The Gym Limited

Annual report and financial statements for the year ended 31 December 2018

Registered number 05659669

The Gym Limited

Company Information

Directors	R Darwin	
	M George	(appointed on 31 October 2018)
	N Henwood	
	J McIntosh	(appointed on 8 June 2018)
	J Spaven	
	J Treharne	(resigned on 31 October 2018)

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 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Share Capital
On 17 December 2018 the share capital of the Company was increased following the capitalisation of £28,890,000 of intercompany debt following the issuance of 2,889,287,000 ordinary shares of £0.01 each.

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

In 2019 we anticipate opening towards the top end of our external guidance range of 15 to 20 sites, and expect openings to be weighted to 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	
M George	(appointed on 31 October 2018)
N Henwood	
J McIntosh	(appointed on 8 June 2018)
J Treharne	(resigned on 31 October 2018)
J Spaven	

Subsequent events
We evaluated subsequent events through the date of issuance of the financial statements. There have been no subsequent events that occurred during such period that would require adjustments to or disclosure in the financial statements as of and for the year ended 31 December 2018.

The Gym Limited
Directors' Report
for the year ended 31 December 2018

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

M George
Director
7 June 2019

The Gym Limited
Strategic Report
for the year ended 31 December 2018

Business review

This has been another significant year of growth for the business and The Gym Ltd continues to build a strong market share in the low cost gym sector through a combination of acquisition and organic openings. During the year we expanded our estate by a further 30 sites, bringing the total to 150 at year end. We have doubled the number of sites in two and a half years. 17 new sites were opened during the year as a result of our organic opening programme (within our target of 15-20 sites), and additionally we acquired 13 sites from easyGym – further strengthening our position in the South East. We financed this acquisition principally through an equity placing by the Company's ultimate parent undertaking to maintain a relatively unleveraged balance sheet and a strong covenant for landlords; we are grateful for the support of our ultimate parent undertaking's shareholders which enabled us to accelerate our growth in this way.

This expansion continues to grow our membership base, with total year end members up 20.0% to 703,000 (2017: 586,000) and average members up 28.3% to 671,000 (2017: 523,000). The impact of this growth is demonstrated by increases in all our key metrics; revenue up 31.8% to £119.2 million and Adjusted EBITDA up by 30.3% to £35.7 million. KPIs for the Company are based on those as defined in The Gym Group plc's annual report at www.tggplc.com. The statutory profit before tax increased to £11.5 million (2017: £8.7 million).

Despite these metrics, a combination of the acceleration of the rebranding of the Lifestyle Fitness sites and some delays to the new opening schedule to be later second half weighted, caused lower revenue and fewer trading weeks. Despite rapid growth in both revenue and EBITDA, the Company delivered a less profitable result than the Board's high expectations and below the EBITDA hurdle set for bonuses. These impacts on profits are expected to have only a short term effect. We are extremely encouraged by the response of the Lifestyle sites, which have had more than 30% membership growth since acquisition; and the gyms opened in 2018 are maturing as we expect.

The low cost gym market continues to grow rapidly, and our organic and acquisition strategy has enabled us to continue to build market share. Low cost gyms remain the most attractive part of the health and fitness market. Overall, our market share increased from 22.4%, in December 2017 to 24.2% in December 2018. The Company achieved 40% of the net growth in the market, as we continue to expand our market share, taking members from existing operators as well as those who have never been a member of a gym before.

In a recent market report commissioned by us, PwC has evaluated the gym market in the UK and estimated the potential size of the market to be 1,200 to 1,400 low cost gyms, compared to 1,000 in previous assessments. This means that the market is forecast to double in size from where it is today (654 low cost gyms at December 2018). Penetration is estimated to increase both into new catchments that currently do not have a low cost gym, as well as other catchments that can increase their number of low cost gyms. Half of the future growth is forecast to come in the size of catchments in which we have opened to date ('standard catchments') and half in smaller catchments. The PwC assessment implies that low cost member penetration could grow to 5-7% of the population by 2026 (2018: 3.7% penetration), a penetration growth rate well below that achieved historically. With the strength of our pipeline we are extremely well placed to take advantage of the growth in standard catchments and are working on the concept that can take advantage of the smaller catchment opportunity; we intend to open our first small box format gym later this year and expect to commence a rollout thereafter.

Strategic progress

Delivering performance from gyms

Our primary financial goal is to develop sites to maturity and achieve high levels of return on capital. Overall this remains a business with significant potential, with a number of sites that have been acquired or opened in the last two years yet to reach maturity (in terms of member numbers). At the year end we had 89 sites that have been operating for more than two years (2017: 74 sites), just 59% of the total estate. Of the remaining 61 sites, 23 were acquired and 38 opened organically in 2017 and 2018. These sites continue to increase profitability and are maturing as anticipated. Mature Site EBITDA was £39.2 million, up 15.0% (2017: £34.1 million) and Mature Site EBITDA per site was £440,000 (2017: £461,000). This reduction in Mature EBITDA per site was expected and consistent with our move to smaller sites built at lower capital cost; we continue to target returns on capital of greater than 30% across our mature sites for organic openings and in 2018 we achieved that target again with a return on capital in the mature estate of 31% (2017: 32%). The return on capital for mature sites opened between 2008 and 2013 and for sites opened in 2014 to 2016 is also above 30%.

