contribution	19	774	712	-
Retained earnings	19	13,303	7,775	1,965
Total equity shareholders' funds		65,635	60,045	40,023

These financial statements were approved by the Board of Directors on 26 May 2017.

Signed on behalf of the Board of Directors

R Darwin

Director

Company Registration Number 05659669

The Gym Limited
Statement of Changes in Equity
For the year ended 31 December 2016

	Issued capital £'000	Share premium £'000	Capital contribution reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2014	425	37,633	-	(2,674)	35,384
Profit for the year and other comprehensive income	-	-	-	4,639	4,639
At 31 December 2014	425	37,633	-	1,965	40,023
Profit for the year and other comprehensive income	-	-	-	5,810	5,810
Issue of Ordinary share capital	13,500	-	-	-	13,500
Capital contribution from parent company	-	-	712	-	712
At 31 December 2015	13,925	37,633	712	7,775	60,045
Profit for the year and other comprehensive income	-	-	-	8,028	8,028
Dividends paid (note 18)	-	-	-	(2,500)	(2,500)
Capital contribution from parent company	-	-	62	-	62
At 31 December 2016	13,925	37,633	774	13,303	65,635

The Gym Limited

Notes to the financial statements

1. General information

The Gym Limited ('the Company') is incorporated and domiciled in the United Kingdom with company number 05659669. The registered address of the Company is 5th floor, No. 1 Croydon, 12-16 Addiscombe Road, Croydon, United Kingdom, CR0 0XT.

2. Summary of significant accounting policies

Statement of compliance and basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 ('FRS 101') and in accordance with applicable accounting standards. The financial statements are presented in Pounds Sterling and all values are rounded to the nearest Pound, except where otherwise indicated.

This is the Company's first set of financial statements prepared in accordance with FRS 101. The previously presented financial information, for the year ended 31 December 2015, was presented under the previous FRS 102. Details of the transition are provided in note 22.

The Company's deemed transition date to FRS 101 is 1 January 2015, the beginning of the first period presented, and the requirements of IFRS 1 have been applied as of that date. IFRS 1 offers a number of exemptions from full retrospective application of applicable standards on transition to IFRS. It has been concluded that no exemptions are applicable to the Company.

The Company meets the definition of a qualifying entity under FRS 101 and has therefore taken advantage of the following disclosure exemptions available to it under FRS 101:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (b) the requirements of paragraph 91 to 99 of IFRS 13 Fair Value Measurement;
- (c) the requirements of IAS 7 Statement of Cash Flows;
- (d) the requirements of paragraphs 10(d), 10(f), 16, 39(c), 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- (e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (f) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share Based Payment;
- (g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- (h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Going Concern

The directors believe that the Company has sufficient financial resources and is well placed to manage its business risks.

The directors have a reasonable expectation that the Company has adequate resources based on continued support from its parent and fellow subsidiary companies, to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Revenue

Revenue, which is stated excluding value added tax and other sales related taxes, is measured at the fair value of the consideration receivable for goods and services supplied and non-refundable joining fees. Revenue from upfront longer term membership fees are recognised and spread over the appropriate period. Monthly membership fees paid upfront are recognised throughout the month the fee relates to. Non-refundable joining fees associated with monthly members are recognised immediately as revenue. Other income is recognised at the point of sale as this reflects the transfer of risks and rewards of ownership.

Cost of sales

Cost of sales comprise costs arising in connection with the generation of ancillary revenue, primarily vending machine costs and tanning bed costs, call centre costs, payment processing costs and costs arising from the operation of the Company's member management systems.

Exceptional items

Items that are material in size, unusual or infrequent in nature are included within operating profit and disclosed separately as exceptional items in the income statement.

The separate reporting of exceptional items, which are presented as exceptional within the relevant category in the income statement, helps provide an indication of the Company's underlying business performance.

