

The Gym Limited

Annual report and financial statements for the year ended 31
December 2020

Registered number 05659669

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The Gym Limited

Company Information

Directors	R Darwin M George B Harrison J McIntosh D Melhuish (Appointed 1 July 2020) A-M Murphy (Appointed 1 July 2020)
Registered number	05659669
Registered office	5 th floor OneCroydon 12-16 Addiscombe Road Croydon CR0 0XT
Independent auditor	Ernst & Young LLP 16 Bedford Street Belfast BT2 7DT

The Gym Limited

Strategic Report

for the year ended 31 December 2020

Business review

2020 was the most challenging year for our business in its 12-year history.

We entered the year in a strong position with 794,000 members and low gearing of less than 1.0x EBITDA. Our approach throughout the year has been to ensure that our business exits the Covid-19 crisis in a strong position, well-placed to welcome our members back to their gyms and to take advantage of an altered competitive landscape. Decisions taken have been for the long-term benefit of the business.

Our February 2021 membership dropped to 547,000 and has since recovered to 730,000 members in June 2021 following the reopening of our gyms. Our gearing remains manageable and having successfully refinanced during the year we have the flexibility to deliver on our plans. This health crisis has demonstrated the importance of physical activity for all of the UK population. As a result, we are confident about future demand for our low-cost product as part of the ongoing trend for people to lead healthier lifestyles.

The Covid-19 pandemic meant 45% of our trading days in 2020 were lost to closures from government restrictions; 2021 started with a further national lockdown once again closing the entire estate until April 2021.

For a low-cost gym business such as ours, periods of closure mean virtually no membership acquisition and increased attrition immediately after the closure announcement (although this has lessened with the later lockdowns as we reach a core level of loyal members). As we have seen from previous re-openings, the benefit of a subscription business such as ours is the ability to restart member payments from the day of opening.

There are three groups of stakeholders that deserve particular thanks for helping us to manage through this crisis. First, our team responded with speed and agility to adapt to the initial crisis and to get us ready for the post Covid operating environment. This included locking down the estate to reduce cash burn when it first closed in March and then, prior to reopening, adapting our model to make the estate Covid-secure for our members. Second, our thanks also go to our major suppliers, including our cleaning firms, equipment suppliers, contact centre operators and vending suppliers who all furloughed staff to ensure that contractual costs were minimised. Third, and by no means least, we are grateful for the decisive actions taken by the UK Government to support our sector through 2020 and into the new year – without the immediate relief from furlough, rates relief and VAT deferral, businesses such as ourselves would have been in a very different financial situation. At the peak of the closure we have had over 95% of our workforce in the gyms and central support on furlough. Along with rates relief government support in 2020 has been worth £16.0m.

Through the crisis, the business has demonstrated its agility in being able to adapt its ways of working to deal with the Covid restrictions placed on our business. We were assisted in this by working with the Advanced Wellbeing Research Centre at Sheffield Hallam University who performed a review of our Covid procedures. These measures included the purchase of screens placed in front of banks of cardio equipment to reduce the spread of aerosols and specialised cleaning equipment to make the cleaning of equipment more efficient. The government guidelines limit capacity to 100 sq. ft per member and we are able to accommodate this through limiting entry where necessary using the existing technology embedded in the gyms' entrance portals. The guidelines have also required social distancing which has been possible through markings on the floor and the goodwill of our members. Our large well-ventilated facilities with an average size of 16,500 sq. ft, mean that we have been able to keep to original 2m social distancing guidelines. Our procedures have demonstrated to our members the important steps we have taken to make our gyms a safe place to work out and are an important way of giving them confidence to continue with their routine of coming to the gym.