The 10 sites acquired as part of the Lifestyle transaction in September 2017 are still maturing. We took the decision during the year to accelerate rebranding of all 10 sites to The Gym brand, with all of these conversions taking place in 2018. This will enable these gyms to benefit from our brand, marketing, systems and operating model in 2019. Although it resulted in lower revenue and more weeks of site closures than initially expected in 2018, we were prepared to make this decision in order to maximise the best long term result for the business. The consideration for the Lifestyle business was £14.25 million, alongside total conversion costs of £4.3 million, an average of £427,000 per site. We will target a 20% plus return on capital by 2020 on this acquisition. This percentage is lower than for our organic openings, reflecting the acquisition premium incurred on such sites.

Strategic progress *(continued)*

Having integrated the Lifestyle sites ahead of schedule, we successfully completed on a second significant transaction with the acquisition of 13 sites branded easyGym in July 2018. This acquisition demonstrates our focus on quality as we purchased 13 out of 16 sites, leaving behind three sites that failed to meet our location and financial criteria. The consideration for these 13 sites was £20.6 million, with contingent consideration of £4.1 million if two sites have lease extensions agreed; discussions on the £4.1 million remain ongoing. At December 2018 we had successfully converted ten of these sites to The Gym brand, enabling them to benefit from our marketing and our platform during the important January / February trading period. The total cost of conversion has been £312,000 per site. The easyGym acquisition further strengthens our network in London (eight sites) and in four other cities where we already operate (Southampton, Cardiff, Liverpool and Birmingham). In particular, we expect strong take-up of LIVE IT, our premium pricing initiative, across the easyGym sites where there has not previously been a multi-site option for members. As with the Lifestyle acquisition, we are targeting a 20% return on capital for this acquisition by 2020.

One of the most significant changes in the past year has been the overhaul of our marketing capability. This was facilitated by the appointment of new agencies in media and creative, which has enabled us to deliver fresh and innovative marketing ahead of the peak trading periods. During 2018 our marketing plans used out of home, social media, performance marketing and local awareness. The marketing plan for January / February 2019 introduced a fresh new campaign based on members' motivations for using The Gym – 'So I can' – with the launch of our first ever TV advert.

Improving operating efficiencies

Mature Site EBITDA margin in 2018 was marginally lower at 45.3% (2017: 47.0%), in line with our expectations and reflecting our continued ability to apply our operating model across a business of growing scale. The slight decrease in Mature Site EBITDA margin does not impact our ability to meet return on capital targets. We have had ongoing success in being able to secure new sites with the appropriate level of fixed cost base to operate our business efficiently, taking advantage of our ever increasing scale.

We ended 2018 with an average headline price of £17.35 per month (2017: £17.56). Our philosophy remains to be a high quality operator charging the lowest price in any given market. As in previous years, we have sought to maximise revenue on a site-by-site basis by balancing volume and price, so took the decision at the end of 2018 to reduce prices across approximately 30% of the estate. We are pleased with the response to this decision, with membership volumes growing by 1.5 times the growth rate of the rest of the estate (October 2018 to February 2019).

Some of these sites were the Lifestyle sites that had not gone through the same pricing changes that one of our organic openings experiences. In other sites we continue to endeavour to increase yield where the local market allows – pricing decisions are made through a combination of data analytics and local market intelligence. Average Revenue per Member per Month increased by 3.3% across our estate and we expect further progress in 2019 as sites become more established and LIVE IT has been in place for a whole year across the estate.

LIVE IT, our premium pricing initiative, was rolled out nationally by May 2018 and 85,000 members had taken advantage of this offer by December 2018. We continue to be encouraged by the level of take-up and expect further growth in absolute numbers as those sites that have not had LIVE IT for a whole year go through their initial months of member acquisition. As expected the most significant take-up is from new members joining. We continue to monitor the characteristics of tenure and attrition of our LIVE IT members and currently they match those of our DO IT. members. LIVE IT will be an important contributor to yield growth in 2019.

