The Gym Limited

Annual report and financial statements for the year ended 31 December 2017

Registered number 05659669

The Gym Limited
Company Information

Directors	R Darwin N Henwood J Treharne J G Spaven
Registered number	05659669
Registered office	5th 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 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Share Capital
On 21 December 2017 the share capital of the Company was increased following the capitalisation of £25,347,000 of intercompany debt following the issuance of 2,534,700,000 ordinary shares of £0.01 each.

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

In 2018 we anticipate opening towards the top end of our external guidance range of 15 to 20 sites, and expect openings to be more evenly weighted throughout the year with six in the first half of the year. South East openings are more likely to be geared towards the second 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 Company 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 Company. 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
Interest rate risk for the business is considered to be low as all borrowings are at a fixed rated 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
J Treharne
J G Spaven

Subsequent events
On 28 and 29 March 2018 the Company declared and paid dividends of £1.7 m and £1.2 m respectively.

Further on 4 July 2018, the Company acquired 13 gyms from EasyGym for an initial cash consideration of £20.6 m, with an additional £4.1 m payable when lease extensions are agreed on two sites. The acquisition was part-funded by an equity placing of £24.0 m by The Gym Group Plc and an extension of the Group banking facilities of £10.0 m. Funds from these activities were made available by The Gym Group Plc to the Company to fund the transaction.

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
5 July 2018

Business review

During the year we expanded our estate by 31 sites, up from 89 in 2016 to 120 at the end of 2017. 21 of these new sites were as a result of our organic opening programme. In September 2017, the acquisition of 10 additional sites from Lifestyle Fitness gave us a strong set of profitable locations to convert into The Gym brand and develop our geographic footprint. Additionally a fellow group company entered into a licensing agreement with Lifestyle Fitness for a further eight sites acquiring the trading assets.

This expansion substantially grew our membership base with total year end members up 30.8% to 586,000 (2016: 448,000) and average members up 22.2% to 523,000 (2016: 428,000). The impact of this growth is demonstrated by increases in all our key metrics; revenue up 23.0% to £90.4 million (2016: £73.5 million) and Adjusted EBITDA up by 17.6% to £27.4 million (2016: £23.3 million). KPIs for the Group are defined in the Group's Annual Report at www.tggplc.com. The statutory profit before tax decreased to £8.7 million (2016: £9.5 million) primarily due to increased level of exceptional costs associated with the integration and restructuring costs.

During the year we put in place foundations that will enable us to support a business of size and substance. A key part of this was the launch of a new Member Management System in July, an infrastructure development that gives us the flexibility and ability to launch new products and react to changes in market conditions through our pricing structure. It is the backbone of our technology architecture. To launch such a major technological change in a 24/7 business without any interruption in member service was an excellent achievement by our team. The development effort will continue in 2018 as we plan the launch of a new Enterprise Resourcing Planning (ERP) platform, a development that gives the finance team the capability to support the increased scale of the business.

The low cost gym market is developing and growing rapidly, and our investment strategy has allowed us to take advantage of these market trends. The Company achieved 2/3rds of the estimated net site growth of the low cost market between March 2017 and December 2017. Overall our market share is up from 17.7% in March 2017 to 22.4% in December 2017. Our model continues to attract new members, including first time gym-goers who are new to the market, as well as taking share from other operators. We have introduced affordable health and fitness provision for those that previously couldn't access it. In doing so, we are positively impacting the nation's collective fitness, a great purpose for a business. Even if the economic environment becomes more difficult, we believe that our core proposition of a quality low cost operation will continue to flourish.

Improving operating efficiencies

Mature EBITDA margin in 2017 was 47.0% (2016: 47.5%), reflecting our continued ability to apply our operating model across a business of growing scale. We continue to operate with disciplined cost control, selecting the right sites and negotiating acceptable levels of rent and other fixed costs (rates and service charges). This is assisted by a stronger covenant with landlords through being a listed company.