The measures we have put in place have been welcomed by our members and in the period of opening we have seen member satisfaction scores around 10% higher than pre-Covid. As a sign that member confidence is growing, visits per member also increased during August and September to a point where members were using the gym on average 1.2 times per week, a level higher than the previous year. Independent surveys also recognise that there is a group of ex-members who intend to return but will only do so once the risk from Covid-19 is reduced and the vaccine is rolled out. Given the progress the UK government is making on the vaccine rollout, this gives us confidence about our ability to recover previous levels of membership once we are open.

The financial results in 2020 were substantially impacted by the periods of closures, which reduced trading days by 45%. Revenue was £80.5m (2019: £149.0m) down 46% vs 2019 and there was a statutory loss of £35.4m (2019: profit of £4.1m). These results show the significant operational gearing within our business mitigated in the year only by the government assistance and the substantial cost saving measures implemented. We have slowed down our rollout as a result of the pandemic, preserving liquidity to cope with a rapidly changing crisis. During the year we opened eight sites, with four opened prior to start of the pandemic and four in August once contractors were able to resume on sites. This brought our portfolio up to 183 sites at year end. In addition, we completed significant refurbishments of two of the former easyGym sites in London at Fulham and Oxford Street. Oxford Street in particular will be a real flagship for our business; it includes all the latest equipment and showcases our new virtual group exercise concept. In 2021 we will have opened three new gyms opening in April and one further gym in May.

The Gym Limited

Strategic Report

for the year ended 31 December 2020 (continued)

We remain very confident about our long term positioning in the market. Our immediate priority is to secure high quality opportunities in locations that have traditionally been difficult for us to find affordable sites and we are increasingly being offered these excellent sites by landlords on attractive terms. In addition, we expect to attract displaced members from other gyms that have closed as a result of the pandemic. The landscape has changed significantly with around 20% of local authority sites not reopening and further difficulties for mid-market and premium operators. The size of the low cost sector has been stable in 2020 with 735 sites in total (2019: 728 sites) but as the impact of the pandemic recedes, we believe that the high quality low cost operators have strong opportunities for growth and the market will return to expansion once again.

Strategic progress

As we enter a recovery period, our strategic priorities are based around two key initiatives: i) Rebuilding our membership; and ii) Securing a high quality new site pipeline.

i) Rebuilding our membership

Key to our recovery will be a strong uplift in membership numbers, recovering the many thousands who have left over the past year. We are very experienced in executing plans to grow membership numbers both in our normal seasonal trading and when opening new sites, and we will use this experience over the months to come. The pandemic has reduced our site membership on average to the levels that sites would have reached a few months after opening. Sites typically have a 2-year maturation profile so we now expect that as part of the recovery, sites will need to go through a maturation phase once more and our success recovering from the pandemic will be reflected in how far we can shorten this maturation profile. Our average price point is now £18.81 which makes us very competitive within the low cost market and we anticipate that this attractive price point will underpin the recovery in membership levels in a difficult economic environment. All sites that were open at the start of 2020 have lower membership levels today than before the pandemic although not all sites have been impacted equally; some of the city centre sites have experienced higher levels of membership loss and the start of their sustained recovery period will depend on the return to offices in the city centres.

As part of our preparations for rebuilding our membership, we have continued throughout this period to invest in and enhance our technology capability and improve our central infrastructure – this is a fundamental requirement for operating a strong low cost business at scale. The key development for 2021 is to build a new website which we plan to launch in the autumn. A new website will give us a number of advantages enabling improved web merchandising, the ability to create new products as well as improved upsell and SEO capability. In 2020 we concentrated the technology advances around supporting the Covid operating experience for members. Contactless entry through the use of QR codes on our app was introduced upon reopening – member acceptance of this development has been very strong. Our app has also been enhanced to include a busyness tracker that enables members to see how busy the gyms are at any point in time.

We are very confident that the strength of our technology team and their innovation will continue to drive competitive advantage in this area over the coming years.