Achieving our rollout strategy

We opened 17 sites organically in 2018. Our primary focus is choosing optimal locations and we open the number of sites that is consistent with that aim. Our strong, listed company covenant is highly attractive to landlords, which results in winning the best sites that come onto the market. We continue to expect to open a geographically diverse range of sites to build on our strength in the South East, where 50% of our gyms are currently located. In 2018 we opened a number of strong London sites; today 55 of the sites are located within the M25. Our new sites continue to trade well with strong opening profiles. We are very encouraged by the performance of the gyms opened in 2017, which have delivered an EBITDA margin that is consistent with the first year performance of previous cohorts, and expect to see strong returns on capital. The 2018 cohort opened later in the year than originally planned. This meant they were earlier in their maturity profile and therefore resulted in lower revenue in 2018 than our original plans.

The flexibility of our model allows us to take advantage of trends in the property market. Increasingly we are taking space in new developments such as Tottenham White Hart Lane, Sutton and Stockport. In 2019 we anticipate opening 15 to 20 sites and the pipeline of new sites is encouraging for 2019 and into 2020. As in previous years, openings are expected to be weighted towards to the second half of 2019.

In addition to the conversions of the Lifestyle and easyGym sites, investment continued across our existing estate with a substantial refurbishment programme to ensure that all our sites benefit from modern signage along with the most upto-date branding and product mix. Our aim was to ensure the estate matched a common standard by the end of 2018 and other than in a handful of sites this was achieved. Our rolling maintenance programme requires sites to be closed every six months for two days and ensures sites are maintained to a high standard. In the future we will focus the more substantial refurbishments on sites that need a competitive boost in their local market.

Strategic progress *(continued)*

In the past year we retendered our gym equipment supply contract, splitting the contract into equipment and accessories and in the process achieving a further 10% reduction in capital costs across these areas. As part of our Brexit planning we have stockpiled the capital requirements, including gym equipment, sourced from Europe to ensure we can continue to meet our rollout target in the first six months of 2019.

Developing the member proposition

Our new system of tracking member satisfaction, which measures customer feedback, has now been deployed at site level for over a year. Detailed member satisfaction feedback is available via an app for General Managers, enabling them to focus their time on activites that improve levels of member satisfaction. This new system has enabled us to identify best practice and roll it out across the estate. The new Personal Trainer operating model is another driver behind enhanced member satisfaction and reflects the determination of our business to put member service at the heart of everything we do.

Our use of technology

Following the launch of the Member Management System in 2017, further advances have been made in developing technology infrastructure in 2018. The launch of Workday has given us a robust finance and HR system that will strengthen our capability in these areas for the future and was another significant achievement by our team. Having developed a platform for future growth, we will continue to research ways in which using technology will enhance the customer experience. Late in 2018 we launched our member app and there will be further upgrades launched over the coming months. In addition, we are investing in Artificial Intelligence to give us further insight in areas such as pricing and churn and to enable us to drive further efficiencies from our operating processes. Technology will remain fundamental to the delivery of our business model and assist in facilitating the low cost environment in which we operate.

Our people

During the year we commenced the trial of a new operating model that will enable our Personal Trainers to take up parttime employment. The majority of our Personal Trainers will be contracted for 12 hours and, outside these hours, they will continue to run their business on a self-employed basis in our gyms and will pay a monthly rent to access the gym. During the year we received HMRC clearance for the new model. We transitioned 24 new and existing sites onto the new model during the year.

The trials have shown that the new model enhances member satisfaction compared to the previous arrangements. During the trial we re-evaluated the commercial proposition to the Personal Trainers and decided to reduce the rent that is charged to those Personal Trainers who will also be part-time employees. The new model will be financially neutral for Personal Trainers. This change to the financial arrangements has been extremely well received by our Personal Trainer colleagues. The new model is probably the most significant change to the way this business has operated in its history, hence the care and attention we have taken to ensure the model is correct. We believe it will deliver tangible benefits and retain our competitive advantage by attracting and retaining the best Personal Trainers operating in our gyms.

The business has grown rapidly over the past few years and in doing so it is important that we identify the features that have made it a special place to work. As a result of the transition of John Treharne from CEO to Founder Director, we decided we needed to consult with a number of colleagues to define the values and culture associated with The Gym. These values will drive our colleague engagement and member interaction in future years. Our overall brand purpose is that The Gym breaks down barriers to fitness. This has been central to The Gym's purpose since it created the first low cost gym brand in the UK, and became the first to offer 24/7 operation and online-only sign-ups. As we continue to develop we will ensure we remain true to our culture. I feel proud that our business has a strong social purpose in improving the health of the nation. We believe this conviction and our core low cost ethos will allow us to continue to drive demand, even with the uncertain economic environment caused by Brexit.

We continue to build the central teams that can support the management at site level. Our intent remains to drive performance at a local level while providing high quality central support. In 2018, the focus has been to build strong teams that can support our ambition. Infrastructure developments will enable us to run a business of greater scale and substance. I was delighted to welcome Mark George to the team and the Board as CFO. Mark brings a highly relevant set of skills in digital businesses such as ASOS and Auto Trader as well as multi-site experience from a number of roles at Tesco. Ann-marie Murphy also joined as Director of People and Development during the year and already has made significant progress in supporting our front-line operations.