Our membership is the beneficiary of the low cost base, as we pass on the positive impact of disciplined cost control to them. This means an average headline price of £17.56 (2016: £17.00) and a membership fee range (excluding LIVEIT.) of £10.99 to £28.99 per month. We do however, endeavor to increase yield wherever the local market allows and pricing decisions are intelligently made through a combination of data analytics and local market intelligence. Average revenue per member per month increased 0.7% across our estate and we expect further progress in 2018 as sites become more established. Revenue progression will be enhanced by the integration of the Lifestyle sites into our operating model and will benefit from the rollout of the LIVE IT., our premium pricing initiative, across the estate.

Achieving our rollout strategy

We organically opened 21 sites in 2017. As in recent years there was a strong London bias, with seven of the sites located within the M25 and a further five within the South East. Our proposition goes from strength to strength, and one recent opening saw our record for the largest number of members on launch (day one) broken. Small scale acquisitions from previous years contributed to the strong organic growth as we converted three sites acquired from Fitness First in 2016. We continue to view the acquisition of existing gyms as an important element of our growth plan, and at the end of 2017 we were able to acquire a site in Aylesbury from another operator.

It is encouraging that the availability of excess space from retailers is increasing. Sites in Edinburgh, Walthamstow and Altrincham have arisen from retailers giving up such space. Other sites we have opened are located in new build developments or were previously used for alternative leisure activities.

Our new sites continue to trade well, in line with our expectations. Encouragingly, our pipeline is strong and expanding rapidly and we entered 2018 with the confidence that we will once again be able to open between 15-20 sites in the coming year.

The strong returns on capital are now benefiting from the savings which have been achieved on multiple stages of the fit-out process, including build costs, gym equipment and fixtures and fittings. During 2017 our average fit-out cost was £1.35 million compared to a historical average on all mature sites of £1.46 million. In the coming year we will once again be tendering our gym equipment supply contract, using our increased scale to benefit capital cost.

Business review (*continued*)

Developing the customer proposition

Our latest branding means that sites are modern, well-equipped and well-lit as our members expect. We refurbished 17 sites in 2017 taking advantage of their cyclical five year refurbishment to bring them in line with our latest specification. By the end of 2018 we expect all our sites to have been updated to a common and high quality standard. Our experience is of improved performance levels on the completion of a refurbishment, giving us the ability to relaunch the site to prospective members.

During the year we introduced a new system of tracking Net Promoter Score, which measures customer feedback, enabling us to introduce member satisfaction as a metric within the incentive programme at site level. This system is still in its implementation phase. The previous system, which ran until June 2017, showed an NPS of 63% - a continuation of the high levels achieved in previous years. We continue to see member service as a key differentiating factor in the running of a successful low cost gym and this new system is a key part of improving the already high standards across our estate.

The most significant innovation in 2017 was the launch of LIVEIT. our premium pricing product. The early results from this were promising, allowing us to expand the initial rollout to the whole estate. LIVEIT. gives members four specific benefits; the ability to bring a friend, multi-site access, use of a fitness measurement machine (Fitquest) and affiliate member offers from third parties. The rollout is on course to complete by May 2018. LIVEIT. is just one part of our strategy to drive yield. Price increases for new members are introduced where applicable, and as markets mature a discounted joining fee is used as a key promotional tool to drive volume.

Our people

During the year we announced plans to trial a new operating model within our estate that would enable some of our Personal Trainers to take up part time employment. Outside of the contracted 12 hours, they will continue to run their business on a self-employed basis in our gyms by payment of a rent. The trials are proceeding according to plan and we are in the process of extending the trial, with a full scale rollout currently scheduled in for the summer. The new model is driven by our desire to improve member satisfaction by exercising control over Personal Trainers in their contracted hours. We are confident that this significant change will deliver tangible benefits and importantly retain the competitive advantage that we have that enables us to have the best Personal Trainers operating out of our gyms.

During the year the business has recruited new talent to ensure that our Marketing, Technology and Finance teams have the scope to operate the business at the scale that is required. The benefits of this investment have already been seen in the various value-enhancing projects that have been launched in the year including the new Member Management System, the Lifestyle acquisition and the LIVEIT. launch. Enhancing our quality team and business infrastructure enables us to drive the business forward at pace. Throughout the business our culture remains to drive performance at a local level while providing high quality central support. This is a philosophy that has served the business well in its first 10 years and will, I am sure, continue to do so in the coming years. The commitment of all our people remains key to the success of this business whether it be in supporting new site openings or in the day to day operations. We were delighted that at our employee conference in 2017 we were able to recognise 20 employees who have been with us for more than five years and I hope this number grows exponentially in the coming years.