We have also taken the opportunity to review our member value proposition to ensure that our future product is even more relevant to our members in the post-Covid world. As we approach 200 sites, we will maximise the benefits of product consistency across the whole estate. Part of the work includes the relaunch of our group exercise offer, where a common range of classes will enable consistent quality of delivery across the business. We have also launched a new virtual group exercise product in two sites, Oxford Street and Tottenham White Hart Lane, using online classes provided by our partner, Fiit. The virtual content supplied by Fiit is part of a wide-ranging partnership that also includes discounted Fiit membership to our members available through our website. We intend to offer a combination of virtual and in-person content in more sites as we extend this trial further across the estate.

ii) Securing a high-quality new site pipeline

We believe there is a compelling opportunity for our business as the nation emerges from the pandemic and as a result, we have been building our pipeline even during the periods of closure. As a result of retail closures, we are seeing the availability of more high-quality sites at good levels of rent. Some of the planned sites in 2021 are locations where we have traditionally struggled to find sites but in the current situation are now available to us on attractive terms, including Oxford, Cambridge and York. Small box sites – sites of c.8,000 sq. ft – are also a good opportunity to accelerate our growth; we currently have three small box sites open with further sites planned this year. In the future our plan is to have formats that cover a range of sizes from large box at 16,000 sq. ft and above to small box of 7,000-8,000 sq. ft. This flexible approach combined with the improving property market will enable us to cover large parts of the country and extend our offer of affordable fitness to as much of the UK population as possible.

As the pandemic struck, we were beginning to realise some of the benefits of the New Gym Team model that was rolled out in 2019, where Fitness Trainers work for us in a part-time capacity 12 hours per week. The model showed its worth in an additional way during the crisis enabling us to place all these part-time employees on furlough. This proved to be an important source of financial support for our team – which would not have been available to them under the old model – at a time when it was not possible for them to train their clients in the gyms. As a result, we are likely to have better retention of these key team members as we re-open the estate. As we move out of the crisis, we are confident that the New Gym Team model will continue to give us benefits in improved member service, staff training, engagement and levels of compliance.

The Gym Limited

Strategic Report

for the year ended 31 December 2020 (continued)

The support of our teams across our estate and in our central support has been the highlight of a difficult year and demonstrates the strength of the culture throughout the business. At an early stage in the crisis, we decided that we would put support of our teams at the centre of the actions to ensure we emerge from the pandemic in a strong position. We gave financial assistance where necessary for those on furlough but also gave clear and honest communication about the strength of our business and its future prospects. We have been rewarded by good levels of retention in the reopening period after the first lockdown, across gym managers, Fitness Trainers and central staff. And when difficult decisions were necessary, such as aligning our levels of central support to lower levels of revenue, we have been open in explaining our decision-making.

Many of our team signalled their own belief in the prospects of the business by investing into the employee sharesave scheme. We are confident that the strength of the team and the culture of the business will help to facilitate a strong level of membership recovery once we get the green light to reopen.

ESG principles have always been at the very heart of our strategy and development since we started. The first site in Hounslow was located in an area with a low-income demographic and a number of the subsequent sites showed the same characteristics, bringing affordable fitness to these areas for the first time. During the last year we have pulled together all the work we are already doing across the business on ESG and formulated even stronger plans for the future. Part of this has been calculating the social value of our business – we worked with 4Global and Sheffield Hallam University to assess the social value in our last uninterrupted year of 2019. This work shows we were creating social value of over £0.5bn per year from improved health and wellbeing and fewer demands on the NHS as a result of the workouts in our gyms. This reinforces the importance of gyms within the fabric of our society – particularly in the current situation - and the need for government to promote an active lifestyle. We also continue to make good progress in our 4 priority United Nations Sustainability Development Goals:

- i) Promoting good health and wellbeing – we intend to publicise the social value that our gyms bring on a regular basis to inform the debate on the benefits of gyms (as set out above);
- ii) Good jobs, quality education and lifelong learning – this was enhanced by the launch of a new communication and learning platform for our employees in the year (CORE);
- iii) Diversity and Inclusion - in 2020 we publicised our first ever D&I manifesto setting our goals in this area; and
- iv) Responsibility to the environment – we completed our roll-out of LED lighting and our governance arrangements were tightened with the launch of the Health and Safety and Wellbeing Committee which I chair.