The commitment of all our people remains key to the success of this business, whether it be in supporting new site openings, integrating acquisitions or in day-to-day operations. Over the past year we have welcomed many employees from Lifestyle and easyGym and other new colleagues to support our growth. Additionally, during the coming year we will bring on board a further 1,500 Personal Trainers as part-time employees. I would like to welcome them all to the business and along with our existing dedicated colleagues, I thank them all for their ongoing commitment to this business.

The Gym Limited
Strategic Report
for the year ended 31 December 2018

Principle risks and uncertainties

In order to gain an understanding of the risk exposure of the Company, we review 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.

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	**Definition**	**Impact**	**Mitigation**
Competition and market saturation	The Company may face increased competition and pressure from competitor pricing decisions. This will become more significant if the low cost gym market becomes more saturated.	The ability of the Company to hold or increase prices and therefore achieve performance targets could be affected.	• A recent PwC report indicates significant headroom in the low cost gym market. • 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.	• 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. The Company also relies on third parties to provide high quality equipment and services.	Reductions in actual or perceived customer service could result in a decrease in membership numbers and revenue generation.	• Monitor utilisation and customer satisfaction 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.	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; and • succession planning.

Economic conditions	The result of Brexit could cause significant disruption to business conditions.	Incoming equipment and materials could increase in cost due to currency movement and additional import costs.	• As part of our Brexit planning we have stockpiled the capital requirements needed to be imported from Europe to ensure we can continue to meet our rollout target in the coming six months.
Information technology dependency	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	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. • 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. • A third party data security audit took place in 2018.
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.	• Monthly monitoring and re-forecasting of business performance at site level. • Active yield management on a gym-by-gym basis. • Regular financial management by Executive Committee and Board.

Regulatory	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

M George
Director
7 June 2019

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

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 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes1 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 2018 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 10, 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 7/6/19

The Gym Limited

Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Revenue	5	119,166	90,390
Cost of sales		(957)	(943)
Gross profit		**118,209**	**89,447**
Administration expenses		(106,179)	(80,301)
Operating profit	6	**12,030**	**9,146**
Finance income	9	22	12
Finance costs	10	(529)	(462)
Profit before tax		**11,523**	**8,696**
Tax charge	11	(2,915)	(2,196)
Profit for the year attributable to equity shareholders		**8,608**	**6,500**
Other comprehensive income for the year		-	-
Total comprehensive income attributable to equity shareholders		**8,608**	**6,500**

The Gym Limited
Statement of Financial Position as at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 Restated1 £'000
Non-current assets			
Property, plant and equipment	13	163,428	131,882
Intangible assets	14	27,357	14,635
Total non-current assets		190,785	146,517
Current assets			
Inventories	15	379	197
Trade and other receivables	16	14,829	10,135
Cash and cash equivalents		25	465
Total current assets		15,233	10,797
Total assets		**206,018**	**157,314**
Current liabilities			
Trade and other payables	17	50,042	45,038
Other financial liabilities	12	3,002	-
Provisions	19	679	917
Income taxes payable		1,218	766
Total current liabilities		54,941	46,721
Non-current liabilities			
Borrowings	18	17,000	10,000
Provisions	19	1,145	740
Deferred tax liabilities	11	3,491	2,078
Total non-current liabilities		21,636	12,818
Total liabilities		**76,577**	**59,539**
Net assets		**129,441**	**97,775**
Capital and reserves			
Issued capital	20	68,162	39,272
Capital contribution reserve		1,398	1,067
Share premium		37,633	37,633
Retained earnings		22,248	19,803
Total equity shareholders' funds		**129,441**	**97,775**

[1] See note 12 for details regarding the restatement as a result of fair value adjustments.

These financial statements were approved by the Board of Directors on 7 June 2019.

Signed on behalf of the Board of Directors

M George

Director

Company Registration Number 05659669

The Gym Limited

Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Issued capital	Capital contribution reserve	Share premium	Retained earnings	Total
		£'000	£'000	£'000	£'000	£'000
At 1 January 2017		13,925	774	37,633	13,303	65,635
Profit for the year and total 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**	**1,067**	**37,633**	**19,803**	**97,775**
Adjustment from adoption of IFRS 15		-	-	-	(263)	(263)
Profit for the year		-	-	-	8,608	8,608
Share based payments		-	283	-	-	283
Deferred tax on share based payments		-	48	-	-	48
Issue of Ordinary share capital		28,890	-	-	-	28,890
Dividends paid		-	-	-	(5,900)	(5,900)
At 31 December 2018		**68,162**	**1,398**	**37,633**	**22,248**	**129,441**

The Gym Limited

Notes to the financial statements
For the year ended 31 December 2018

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.