Our use of technology

With the launch of the new Member Management System now complete, the business can focus on using its technological edge to drive performance. Part of this includes using the newly-created platform to launch functional improvements that enhance the customer journey. We will continue to research ways in which using technology will enhance the customer experience for existing members. We are also seeking to improve conversion levels through our website. Artificial Intelligence that can drive efficiencies in our operating processes, dynamic pricing and the development of an app are also part of the plan. Technology and systems development such as the ERP project will remain fundamental to the delivery of our business model and help to facilitate the low cost environment that we operate in.

2017 was also the year when we started to realise the benefits of past technology investment. This includes use of the email sales platform (Salesforce), the new website and a business intelligence platform that supports the data analytics team. In a data rich business we increasingly see the potential to enhance performance and efficiency by using data gathered on member behavior. We believe this is an area of significant competitive advantage compared to the traditional market.

During the past 12 months, we have celebrated a number of key milestones, not least our 10 year anniversary from when I founded the business. The launch of the 100th gym at Feltham by Jonnie Peacock was a great way to celebrate, and we are well on our way to the next landmark with site numbers having increased to 128 at the year end. We also welcomed our 100 millionth member visit in November. While we celebrate these successes, we remain fiercely ambitious to establish new milestones as we grow the business.

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 Company 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 *Strategic driver: Innovation, customer satisfaction*		
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.	• 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 *Strategic driver: 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.	• Our highly experienced property team are focused on site selection and sourcing the best deals.
Member experience *Strategic driver: Customer satisfaction, innovation*		
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.	• 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 *Strategic driver: Our people*		
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.	The Company uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include: • Competitive remuneration packages; • Opportunities to own shares in the Company; • Opportunities for training and progression; • Short, clear reporting lines; • Succession planning.

Principal risk	Impact	Mitigation
Project implementation (new) *Strategic driver: Innovation, business and financial model*		
As the business increases in scale it has engaged or is contemplating a number of wide ranging and significant projects. Risk inherent in such projects relate to integration, cultural and execution	Failure to address any of these risks could cause impact from minor inconvenience to major business interruption	The risk will be mitigated by having appropriate project Governance procedures in place, to include • Project sponsor • Project steering Group • Project plan • Appropriate level of due diligence • Integration plan
Information technology dependency *Strategic driver: Innovation, business and financial model*		
Our ability to enrol 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.	• 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 *Strategic driver: Business and financial model*		
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.	• The Company's networks and systems are protected by firewalls, security software and secure passwords. • A full GDPR compliance programme is being delivered with support from external legal and cyber security specialists. • All sensitive data is captured and presented using SSL encryption. Our transactional website is scanned quarterly to ensure PCI compliance. • Access to central member data systems requires 2-Factor authentication. • All customer payment data is stored externally on systems that are PCI-DSS and/or BACS certified.
Outsourcing model *Strategic driver: Business and financial 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.	• 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.

Principal risk	Impact	Mitigation
Operational gearing *Strategic driver: Business and financial model*		
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.	• 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.
Regulatory *Strategic driver: Business and financial model*		
Failure to adhere to regulatory requirements such as the Listing Rules, taxation, the Data Protection Act, Employment law, Health and Safety requirements, planning regulations, noise abatement and advertising and marketing regulations.	Potential reputational damage and penalties	• 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
5 July 2018

The Gym Limited
Directors' Responsibilities Statement

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 Companies Act 2006 and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework". 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Gym Limited
Independent Auditor's Report
to the members of The Gym Limited

Opinion
We have audited the financial statements of The Gym Limited for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of changes in equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Ernst & Young LLP

Michael Christie (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast
Date 5/7/18

The Gym Limited
Statement of Comprehensive Income
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Revenue	4	90,390	73,539
Cost of sales		(943)	(830)
Gross profit		**89,447**	**72,709**
Administration expenses		(80,301)	(62,731)
Operating profit	5	**9,146**	**9,978**
Finance costs	8	(462)	(467)
Finance income	9	12	19
Profit before tax		**8,696**	**9,530**
Tax charge	10	(2,196)	(1,502)
Profit for the year attributable to equity shareholders		**6,500**	**8,028**
Other comprehensive income for the year		-	-
Total comprehensive income attributable to equity shareholders		**6,500**	**8,028**