The Gym Limited

Notes to the financial statements

2. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is calculated to write down the cost of the assets on a straight-line basis over the estimated useful lives on the following bases:

- | | |
|------------------------------------|------------------------|
| ▪ Leasehold improvements | over term of lease |
| ▪ Fixtures, fittings and equipment | between 3 and 10 years |
| ▪ Gym and other equipment | between 5 and 8 years |
| ▪ Computer equipment | 3 years |

The estimated useful lives are reviewed at the end of each reporting period and adjusted if appropriate. The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Certain costs incurred in connection with the development of software to be used internally or for providing services to customers are capitalised once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalisation include both internal and external costs, but are limited to those that are directly related to the specific project. Computer software costs are included at capitalised costs less accumulated amortisation and any recognised impairment loss.

Amortisation is calculated to write down the cost of the asset on a straight line basis over their estimated useful lives, over a maximum of 3 years. Useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs. For tangibles and intangibles the allocation is made to those CGU units that are expected to benefit from the asset, that being each trading health and fitness facility.

Any impairment charge is recognised in the income statement in the period in which it occurs. Where an impairment loss on other assets, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

The Gym Limited

Notes to the financial statements

2. Summary of significant accounting policies (continued)

Financial Instruments

Financial assets

The Company classifies its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Financial liabilities

The Company's financial liabilities comprise trade and other payables, borrowings and derivative financial liabilities.

The Company initially recognises its financial liabilities at fair value net of transaction costs where applicable and subsequently they are measured at amortised cost using the effective interest method. Transaction costs are amortised using the effective interest method over the maturity of the loan.

Receivables and payables with no stated interest rate that are due for settlement within one year are recorded at the transaction price. Any losses arising from impairment are recognised in the income statement within administration expenses.

Pensions

The Group operate a defined contribution scheme and pays contributions to publicly or privately administered pension plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Leases

Finance leases

Assets funded through finance leases are capitalised as property, plant and equipment, and are depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement on an effective interest rate basis.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease incentives

Lease incentives primarily include up-front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

Inventories

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

Trade and other receivables

Trade and other receivables consist mainly of prepayments and receivables relating to property leases.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank, short-term deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

Finance costs

Finance costs relating to borrowings are recognised in the income statement in the period in which they are incurred.

Current taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Income tax relating to items recognised in comprehensive income or directly in equity is recognised in comprehensive income or equity and not in the income statement.

The Gym Limited

Notes to the financial statements

2. Summary of significant accounting policies (continued)

Deferred taxation

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Share based payments

Equity-settled share based payments are measured at the fair value of the equity instruments at the grant date, which excludes the effect of non-market-based vesting conditions. The fair value at the grant date is recognised as an expense on a straight line basis over the vesting period, based on the Company's estimate of the number of equity instruments that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

3. Significant accounting judgements, estimates and assumptions

The preparation of the financial information in accordance with FRS 101 requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the period. The directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

Accounting estimates made by management are based on information available to management at the time each estimate is made. Accordingly, actual outcomes may differ materially from current expectations under different assumptions and conditions. The estimates and assumptions for which there is a significant risk of a material adjustment to the financial information within the next financial year are set out below.

Critical judgements in applying the Company's accounting policies

Depreciation and amortisation

Judgement is used in assessing useful lives and residual values of property, plant and equipment and intangible assets. The assets are depreciated or amortised over their estimated useful lives to their residual values. Details of the useful lives assigned to the Company's property, plant and equipment and intangible assets is included in note 2. The carrying values of such assets are included in notes 11 and 12.

The Gym Limited

Notes to the financial statements

3. Significant accounting judgements, estimates and assumptions (continued)

Provisions

Provisions have been made for dilapidations in respect of leased premises. These provisions are estimates, in particular the assumptions relating to restorations expenses, and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Further management have determined that in the majority of cases that likelihood of a liability arising is remote in the majority of instances as the Company enjoys security of tenure as tenant and therefore are unlikely to give up a site where it is trading profitably. However, if circumstances indicate otherwise the Company will recognise an appropriate provision. Details of provisions are set out in note 17.