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.

Revenue from membership income comprises monthly membership fees, non-refundable joining fees and longer-term membership fees. All membership income is recognised and spread over the period the membership relates to, being the period of the Company's performance obligations.

Other income is recognised at the point of sale as this reflects the fulfilment of all performance obligations.

Contracts with customers are non-complex and do not require any significant accounting judgements or estimates.

Contract liabilities relate to membership fees received at the start of a contract, where the Company has the obligation to provide a gym membership over a period of time.

Cost of sales

Cost of sales comprise costs arising in connection with the generation of ancillary revenue, primarily call centre costs and payment processing costs.

Exceptional items

Items that are material in size, and 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 three and ten years
• Gym and other equipment	between five and eight years
• Computer equipment	three years

The estimated useful lives are reviewed at the end of each reporting period and adjusted if appropriate. The carrying values of property, plant and equipment 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
Customers 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 customers lists over their estimated useful lives of five and three years respectively.

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.

2. Summary of significant accounting policies (continued)

Intangible assets (continued)

Computer software (continued)
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

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 those to be measured at amortised cost.

The Company measures its trade and other receivables and cash and cash equivalents at amortised cost. 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.

Due to the Company's upfront payment model, it has limited exposure to credit losses.

The financial assets are presented as current assets, except for those with maturities greater than 12 months after the reporting date. These are classified as non-current assets.

Financial liabilities

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

The Company 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.

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.

2. Summary of significant accounting policies (continued)

Financial Instruments (continued)

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.

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.

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.

2. Summary of significant accounting policies (continued)

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.

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.

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 a finance cost.

Dividends

Dividends payable by the Company are recognised on declaration.

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.

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

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

Business Combinations
During the current year the Company acquired the trade and assets of a portfolio of gyms trading under the easyGym brand. In the prior year 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. 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.
3. Significant accounting judgements, estimates and assumptions (continued)

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 and the fair value of contingent consideration. As indicated in note 14, the only material intangible asset identified related to members lists.

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 Financial Statements. 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 13 and 14.

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 14. 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.

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 of 2% 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. Management has determined that the likelihood of a liability arising is remote in relation to 127 of the Company's 150 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. If circumstances indicate otherwise the Company will recognise an appropriate provision. If the future cost of restoration for those sites where a provision is currently recognised was to increase by 10% across these sites, the provision at 31 December 2018 would increase by £113,000. If a provision was required for a site where the Company does benefit from security of tenure, the provision at 31 December 2018 would increase by £50,000 to £150,000, depending on the site concerned. A 10 basis points change in the discount rate would increase / decrease the provision recognised at 31 December 2018 by £12,000.

Details of dilapidation provisions recognised are set out in note 19.

4. New standards adopted

New standards impacting the Company for the year ended 31 December 2018, and which have given rise to changes in the Company's accounting policies are:

- IFRS 9 'Financial Instruments'; and
- IFRS 15 'Revenue from Contracts with Customers.'

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' ('IFRS 9') replaces IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. While the adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and the classification of financial assets, no material adjustments were required to the amounts recognised in the Financial Statements. The new accounting policies are set out below.

Classification and measurement: on 1 January 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' ('IFRS 15') supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company has applied IFRS 15 using the modified retrospective method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of the significant changes and quantitative impact of the changes are set out below:

Upfront non-cancellable joining fees for which revenue was recognised previously at a point in time when a customer signed up for the contract under previous policies are now recognised over time under IFRS 15.

Had the Company continued to report in accordance with IAS 18 'Revenue' for the year ended 31 December 2018, it would have reported the following amounts in these Financial Statements:

	As reported £'000	Effect £'000	Balances without adoption of IFRS 15 £'000
Revenue	119,166	(263)	118,903
Profit for the period	8,608	(263)	8,345
Total equity	129,441	(263)	129,178

The impact is driven by the upfront non-cancellable joining fees being considered to be an advance payment for future goods and services (i.e. membership subscription) and therefore forms part of the overall transaction price of the membership contract. The revenue previously recognised at the point in time in the previous year is now recognised over time and performance obligation of such contracts has been satisfied as at 31 December 2018.

5. Revenue

The main revenue streams are those described in the last annual Financial Statements: membership income and other income. The rental income revenue stream has grown during the year ended 31 December 2018 and consequently has been disaggregated from other income. The majority of revenue is derived from contracts with customers.

	2018	2017
	£'000	£'000
Major products/service lines		
Membership income	118,345	89,512
Rental income	400	-
Other income	421	878
	119,166	**90,390**
Timing of revenue recognition		
Products transferred at a point in time	3,150	878
Products and services transferred over time	116,016	89,512
	119,166	**90,390**
Assets and liabilities relating to contracts with customers		
Contract assets	3,718	925
Contract liabilities	(6,973)	(5,113)
Revenue recognised that was included in contract liabilities in the prior year		
Membership income	5,047	3,775
Other income	66	0
	5,113	3,775

Contract liabilities relate to membership fees received at the start of a contract, where the Company has the obligation to provide a gym membership over a period of time. The contract liability balance increases as the Company's membership numbers increase, and therefore has increased between 2017 and 2018.