The Gym Limited
Statement of Financial Position
as at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	11	131,882	99,037
Intangible assets	12	14,165	1,458
Total non-current assets		146,047	100,495
Current assets			
Inventories	13	197	159
Trade and other receivables	14	10,135	7,151
Cash and cash equivalents		465	4,710
Total current assets		10,797	12,020
Total assets		**156,844**	**112,515**
Current liabilities			
Trade and other payables	15	45,038	35,784
Income taxes payable		766	77
Provisions	17	487	-
Total current liabilities		46,291	35,861
Non-current liabilities			
Borrowings	16	10,000	10,000
Provisions	17	700	544
Deferred tax liabilities	10	2,078	475
Total non-current liabilities		12,778	11,019
Total liabilities		**59,069**	**46,880**
Net assets		**97,775**	**65,635**
Capital and reserves			
Issued capital	18	39,272	13,925
Share premium	19	37,633	37,633
Capital contribution	19	1,067	774
Retained earnings	19	19,803	13,303
Total equity shareholders' funds		**97,775**	**65,635**

These financial statements were approved by the Board of Directors on 5 July 2018.

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 2017

	Issued capital £'000	Share premium £'000	Capital contribution reserve £'000	Retained earnings £'000	Total £'000
1st January 2016	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	-	-	62	-	62
At 31 December 2016	**13,925**	**37,633**	**774**	**13,303**	**65,635**
Profit for the year and other comprehensive income	-	-	-	6,500	6,500
Issue of Ordinary share capital	25,347	-	-	-	25,347
Deferred tax on share based payments			44		44
Capital contribution from parent	-	-	249	-	249
At 31 December 2017	**39,272**	**37,633**	**1,067**	**19,803**	**97,775**

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2017

1. General information

The Gym Limited ('the Company') is a company limited by shares, 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 sterling, except where otherwise indicated.

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), 16, 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.

New standards adopted

No new standards or amendments to standards had any impact on the Company's financial position or performance, nor the disclosures in these Financial Statements.

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.

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

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of trade and assets acquired in a business combination at the date of acquisition. Goodwill on acquisitions is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

Customer lists
Customer lists are shown at historical cost, or at fair value if acquired as part of a business combination. Customer lists have finite useful lives and are carried at cost less accumulated amortisation and any recognised impairment. Amortisation is calculated using the straight-line method to allocate the cost of customer lists over their estimated useful lives of three years.

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 Company 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.

2. Summary of significant accounting policies (continued)

Impairment of non-financial assets

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. 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 CGUs to which the asset belongs. For property, plant and equipment and intangible assets the allocation is made to those CGU units that are expected to benefit from the asset, that being each trading health and fitness facility. For goodwill, the CGU is deemed to be each chain of health and fitness facilities acquired.

Any impairment charge is recognised in the income statement in the period in which it occurs. Impairment losses relating to goodwill cannot be reversed in future periods. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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 Group's financial liabilities comprise trade and other payables, other financial liabilities (including contingent consideration), borrowings and derivative financial liabilities.

The Group initially recognises its financial liabilities at fair value net of transaction costs where applicable and, other than derivatives, and with the exception of contingent consideration are subsequently measured at amortised cost using the effective interest method. Transaction costs are amortised using the effective interest method over the maturity of the loan. Contingent consideration is subsequently measured at its fair value.

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

Leases

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.

2. Summary of significant accounting policies (continued)

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.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on temporary investments of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs of eligible for capitalisation.

All other borrowing costs 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.

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.

2. Summary of significant accounting policies (continued)

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 apart from those involving estimates in applying the Company's accounting policies

Business Combinations
The Company acquired the trade and assets of a portfolio of gyms trading under the Lifestyle Fitness brand and a single site gym in Aylesbury during the year. The Directors have assessed the trade and assets acquired constituted businesses under IFRS 3 'Business Combinations' (IFRS 3) on the basis that these transactions included the transfer of employees and members in addition to the transfer of property, plant and equipment. Consequently, the Directors have assessed that these acquisitions constituted a business combination under IFRS 3. In accounting for these business combinations the Directors also made judgements in relation to identification of intangible assets acquired. As indicated in notes 12 and 22 the only material intangible asset identified related to members lists.