4. Revenue

An analysis of revenue by service or product is as follows:

	2016 £'000	2015 £'000
Membership income	72,915	59,400
Other income	624	579
	73,539	59,979

5. Operating profit

Operating profit is stated after charging:

	2016 £'000	2015 £'000
Depreciation of property, plant and equipment	12,693	10,907
Amortisation of intangible assets (included in administration expenses)	302	308
Operating lease rentals	13,486	10,479
Loss on disposal of property, plant and equipment	30	98
Cost of inventory recognised as an expense	68	197
<i>Auditors' remuneration</i>		
Audit of the financial statements	38	32

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the consolidated financial statements of The Gym Group plc.

In the prior year, other income of £1,105,000 relates to a payment received on the surrender of a lease.

6. Exceptional items

	2016 £'000	2015 £'000
Costs in relation to IPO of parent company	-	236
Share based payment costs associated with IPO	-	712
Exploration of strategic options	-	100
Costs related to post IPO reorganisation	106	-
Costs associated with head office relocation	172	-
	278	1,048

The Gym Limited

Notes to the financial statements

7. Employee costs

	2016 £'000	2015 £'000
Wages and salaries	7,164	6,371
Social security costs	719	713
Other pension costs	153	153
Long term employee incentive costs (note 20)	69	-
	<u>8,105</u>	<u>7,237</u>

The average number of employees, including directors, during the year was:

	2016 Number	2015 Number
Operational	173	143
Administration	54	43
	<u>227</u>	<u>186</u>

8. Finance costs

	2016 £'000	2015 £'000
Loans from group undertakings	450	663
Finance leases and hire purchase contracts	-	1,112
Unwinding of discount	17	9
Exceptional finance costs	-	333
	<u>467</u>	<u>2,117</u>

9. Finance income

	2016 £'000	2015 £'000
Bank interest receivable	19	15
	<u>19</u>	<u>15</u>

The Gym Limited

Notes to the financial statements

10. Taxation

Tax on profit on ordinary activities comprises:

	2016 £'000	2015 £'000
<i>Current income tax</i>		
Current tax on profits for the year	350	-
Adjustments in respect of prior years	(29)	-
Total current income tax	321	-
<i>Deferred tax</i>		
Origination and reversal of temporary differences	1,457	(1,687)
Change in tax rates	-	(91)
Adjustments in respect of prior years	(276)	55
Total deferred tax	1,181	(1,723)
Tax charge / (credit)	1,502	(1,723)

The tax assessed on the profit on ordinary activities for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20.0% (2015: 20.25%).

The differences are reconciled below:

	2016 £'000	2015 £'000
Profit before tax	9,530	4,087
Tax calculation at standard rate of corporation tax of 20.0% (2015: 20.25%)	1,906	828
Expenses not deductible for tax purposes	180	(1,079)
Group relief received for no consideration	(279)	(1,436)
Change in tax rates	-	(91)
Adjustments in respect of prior years	(305)	55
	1,502	(1,723)

The Gym Limited

Notes to the financial statements

10. Taxation (continued)

The Finance Act 2013 reduced the main rate of corporation tax to 21% from 1 April 2014 and to 20% with effect from 1 April 2015. Further future rate reductions have been announced as part of the 2015 Budget and 2016 Finance Bill to 19% from 1 April 2017 and 17% from 1 April 2020. Therefore, a blended tax rate of 20.0% (2015: 20.25%) has been applied in calculating the income tax charge. Deferred tax assets and liabilities have been measured at the rate expected to be in effect when the deferred tax asset or liability reverses.