6. Operating profit

Operating profit is stated after charging:

	2018	2017
	£'000	£'000
Depreciation of property, plant and equipment	19,361	14,325
Amortisation of intangible assets (included in administration expenses)	1,624	625
Operating lease rentals	22,963	16,974
Loss on disposal of property, plant and equipment	72	5
Cost of inventory recognised as an expense	46	(43)
Auditors' remuneration		
Fees payable for the audit of the Company's annual accounts	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.

7. Exceptional items

	2018	2017
	£'000	£'000
Acquisition costs	644	165
Integration costs	460	503
Restructuring costs	1,239	447
Costs associated with head office relocation	-	39
	2,343	**1,154**

All exceptional items are presented within administrative expenses. Acquisition and integration costs relate to the acquisition of the trade and assets from Lifestyle Fitness and easyGym (note 12). Restructuring costs relate to the cost associated with changing the operating model in relation to the use of Personal Trainers within the business.

8. Employee costs

	2018	2017
	£'000	£'000
Wages and salaries	13,010	10,167
Social security costs	1,449	970
Employers' pension costs	263	208
Long term employee incentive costs (note 22)	350	292
	15,072	**11,637**

The Directors remuneration during the year was £nil (2017: £nil). The average number of employees during the year was:

	2018	2017
	Number	Number
Operational	343	213
Administration	84	59
	427	**272**

9. Finance income

	2018	2017
	£'000	£'000
Bank interest receivable	22	12
	22	**12**

10. Finance costs

	2018	2017
	£'000	£'000
Interest on loans from Group undertakings	499	450
Unwinding of discount	30	12
	529	**462**

11. Taxation

Tax on profit comprises:

	2018 £'000	2017 £'000
Current income tax		
Current tax on profits for the year	2,462	1,764
Adjustments in respect of prior years	-	25
Total current income tax	2,462	1,789
Deferred tax		
Origination and reversal of temporary differences	241	696
Change in tax rates	(28)	(119)
Adjustments in respect of prior years	240	(170)
Total deferred tax	453	407
Tax charge in the Statement of Comprehensive Income	**2,915**	**2,196**

The tax assessed on the profit on ordinary activities for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%).

The differences are reconciled below:

	2018 £'000	2017 £'000
Profit before tax	11,523	8,694
Tax calculation at standard rate of corporation tax of 19.0% (2017: 19.25%)	2,189	1,674
Expenses not deductible for tax purposes	310	512
Exceptional costs not deductible	205	274
Change in tax rates	(29)	(119)
Adjustments in respect of prior years	240	(145)
	2,915	**2,196**

11. Taxation (continued)

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

	Accelerated capital allowances	Intangible assets	Share schemes	Total
	£'000	£'000	£'000	£'000
At 1 January 2017	475	-	-	475
Prior year adjustment	(171)	-	-	(171)
Acquired in business combination	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**
Prior year adjustment	240	-	-	240
Acquired in business combination	878	130	-	1,008
Recognised in equity	-	-	(48)	(48)
Recognised in income statement	419	(116)	(61)	242
Change in deferred tax rate	(41)	12	-	(29)
At 31 December 2018	**3,376**	**271**	**(156)**	**3,491**

The Finance Act 2015 maintained the main rate of corporation tax 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 19.0% (2017: 19.25%) 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.

Unrecognised tax losses
The Company has tax losses of £nil (2017: £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 2018 (2017: £nil).

12. Business Combinations

easyGym portfolio

On 4 July 2018 the Company acquired the trade and assets of a portfolio of 13 gyms trading under the easyGym brand for an initial cash consideration of £14.5 million, with an additional £6.1 million deferred consideration payable on completion of a lease assignment on three sites and further contingent consideration if lease extensions are agreed on two sites. £4.0 million of deferred consideration was paid shortly after acquisition. At 31 December 2018, deferred and contingent consideration with fair value of £3.0 million was outstanding and recognised within other financial liabilities.

The undiscounted settlement value of the contingent consideration could be between £nil and £4.1 million. The contingent consideration has been recognised at its fair value of £0.9 million using an expected value methodology. This is a Level 3 valuation under the fair value hierarchy. No gains or losses were recognised in profit and loss during the year in relation to the liability. The valuation of the liability will vary between the potential settlement amounts dependent on the likelihood of the contingent consideration becoming payable. In measuring the estimated contingent consideration payable a range of nil to 50% probability of the relevant leases being extended has been assumed. The estimated liability has not been discounted due to the short time frame of any possible pay out.