3. Significant accounting judgements, estimates and assumptions

Sources of estimation uncertainty
Depreciation and amortisation
The Company reviews the estimated useful lives and residual values of property, plant and equipment and intangible assets annually. The assets are depreciated or amortised over their estimated useful lives to their residual values. Given the significance of the carrying values of property, plant and equipment to the Company's financial position, relatively small changes in estimated useful lives could have a material effect on the Company's Financial Statements. During the current years assessment a revision increasing the estimated useful lives of gym equipment was made resulting in a £1.3 million reduction in the depreciation charge in the current year. The increase in estimated useful life will reduce depreciation charge in future years but it is not practical to estimate the effect. 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.

Goodwill impairment
The Company is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its CGUs. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information including key assumptions and carrying values is included in note 12. While the Directors have currently assessed that reasonably possible changes in key assumptions are unlikely to cause an impairment, in the goodwill allocated to The Gym chain of gyms, estimates of future cash flows and the determination of discount rates applied to those cash flows could change in the longer term such that an impairment arises.

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

Sources of estimation uncertainty (continued)

Provisions

Provisions are made for dilapidations in respect of leased premises. The recognition and measurement of these provisions require estimates to be made in respect of uncertain events and amounts, with the key sources of estimation uncertainty relating to whether a restoration obligation will arise, the amount and timing of future cash flows required to settle any restoration obligation assessed as arising, and to a lesser extent the discount rate applied to those estimated cash flows. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. The judgement that has the most significant effect on the amounts recognised relates to management's determination that the likelihood of a liability arising is remote in relation to 112 of the Company's 120 gym sites as the Company enjoys security of tenure as tenant and therefore is 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 dilapidation provisions recognised are set out in note 17.

4. Revenue

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

	2017 £'000	2016 £'000
Membership income	89,512	72,915
Other income	878	624
	90,390	**73,539**

5. Operating profit

Operating profit is stated after charging:

	2017 £'000	2016 £'000
Depreciation of property, plant and equipment	14,325	12,693
Amortisation of intangible assets (included in administration expenses)	625	302
Operating lease rentals	16,974	13,486
Loss on disposal of property, plant and equipment	5	30
Cost of inventory recognised as an expense	(43)	68
Auditors' remuneration		
Audit of the financial statements	38	38

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.

6. Exceptional items

	2017 £'000	2016 £'000
Acquisition costs	165	-
Integration costs	503	-
Restructuring costs	447	-
Costs related to post IPO reorganisation	-	106
Costs associated with head office relocation	39	172
	1,154	**278**

Acquisition and integration costs relate to the acquisition of the trade and assets from Lifestyle Fitness (note 22) consisting of 18 sites located in the Midlands, North of England and Scotland on the 29 September 2017. Restructuring costs relate to the cost associated with changing the operating model in relation to the use of Personal Trainers within the business.

7. Employee costs

	2017 £'000	2016 £'000
Wages and salaries	10,167	7,164
Social security costs	970	719
Other pension costs	208	153
Long term employee incentive costs (note 20)	292	69
	11,637	**8,105**

The Directors remuneration during the year was £nil (2016: £nil). The average number of employees during the year was:

	2017 Number	2016 Number
Operational	213	173
Administration	59	54
	272	**227**

8. Finance costs

	2017 £'000	2016 £'000
Loans from Group undertakings	450	450
Unwinding of discount	12	17
	462	**467**

9. Finance income

	2017 £'000	2016 £'000
Bank interest receivable	12	19
	12	**19**

10. Taxation

Tax on profit on ordinary activities comprises:

	2017 £'000	2016 £'000
Current income tax		
Current tax on profits for the year	1,764	350
Adjustments in respect of prior years	25	(29)
Total current income tax	1,789	321
Deferred tax		
Origination and reversal of temporary differences	696	1,457
Change in tax rates	(119)	-
Adjustments in respect of prior years	(170)	(276)
Total deferred tax	**407**	**1,181**
Tax charge	**2,196**	**1,502**

The tax assessed on the profit on ordinary activities for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%).