Deferred tax liability

	Accelerated capital allowances £'000	Losses £'000	Total £'000
At 1 January 2014	1,713	(455)	1,258
Prior year adjustment	(526)	-	(526)
Charge in year	581	(296)	285
At 31 December 2014	1,768	(751)	1,017
Prior year adjustment	55	-	55
Charge in year	(1,545)	(142)	(1,687)
Change in deferred tax rate	(91)	-	(91)
	-	-	-
At 31 December 2015	187	(893)	(706)
Prior year adjustment	(276)	-	(276)
Charge in year	564	893	1,457
	-	-	-
At 31 December 2016	475	-	475

The Gym Limited

Notes to the financial statements

11. Property, plant and equipment

	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Gym and other equipment £'000	Computer equipment £'000	Total £'000
<i>Cost</i>					
At 1 January 2014	41,841	3,083	19,260	365	64,549
Additions	15,978	1,054	7,526	178	24,736
Disposals	(1,067)	(104)	(1,129)	(10)	(2,310)
At 31 December 2014	56,752	4,033	25,657	533	86,975
Additions	17,364	1,549	9,428	391	28,732
Disposals	(89)	(13)	(298)	-	(400)
At 31 December 2015	74,027	5,569	34,787	924	115,307
Additions	16,729	1,178	8,257	381	26,545
Disposals	(100)	-	(244)	-	(344)
At 31 December 2016	90,656	6,747	42,800	1,305	141,508
<i>Depreciation</i>					
At 1 January 2014	4,237	1,047	7,627	220	13,131
Charge for the year	2,602	672	4,225	101	7,600
Disposals	(233)	(47)	(980)	(6)	(1,266)
At 31 December 2014	6,606	1,672	10,872	315	19,465
Charge for the year	5,745	656	4,329	177	10,907
Disposals	(42)	(7)	(253)	-	(302)
At 31 December 2015	12,309	2,321	14,948	492	30,070
Charge for the year	6,422	812	5,205	254	12,693
Disposals	(48)	-	(244)	-	(292)
At 31 December 2016	18,683	3,133	19,909	746	42,471
<i>Net book value</i>					
At 31 December 2014	50,146	2,361	14,785	218	67,510
At 31 December 2015	61,718	3,248	19,839	432	85,237
At 31 December 2016	71,973	3,614	22,891	559	99,037

The net book value of property, plant and equipment includes an amount of £nil (2015: £nil, 2014: £9,995,000) in respect of assets held under finance leases. The related depreciation charge on these assets for the period was £nil (2015: £1,472,000, 2014: £2,964,000).

The Gym Limited

Notes to the financial statements

12. Intangible assets

	Computer software £'000
<i>Cost</i>	
At 1 January 2014	643
Additions	237
Disposals	(5)
At 31 December 2014	875
Additions	575
At 31 December 2015	1,450
Additions	1,022
At 31 December 2016	2,472
<i>Amortisation</i>	
At 1 January 2014	267
Charge for the year	137
At 31 December 2014	404
Charge for the year	209
Accelerated write offs	99
At 31 December 2015	712
Charge for the year	302
At 31 December 2016	1,014
<i>Net book value</i>	
At 31 December 2014	471
At 31 December 2015	738
At 31 December 2016	1,458

13. Inventories

	2016 £'000	2015 £'000	2014 £'000
Finished goods and goods for resale	159	122	75

The Gym Limited

Notes to the financial statements

14. Trade and other receivables

	2016 £'000	2015 £'000	2014 £'000
Other receivables	926	394	474
Income and other taxes	-	6	35
Prepayments and accrued income	5,222	4,535	3,108
Amounts owed by group undertakings	1,003	446	106
	<u>7,151</u>	<u>5,381</u>	<u>3,723</u>

15. Trade and other payables

	2016 £'000	2015 £'000	2014 £'000
Trade payables	4,518	2,548	4,494
Social security and other taxes	265	-	-
Lease incentives and future rental increases	16,804	13,872	9,752
Accruals	8,327	5,487	3,384
Deferred income	3,775	2,845	2,232
Amounts owed to group undertakings	2,095	-	5,983
	<u>35,784</u>	<u>24,752</u>	<u>25,845</u>

Trade payables are non-interest bearing and are payable on average within 33 days (2015: 22 days, 2014: 30 days).