The acquisition was part-funded by an equity placing of £24.0 million by the Company's ultimate parent undertaking and an extension of the ultimate parent undertaking's banking facilities of £10.0 million.

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

	Fair value
	£'000
Net assets acquired:	
Intangibles	768
Property, plant and equipment	11,705
Provisions	(360)
Deferred tax	(1,008)
Net assets	11,105
Goodwill	10,397
Total consideration	**21,502**
Satisified by:	
Cash consideration	14,500
Contingent consideration	7,002
Total consideration	**21,502**
Net cash outflow arising on acquisition:	
Cash consideration	18,500
Net cash outflow	**18,500**

The fair values of assets acquired are provisional and will be finalised within 12 months of the acquisition date.

Goodwill represents the synergies and economies of scale expected from combining each gym within the Company'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 business contributed revenues of £5.7 million and net profit of £0.7 million to the Company for the period from 4 July 2018 to 31 December 2018. The revenues and net profit associated with the Company had the business been acquired on 1 January 2018 have not been disclosed as the relevant information is not available.

Acquisition-related costs of £0.6 million were incurred in respect of the easyGym acquisition and have been included in exceptional items in note 7.

12. Business Combinations (continued)

Lifestyle Fitness portfolio and Aylesbury site

On 29 September 2017, the Company acquired the trade and assets of a portfolio of 10 gyms trading under the Lifestyle Fitness brand. The property lease agreements in respect of these gyms were transferred to the Company which were rebranded to operate under The Gym brand.

On 24 November 2017, the Company acquired the trade and assets of a single gym based in Aylesbury. The consideration for the Aylesbury acquisition included an element of contingent consideration which was payable upon the number of members at the site reaching a predetermined level. This was recognised at fair value on initial recognition using discounted cash flow ('DCF') techniques. The inputs into the DCF valuation were the undiscounted deferred consideration (£0.2 million), 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. During 2018 the consideration was renegotiated: £0.1 million was paid in cash and the remaining liability was released to profit and loss.

During the year ended 31 December 2018, the Company finalised the fair values of the assets and liabilities of these business combinations and has restated the 2017 amounts as shown below. The adjustments made in finalising fair values primarily relate to the recognition of provisions at acquisition.

	Lifestyle Fitness as previously reported	Adjustments	Aylesbury	Total
	£'000	£'000	£'000	£'000
Net assets acquired:				
Intangibles	1,580	-	72	1,652
Property, plant and equipment	8,773	-	476	9,249
Provisions	(298)	(470)	-	(768)
Deferred tax	(1,188)	-	-	(1,188)
Net assets	8,868	(470)	548	8,946
Goodwill	8,979	470	436	9,885
Total consideration	**17,847**	**-**	**984**	**18,831**
Satisified by:				
Cash consideration	17,847	-	800	18,647
Contingent 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**

The goodwill is attributable to the workforce and the profitability of the acquired businesses where relevant. It will not be deductible for tax purposes.

The Gym Limited

Notes to the financial statements
For the year ended 31 December 2018

13. Property, plant and equipment

	Assets under Construction	Leasehold improvements	Fixtures, fittings and equipment	Gym and other equipment	Computer equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2017	-	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
Transfers	(23,412)	16,403	247	6,465	297	-
Additions	23,409	10,403	827	4,187	519	39,345
Business combinations	-	9,165	183	2,357	-	11,705
Disposals	-	(191)	-	(987)	-	(1,178)
At 31 December 2018	**2,365**	**153,855**	**10,709**	**68,179**	**2,766**	**237,874**
Accumulated depreciation						
At 1 January 2017	-	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
Charge for the year	-	9,868	1,310	7,672	511	19,361
Disposals	-	(139)	-	(896)	-	(1,035)
At 31 December 2018	**-**	**35,674**	**5,473**	**31,674**	**1,625**	**74,446**
Net book value						
At 31 December 2017	2,368	92,130	5,289	31,258	836	131,882
At 31 December 2018	**2,365**	**118,181**	**5,236**	**36,505**	**1,141**	**163,428**

14. Intangible assets

	Goodwill	Customer list	Computer software	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2017	-	-	2,472	2,472
Additions	-	-	2,265	2,265
Business combinations (restated)	9,885	1,652	-	11,537
At 31 December 2017	9,885	1,652	4,737	16,275
Additions	-	-	3,181	3,181
Business combinations	10,397	768	-	11,165
At 31 December 2018	**20,282**	**2,420**	**7,918**	**30,621**
Accumulated amortisation				
At 1 January 2017	-	-	1,014	1,014
Charge for the year	-	138	488	625
At 31 December 2017	-	138	1,502	1,639
Charge for the year	-	604	1,020	1,624
At 31 December 2018	**-**	**742**	**2,522**	**3,263**
Net book value				
At 31 December 2017	9,885	1,514	3,236	14,635
At 31 December 2018	**20,282**	**1,678**	**5,397**	**27,357**

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:

	2018	2017
	£'000	£'000
The Gym chain of gyms (restated)	20,282	9,885

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:

	2018		2017	
	Discount rate	Growth rate	Discount rate	Growth rate
The Gym chain of gyms	9.6%	3.0%	10.3%	3.0%

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.