The differences are reconciled below:

	2017 £'000	2016 £'000
Profit before tax	8,694	9,530
Tax calculation at standard rate of corporation tax of 19.25% (2016: 20.00%)	1,674	1,906
Expenses not deductible for tax purposes	512	180
Group relief paid/(received) for no consideration	274	(279)
Change in tax rates	(119)	-
Adjustments in respect of prior years	(145)	(305)
	2,196	**1,502**

The Finance Act 2015 maintained the main rate of corporation at 20% for the financial year commencing on 1 April 2016 and confirmed a future rate reduction to 19% commencing on 1 April 2017. The 2016 Finance Bill announced a further rate reduction to 17% from 1 April 2020. Therefore, a blended tax rate of 19.25% (2016: 20.00%) 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.

During the year the Company recognised the following deferred tax assets and liabilities

	Accelerated capital allowances £'000	Losses £'000	Intangible assets £'000	Share schemes £'000	Total £'000
1st January 2016	187	(893)	-	-	(706)
Prior year adjustment	(276)	-	-	-	(276)
Charge in year	564	893	-	-	1,457
At 31 December 2016	**475**	**-**	**-**	**-**	**475**
Prior year adjustment	(171)	-	-	-	(171)
Acquired in business combinations	922	-	274	-	1,196
Recognised in income statement	777	-	(33)	(47)	697
Change in deferred tax rate	(123)	-	4	-	(119)
At 31 December 2017	**1,880**	**-**	**245**	**(47)**	**2,078**

10. Taxation (continued)

Unrecognised tax losses
The Company has tax losses of £nil (2016: £nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Uncertain tax positions
The Company had no material uncertain tax provisions as at 31 December 2017 (2016: £nil).

11. Property, plant and equipment

	Assets under Construction	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Gym and other equipment £'000	Computer equipment £'000	Total £'000
Cost						
At 1 January 2016	-	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**
Additions	2,368	21,875	2,505	10,564	647	37,959
Business Combinations	-	5,726	208	3,315	-	9,249
Disposals	-	(182)	(8)	(522)	(2)	(714)
At 31 December 2017	**2,368**	**118,075**	**9,452**	**56,157**	**1,950**	**188,002**
Depreciation						
At 1st January 2016	-	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**
Charge for the year	-	7,429	1,034	5,492	370	14,325
Disposals	-	(167)	(4)	(503)	(2)	(676)
At 31 December 2017	**-**	**25,945**	**4,163**	**24,898**	**1,114**	**56,120**
Net book value						
At 31 December 2016	-	**71,973**	**3,614**	**22,891**	**559**	**99,037**
At 31 December 2017	**2,368**	**92,130**	**5,289**	**31,258**	**836**	**131,882**

12. Intangible assets

	Goodwill	Customer list	Computer software	Total
	£'000	£'000	£'000	£'000
Cost				
1st January 2016	-	-	1,450	1,450
Additions	-	-	1,022	1,022
Disposals	-	-	-	-
At 31 December 2016	-	-	2,472	2,472
Additions	-	-	2,265	2,265
Business Combinations	9,415	1,652	-	11,067
Disposals	-	-	-	-
At 31 December 2017	**9,415**	**1,652**	**4,737**	**15,805**
Amortisation				
1st January 2016	-	-	712	712
Charge for the year		-	302	302
At 31 December 2016	**-**	**-**	**1,014**	**1,014**
Charge for the year		138	488	625
At 31 December 2017	**-**	**138**	**1,502**	**1,639**
Net book value				
At 31 December 2016	-	-	1,458	1,458
At 31 December 2017	**9,415**	**1,514**	**3,236**	**14,165**

Impairment test for goodwill

Each of the Company's individual gyms has been identified as a CGU. However, for the purposes of impairment testing goodwill has been allocated to the chain of gyms or CGUs expected to benefit from the business combination in which the goodwill arose. Presently the Company consists of one chain of gyms operated under the The Gym brand. Goodwill acquired through business combinations has been allocated to this CGU as follows:

	2017	2016
	£'000	£'000
The Gym chain of gyms	9,415	-

This represents the lowest level within the Company at which goodwill is monitored for internal management purposes. The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a three year period. Cash flows beyond this period are extrapolated using the estimated growth rates stated in the key assumptions. The key assumptions used in the value in use calculations are as follows:

	2017		2016	
	Discount rate	Growth rate	Discount rate	Growth rate
The Gym chain of gyms	9.7%	3.0%	n/a	n/a

Discount rates reflect management's estimate of return on capital employed required in each business. This is the benchmark used by management to assess operating performance and to evaluate future capital investment proposals. These discount rates are derived from the Company's weighted average cost of capital. Changes in the discount rates over the years are calculated with reference to latest market assumptions for the risk free rate, equity market risk premium and the cost of debt. Membership growth, growth rates in subscriptions rates and increases applied to costs have been modelled on a site by site basis.

Goodwill is tested for impairment on at least an annual basis, or more frequently if events or changes in circumstance indicate that the carrying value may be impaired. In the years under review management's value in use calculations have indicated no requirement to impair.

Sensitivity to changes in assumptions

The estimates of the recoverable amounts associated with The Gym Limited CGU affords significant head room over the carrying value, consequently no reasonably possible changes in the underlying key assumptions would cause an impairment loss in respect of the goodwill allocated to the Company's CGU.

13. Inventories

	2017 £'000	2016 £'000
Finished goods and goods for resale	197	159

14. Trade and other receivables

	2017 £'000	2016 £'000
Other receivables	2,315	926
Prepayments and accrued income	6,179	5,222
Amounts owed by group undertakings	1,641	1,003
	10,135	**7,151**

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

15. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	6,594	4,518
Social security and other taxes	432	265
Lease incentives and future rental increases	19,577	16,804
Accruals	11,396	8,327
Deferred income	5,113	3,775
Amounts owed to group undertakings	1,926	2,095
	45,038	**35,784**
Due in less than one year	45,038	35,784
Due in more than one year		-
	45,038	**35,784**

Trade payables are non-interest bearing and are payable on average within 34 days (2016: 33 days). Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

16. Borrowings

	2017 £'000	2016 £'000
Amounts owed to group undertakings	10,000	10,000
	10,000	**10,000**
Due in less than one year	-	-
Due in more than one year	10,000	10,000
	10,000	**10,000**

Amounts owed to group undertakings are unsecured, bear interest at 4.5% and are repayable on 12 November 2020.

17. Provisions

	Dilapidations £'000	Other £'000	Total £'000
At 1 January 2016	232	-	232
New provisions	295	-	295
Unwinding of discount	17	-	17
At 31 December 2016	**544**	**-**	**544**
New provisions	144	487	631
Unwinding of discount	12	-	12
At 31 December 2017	**700**	**487**	**1,187**
Due in more than one year	544	-	544
31 December 2016	**544**	**-**	**544**
Due in less than one year	-	487	487
Due in more than one year	700	-	700
31 December 2017	**700**	**487**	**1,187**

Other provisions comprise £200,000 in relation to remedial works associated with removal of asbestos from a site acquired as part of the Lifestyle Fitness acquisition and £287,000 in relation to estimated costs arising from the restructuring activities associated with changing the operating model as it relates to personal trainers within the business.

18. Issued share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.01 each	39,272	13,925

The number of shares in issue is as follows:

	2017	2016
Ordinary shares of £0.01 each	3,927,229,500	1,392,529,500

On 21 December 2017 the share capital of the Company was increased following the capitalisation of £25,347,000 of intercompany debt following the issuance of 2,534,700,000 ordinary shares of £0.01 each.

Each Ordinary share carries equal voting and distribution rights.

An interim dividend of £nil (2016: £0.18) 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.

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

d) The Gym Group plc Restricted Stock Plan

e) The Gym Group plc Long Service Award Plan

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 £249,000 (£62,000) in respect of these share based payment arrangements and related employer's national insurance of £43,000 (£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 2017 will all vest within 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 at 31 December 2017 was 1.8 years (2016: 2.3 years).

b) 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 at 31 December 2017 was 1.3 years (2016: 2.3 years).

c) 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 at 31 December 2017 was 2.1 years (2016:2.5 years).

d) Restricted stock

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 at the 31 December 2017 was 2.3 years (2016: nil years).

e) Long Service Awards

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 (2016: nil years) at the 31 December 2017.