16. Borrowings

	2016 £'000	2015 £'000	2014 £'000
Amounts owed to group undertakings	10,000	10,000	-
Finance leases	-	-	10,169
	<u>10,000</u>	<u>10,000</u>	<u>10,169</u>
Due in less than one year	-	-	3,613
Due in more than one year	10,000	10,000	6,556
	<u>10,000</u>	<u>10,000</u>	<u>10,169</u>

Amounts owed to group undertakings are unsecured, bear interest at 4.5% and are repayable in more than one year.

The Gym Limited

Notes to the financial statements

17. Provisions

	Dilapidations £'000
At 1 January 2014	131
New provisions	89
Unwinding of discount	3
At 31 December 2014	223
Unwinding of discount	9
At 31 December 2015	232
New provisions	295
Unwinding of discount	17
At 31 December 2016	544

Provisions relate to potential payments for dilapidations to landlords. The timing of these payments is inherently uncertain, but would occur on exiting the related property lease.

18. Issued share capital

	2016 £'000	2015 £'000	2014 £'000
<i>Allotted, called up and fully paid</i>			
Ordinary shares of £0.01 each	13,925	13,925	425

The number of shares in issue is as follows:

	2016	2015	2014
Ordinary shares of £0.01 each	1,392,529,500	1,392,529,500	42,529,500

Each Ordinary share carries equal voting and distribution rights.

During the year an interim dividend of 0.18p per Ordinary share was declared. The Directors do not recommend a final dividend.

19. Reserves

Issued capital

The balance of issued capital comprises the nominal value of Ordinary shares issued.

Share premium

Share premium comprises the excess of consideration received over nominal value of Ordinary shares issued.

Capital contribution reserve

The capital contribution reserve represents capital contributions from The Gym Group plc in relation to share based payment charges.

Retained earnings

Retained earnings comprises cumulative comprehensive income and losses less equity dividends paid.

The Gym Limited

Notes to the financial statements

20. Share based payments

Employees were awarded shares in The Gym Group plc during the year under the following share based payment arrangements:

- a) The Gym Group plc Performance Share Plan
- b) The Gym Group plc Share Incentive Plan – Free shares
- c) The Gym Group plc Share Incentive Plan – Matching shares

In accordance with IFRS 2 'Share Based Payments', the value of the awards are measured at fair value at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period, based on management's estimate of the number of shares that will eventually vest. The Company recognised a total charge of £62,000 in respect of these share based payment arrangements and related employer's national insurance of £7,000.

The exercise price of all options under the schemes held during the year is 0.01p.

a) Performance Share Plan

The outstanding awards as at 31 December 2016 will vest after three years, subject to continued employment and the achievement of earnings per share and total shareholder return targets, with each target contributing to 50% of the vesting conditions. The maximum term of these awards is three years and settlement is in the form of shares. The weighted average remaining contractual life was 2.3 years at 31 December 2016.

a) Share Incentive Plan – Free shares

The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and vest in full at the end of the three year period. The weighted average remaining contractual life was 2.3 years at 31 December 2016.

b) Share Incentive Plan – Matching shares

Under the Matching shares award, for every share purchased by an employee the Company will award one Matching share, up to a maximum value. The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and vest in full at the end of the three year period. The weighted average remaining contractual life was 2.5 years at 31 December 2016.