14. Intangible assets (continued)

Impairment test for goodwill (continued)

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.

15. Inventories

	2018	2017
	£'000	£'000
Goods for resale	379	197

16. Trade and other receivables

	2018	2017
	£'000	£'000
Other receivables	3,896	2,315
Prepayments and accrued income	10,231	6,179
Amounts owed by group undertakings	702	1,641
	14,829	10,135

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

17. Trade and other payables

	2018	2017
	£'000	£'000
Trade payables	9,199	6,594
Social security and other taxes	114	432
Lease incentives and rental increases	22,607	19,577
Accruals	9,737	11,396
Contract liabilities	6,973	5,113
Amounts owed to group undertakings	1,413	1,926
	50,042	45,038

Trade payables are non-interest bearing and are payable on average within 36 days (2017: 34 days). Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

18. Borrowings

	2018 £'000	2017 £'000
Amounts owed to group undertakings	17,000	10,000
	17,000	**10,000**
Due in less than one year	-	-
Due in more than one year	17,000	10,000
	17,000	**10,000**

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

19. Provisions

	Dilapidations £'000	Other £'000	Total £'000
At 1 January 2017	544	-	544
Business combinations (restated)	95	670	765
New provisions	89	247	336
Unwinding of discount	12	-	12
At 31 December 2017 (restated)	**740**	**917**	**1,657**
Business combinations	143	217	360
New provisions	242	462	704
Utilisation of provisions	-	(917)	(917)
Unwinding of discount	20	-	20
At 31 December 2018	**1,145**	**679**	**1,824**
Due in less than one year (restated)	-	917	917
Due in more than one year (restated)	740	-	740
At 31 December 2017 (restated)	**740**	**917**	**1,657**
Due in less than one year	-	679	679
Due in more than one year	1,145	-	1,145
At 31 December 2018	**1,145**	**679**	**1,824**

During the year ended 31 December 2018, the Company finalised the fair values of the assets and liabilities of business combinations as detailed in note 12. The adjustments made in finalising fair values primarily relate to the recognition of provisions at acquisition and are restated above. Other provisions comprise estimated costs arising from the restructuring activities associated with changing the Personal Trainer operating model within the business and for remedial works associated with the removal of asbestos at acquired sites.

20. Issued share capital

	2018	2017
	£'000	£'000
Allotted, called up and fully paid		
Ordinary shares of £0.01 each	68,162	39,272

The number of shares in issue as follows	2018	2017
Ordinary shares of £0.01 each	6,816,258,250	3,927,229,500

On 17th December 2018 the share capital of the Company was increased following the capitalisation of £28,890,287 of intercompany debt following the issuance of 2,889,028,700 Ordinary shares of £0.01 each.

Each Ordinary share carries equal voting and distribution rights.

An interim dividend of 0.15 pence (2017: £nil) per Ordinary share was declared. The Directors do not recommend a final dividend.

21. 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.

22. 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 £283,000 (2017: £249,000) in respect of the Company's share based payment arrangements and related employer's national insurance of £66,000 (2017: £43,000).

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 2018 will all vest within three years, subject to continued employment and the achievement of earnings per share ('EPS') and total shareholder return ('TSR') 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 1.4 years (2017: 1.8 years) at 31 December 2018.

22. Share based payments (continued)

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.

The options vest in full at the end of the three year period. No awards were issued in the current or prior year. The weighted average remaining contractual life was 0.3 years (2017: 1.3 years) at 31 December 2018.

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.

The options vest in full at the end of the three year period. The weighted average remaining contractual life was 1.4 years (2017: 2.1 years) at 31 December 2018.

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.

The options vest in full at the end of the three year period. The weighted average remaining contractual life was 1.8 years (2017: 2.3 years) at 31 December 2018.

e) Long Service Award Plan

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.

The options vest in full at the end of the three year period. The weighted average remaining contractual life was 1.8 years (2017: 2.3 years) at 31 December 2018.

23. Commitments and contingencies

Operating lease commitments

The Company has entered into leases on commercial real estate. These leases have an average outstanding life of 12.7 years (2017: 13.9 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:

	2018	2017
	£'000	£'000
Within one year	24,546	17,576
Between one and two years	25,345	19,133
Between two and five years	103,676	59,543
Greater than five years	186,240	186,189
	339,807	**282,441**

	2018	2017
	£'000	£'000
Capital commitments		
Contracted for but not provided	1,041	4,205

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.