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 13.9 years (2016: 13.8 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:

	2017 £'000	2016 £'000
Within one year	17,576	13,222
Between one and two years	19,133	14,264
Between two and five years	59,543	44,720
Greater than five years	186,189	146,765
	282,441	**218,971**

Capital commitments

	2017 £'000	2016 £'000
Contracted for but not provided	**4,205**	**1,804**

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

22. Business Combinations

On the 29 September 2017 the Company acquired the trade and assets of a portfolio of ten gyms trading under the Lifestyle brand. The property lease agreements in respect of ten of these gyms were transferred to the Company and these gyms are being rebranded to operate under The Gym brand.

Further on the 24 November 2017 the Company also acquired the trade and assets of a single gym based in the Aylesbury. The consideration for the Aylesbury acquisitions includes an element of contingent consideration which is payable upon the number of members at the site reaching a predetermined level. This has been recognised at fair value on initial recognition. The fair value has been derived using discounted cash flow (DCF) techniques. The inputs into the DCF valuation were the undiscounted deferred consideration (£200,000), the discount rate 5.4% and the payment date derived from an estimation of the date on which the membership target for the gym was achievable. Sensitivity in this valuation may arise from significant changes to either the payment date or discount rate, however neither of these factors are expected to have a material effect of the valuation

The details of both transactions, the purchase consideration, the net assets acquired and goodwill are as follows

		Fair value	
	Lifestyle	Aylesbury	**Total**
Net assets acquired	£'000	£'000	**£'000**
Intangibles	1,580	72	**1,652**
Property, plant and equipment	8,773	476	**9,249**
Provisions	(297)		**(297)**
Deferred tax	(1,188)		**(1,188)**
Net Assets	8,868	548	**9,416**
Goodwill	8,979	436	**9,415**
Total consideration	17,847	984	**18,831**
Satisfied by :			
Cash	17,847	800	**18,647**
Deferred consideration	–	184	**184**
Total consideration	17,847	984	**18,831**
Net cash outflow arising on acquisition			
Cash consideration	17,847	800	**18,647**
Net cash outflow	17,847	800	**18,647**

Goodwill represents the synergies and economies of scale expected from combining each gym within the Group's operations, the premium associated with advantageous site locations, potential growth opportunities offered by each gym and the assembled workforce. It will not be deductible for tax purposes.

The Lifestyle business contributed revenues of £1.8 m and net profit of £0.5 m to the Company for the period from 1 October 2017 to 31 December 2017. The Revenues and net profit attributable to Aylesbury for the period from 24 November 2017 to 31 December 2017 were not material. The Revenues and net profit associated with the Company had Lifestyle Fitness and Aylsebury been acquired on the 1st January 2017 has not been disclosed as the relevant information is not available.

Acquisition-related costs of £0.2 million were incurred in respect of the Lifestyle acquisition and have been included in Exceptional items in note 6.

On 4 July 2018, the Company acquired 13 gyms from EasyGym for an initial cash consideration of £20.6 m, with an additional £4.1 m payable when lease extensions are agreed on two sites. The acquisition was part-funded by an equity placing of £24.0 m by The Gym Group Plc and an extension of the Group banking facilities of £10.0 m. Funds from these activities were made available by The Gym Group Plc to the Company to fund the transaction. The purpose of the acquisition is to extend the Company's footprint in the South East and other key cities in the UK and drive future growth and profitability The Company are currently assessing the accounting impact of this recent transaction and as such are unable at this time to provide any other disclosures required under IFRS 3 'Business Combinations'.

23. Subsequent events

On 28 and 29 March 2018 the Company declared and paid dividends of £1.7 m and £1.2 m respectively.

Further on 4 July 2018, the Company acquired 13 gyms from EasyGym for an initial cash consideration of £20.6 m, with an additional £4.1 m payable when lease extensions are agreed on two sites. The acquisition was part-funded by an equity placing of £24.0 m by The Gym Group Plc and an extension of the Group banking facilities of £10.0 m. Funds from these activities were made available by The Gym Group Plc to the Company to fund the transaction.

24. 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.