The Gym Limited

Notes to the financial statements

21. Commitments and contingencies

Operating lease commitments

The Company has entered into leases on commercial real estate. These leases have an average outstanding life of 13.8 years (2015: 14.6 years) with no renewal option included in the contracts. There are no restrictions placed on the Company by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December, analysed by the period in which they fall due are as follows:

	2016 £'000	2015 £'000	2014 £'000
Within one year	13,222	10,053	7,075
Between one and two years	14,264	11,334	8,690
Between two and five years	44,720	35,904	30,852
Greater than five years	146,765	128,025	115,767
	<u>218,971</u>	<u>185,316</u>	<u>162,384</u>

Finance lease commitments

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are, as follows:

	2016 £'000	2015 £'000	2014 £'000
Within one year	-	-	4,644
Between one and two years	-	-	3,841
Between two and five years	-	-	3,568
Greater than five years	-	-	-
	-	-	12,053
Future finance charges	-	-	(1,884)
Present value	<u>-</u>	<u>-</u>	<u>10,169</u>

The present value of finance lease liabilities is as follows:

	2016 £'000	2015 £'000	2014 £'000
Within one year	-	-	3,613
Between one and two years	-	-	3,267
Between two and five years	-	-	3,289
Greater than five years	-	-	-
	-	-	10,169

21. Commitments and contingencies (continued)

Capital commitments

	2016 £'000	2015 £'000	2014 £'000
Contracted for but not provided	<u>1,804</u>	<u>2,342</u>	<u>3,394</u>

A cross guarantee exists between the Company and its parent company in respect of the parent company's bank facilities.

The Gym Limited

Notes to the financial statements

22. Transition to FRS 101

The Company previously prepared its financial statements in accordance with the FRS 102. These financial statements are the first the Company has prepared in accordance with FRS 101. Accordingly, the Company has prepared financial statements which comply with FRS 101 applicable for year beginning on or after 1 January 2015 and the significant accounting policies meeting those requirements are described in the relevant notes. In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2015, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2015 prepared under FRS 102 and its previously published financial statements for the year ended 31 December 2015.

The Gym Limited

Notes to the financial statements

22. Transition to FRS 101 (continued)

Reconciliation of equity at 1 January 2015

	Note	As previously stated £'000	FRS 101 transition £'000	Restated £'000
<i>Non-current assets</i>				
Property, plant and equipment		67,510	-	67,510
Intangible assets		471	-	471
Deferred tax asset	(a)	-	-	-
Total non-current assets		67,981	-	67,981
<i>Current assets</i>				
Inventories		75	-	75
Trade and other receivables		3,723	-	3,723
Cash and cash equivalents		5,571	-	5,571
Total current assets		9,369	-	9,369
Total assets		77,350	-	77,350
<i>Current liabilities</i>				
Trade and other payables	(a)	22,088	3,757	25,845
Income taxes payable		73	-	73
Borrowings		3,613	-	3,613
Total current liabilities		25,774	3,757	29,531
<i>Non-current liabilities</i>				
Borrowings		6,556	-	6,556
Provisions		223	-	223
Deferred tax liabilities	(a)	1,768	(751)	1,017
Total non-current liabilities		8,547	(751)	7,796
Total liabilities		34,321	3,006	37,327
Net assets		43,029	(3,006)	40,023
<i>Capital and reserves</i>				
Issued capital		425	-	425
Share premium		37,633	-	37,633
Capital contribution		-	-	-
Retained earnings		4,971	(3,006)	1,965
Total equity shareholders' funds		43,029	(3,006)	40,023