This is considerable progress given the year of disruption we have experienced and in the coming months we will invest further in this area as well as continue to articulate the benefits we continue to bring to members, colleagues and the wider community.

Our business has demonstrated its strength and resilience through the past year and continues to do so. The vaccine rollout is well under way and gyms re-opened in mid-April. The Company has a high-quality offer in great locations at an affordable price and is well positioned to prosper in the coming years. The benefits to the whole nation of increased health and fitness both in terms of physical and mental wellbeing have been made all too obvious by Covid-19 and our business is ready to play a central role in helping the UK deliver on providing that at scale.

Principle risks and uncertainties

Risk management

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.

Principal risks

The risks noted below are those which the Directors 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.

Risks and uncertainties relating to Covid-19

The impact of Covid-19 and resulting risks have been a significant feature of the past 17 months. We are continually monitoring the impact of the pandemic and our priority is to ensure the safety of our staff and members. Whilst we appear to be through the cycle of lockdowns and our business has been able to return to trade as normal, there remains uncertainty on the continuing impact of Covid-19 on the wider environment and the Company's operations.

We are following our robust risk management framework and ensuring that an active risk assessment and business continuity plan is in place, overseen by our Health and Safety Manager, reporting to the Executive Committee. The Company will follow Public Health England and Health Protection Scotland guidance, and medical and local authority

The Gym Limited

Strategic Report

for the year ended 31 December 2020 (continued)

advice where relevant, to ensure that we respond to any developments quickly, safely and in the best interests of our people. In addition, management has taken a number of actions to increase available liquidity, reduce costs to mitigate the disruption caused by Covid-19, and it will also continue to seek to access the various government schemes to support businesses..

Responsibility for risk

The Board is ultimately responsible for ensuring that a robust risk management process is in place and effectively operated. The relevant roles and responsibilities in monitoring and operating the system of risk management are as follows:

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
BUSINESS INTERRUPTION	<p>Whilst this risk is highly relevant today as a result of Covid-19, this risk is wider than pandemics and there could be other causes of significant disruption or widespread closure of our estate, including for example:</p> <ul style="list-style-type: none"> a) Climate change resulting in an increase in the likelihood and severity of environmental disasters such as storms or droughts, which could result in major infrastructure damage and outages of electricity and water supplies. b) Major health scare in relation to gym usage. c) Failure of a key supplier impacting our ability to operate our gyms. d) Significant reputational damage 	<p>Extended periods of closure would result in a loss of revenue and could also cause a decrease in membership numbers.</p> <p>This is specifically the case during the current Covid-19 pandemic, with reduced member numbers and enforced temporary gym closures.</p> <p>Over an extended period, a loss of revenue coupled with the inability of the Company to remove certain of its cost base in a closure scenario means this could lead to a material uncertainty in the Company's ability to continue as a going concern.</p>	<ul style="list-style-type: none"> • A detailed exercise is being undertaken to assess each of the sources of business interruption risk and determine where appropriate action can be taken to mitigate it, based on whether the cost of the action is proportionate to the risk it is mitigating. • This will be turned into a clear action plan with agreed owners and timeframes. • In addition, business continuity procedures and risks are monitored and refreshed regularly. • In relation to Covid-19, management has identified and implemented proven measures to preserve cash and reduce discretionary expenditure during periods of closure, and to be able to reopen quickly to minimise revenue loss. Appropriate financial modelling has been undertaken to support the assessment of the business as a going concern. • As part of our response to the TCFD recommendations, we will review the risks of future climate change on our business and identify adaptation action required.
OPERATIONAL GEARING	High operational gearing from the fixed cost base.	<p>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.</p> <p>Covid-19 lockdowns have caused a significant drop in revenue, which has been only partially mitigated by</p>	<ul style="list-style-type: none"> • Monthly monitoring and reforecasting of business performance at site level. • Active yield management on a gym-by-gym basis. • Regular financial management by Executive Committee and Board. • Option to slow down expansion in order to preserve cash. • During Covid-19 lockdowns, operating costs have been reduced significantly to minimise the impact of lost