The Gym Limited

Notes to the financial statements

22. Transition to FRS 101 (continued)

Reconciliation of equity at 31 December 2015

	Note	As previously stated £'000	FRS 101 transition £'000	Restated £'000
<i>Non-current assets</i>				
Property, plant and equipment		85,237	-	85,237
Intangible assets		738	-	738
Deferred tax asset	(a)	-	706	706
Total non-current assets		85,975	706	86,681
<i>Current assets</i>				
Inventories		122	-	122
Trade and other receivables		5,381	-	5,381
Cash and cash equivalents		2,845	-	2,845
Total current assets		8,348	-	8,348
Total assets		94,323	706	95,029
<i>Current liabilities</i>				
Trade and other payables	(a)	20,288	4,464	24,752
Income taxes payable		-	-	-
Borrowings		-	-	-
Total current liabilities		20,288	4,464	24,752
<i>Non-current liabilities</i>				
Borrowings		10,000	-	10,000
Provisions		232	-	232
Deferred tax liabilities	(a)	187	(187)	-
Total non-current liabilities		10,419	(187)	10,232
Total liabilities		30,707	4,277	34,984
Net assets		63,616	(3,571)	60,045
<i>Capital and reserves</i>				
Issued capital		13,925	-	13,925
Share premium		37,633	-	37,633
Capital contribution		712	-	712
Retained earnings		11,346	(3,571)	7,775
Total equity shareholders' funds		63,616	(3,571)	60,045

The Gym Limited

Notes to the financial statements

22. Transition to FRS 101 (continued)

Notes to the reconciliations of equity

(a) Lease Incentives and fixed rent increases

Under the transitional provisions of FRS 102, the Company did not apply paragraphs 20.15A or 20.25A to lease incentives where the lease commenced before the date of transition to FRS 102. Under FRS 101, the Company has applied the accounting treatment to all leases.

The net impact on 'Trade and other payables' is as follows:

	2015 £'000	2014 £'000
Trade and other payables - current	<u>(4,464)</u>	<u>(3,757)</u>

This treatment gives rise to tax relief in the year of transition, resulting in the following increase in deferred tax balances:

	2015 £'000	2014 £'000
Deferred tax balances	<u>893</u>	<u>751</u>

Statement of comprehensive income for the year ended 31 December 2014

	Note	As previously stated £'000	FRS 101 transition £'000	Restated £'000
Revenue		45,480	-	45,480
Cost of sales		(1,040)	-	(1,040)
Gross profit		44,440	-	44,440
Administration expenses	(a)	(37,311)	(729)	(38,040)
Other Income		-	-	-
Operating profit		7,129	(729)	6,400
Finance costs		(1,409)	-	(1,409)
Finance income		20	-	20
Profit before tax		5,740	(729)	5,011
Tax charge	(a)	(372)	296	(76)
Profit for the year attributable to equity shareholders		5,368	(729)	4,639
Other comprehensive income for the year		-	-	-
Total comprehensive income attributable to equity shareholders		5,368	(729)	4,639

The Gym Limited

Notes to the financial statements

22. Transition to FRS 101 (continued)

Statement of comprehensive income for the year ended 31 December 2015

	Note	As previously stated £'000	FRS 101 transition £'000	Restated £'000
Revenue		59,979	-	59,979
Cost of sales		(1,073)	-	(1,073)
Gross profit		58,906	-	58,906
Administration expenses	(a)	(53,115)	(707)	(53,822)
Other Income		1,105	-	1,105
Operating profit		6,896	(707)	6,189
Finance costs		(2,117)	-	(2,117)
Finance income		15	-	15
Profit before tax		4,794	(707)	4,087
Tax (charge)/credit	(a)	1,581	142	1,723
Profit for the year attributable to equity shareholders		6,375	(565)	5,810
Other comprehensive income for the year		-	-	-
Total comprehensive income attributable to equity shareholders		6,375	(565)	5,810

Notes to the statements of comprehensive income

(a) Lease Incentives and Fixed Rent Increases

The impact of the change in accounting treatment for lease incentives and rental increases described above is:

	2015 £'000	2014 £'000
Administrative expenses	(707)	(729)

This treatment gives rise to tax relief in the year of transition, resulting in the following increase in deferred tax credits:

	2015 £'000	2014 £'000
Tax credit	142	296

23. Ultimate group undertaking

The Company's immediate parent undertaking is The Gym Group Operations Limited.

The Company's ultimate parent undertaking is The Gym Group Plc. The company is included within these group accounts which are publicly available from www.tggplc.com.