The Gym Limited
Strategic Report
for the year ended 31 December 2020 (continued)

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
		cost management measures.	revenue and we have taken government support in the form of business rates relief and wages support for furloughed staff. Capex has also been reduced significantly to preserve cash.
MEMBER EXPERIENCE	Failure to provide members with a high quality product and service would damage the Company's reputation.	<p>Reductions in actual or perceived customer service could result in a decrease in membership numbers and revenue generation.</p> <p>Covid-19 has had an adverse impact on this risk. Whilst member feedback is at an all-time high in response to the Covid-secure steps implemented in the gyms, there are significant numbers of former members who continue to be uncomfortable returning to their normal day-to-day activities – including due to Covid-19.</p>	<ul style="list-style-type: none"> • Monitor gym utilisation and member 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. • Enhanced cleaning protocols to reduce risk of Covid-19 transmission and increase member confidence. • Maintain appropriate levels of expenditure on repairs and maintenance. • Significant work completed on preparing gyms to be Covid-secure. • Gym busyness tracker helps nervous members to visit at quieter times. • Strong communications plan in place to communicate the #safewithus commitment to members and to reinforce key guidelines regarding sanitisation, face coverings and social distancing.
ECONOMIC CONDITIONS	A prolonged uncertainty following wider economic shock such as the impact of Covid-19 could cause significant disruption to business conditions.	A period of disruption caused by national lockdowns may result in continuing challenges for the economy, resulting in a loss of membership and hence revenue..	<ul style="list-style-type: none"> • We are very well placed to operate successfully in a challenging economic environment; we are one of the lowest price gym operators in the UK market with an average monthly subscription of £18.81 which is £1-4 per month lower than most competitors in the low cost gym sector and significantly lower than rates charged by mid-market and premium operators. Although some of our members may choose to cancel their subscription due to financial hardship we would also expect to benefit from others 'trading down' from the mid-market or premium gyms.

The Gym Limited
Strategic Report
for the year ended 31 December 2020 (continued)

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
COMPETITION	The Company may face increased competition and pressure from competitor pricing decisions.	<p>The ability of the Company to hold or increase prices and therefore achieve performance targets could be affected.</p> <p>However, Covid-19 has led to the closure of competitors and so at this stage has reduced this risk</p>	<ul style="list-style-type: none"> • Continue to operate a low cost operating model to ensure we can retain price leadership. • Maintain focus on choosing the best sites in a geographical area. • Continue to invest in the member proposition.
STAFF RETENTION	Loss of key staff through retention policy and failure to manage succession.	<p>A lack of experienced and motivated staff will have a detrimental impact on all areas of the business, from operations to central functions.</p> <p>Covid-19 has resulted in a small reduction in staff churn, as the economic uncertainty is encouraging people to remain in role.</p>	<ul style="list-style-type: none"> • The Company uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include: <ul style="list-style-type: none"> ◦ competitive remuneration packages; ◦ opportunities to own shares in the ultimate parent Company; ◦ opportunities for training and progression; ◦ short, clear reporting lines; ◦ succession planning; and ◦ utilising staff engagement surveys so our staff have an opportunity to provide feedback and ideas. • In addition, the growth of central functions and way we run the business is reducing dependencies on key individuals by spreading knowledge more widely.
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.	<ul style="list-style-type: none"> • Our primary data systems are hosted by fully qualified organisations in suitable data centres. • Our primary IT infrastructure is fully managed by specialist IT companies who provide best-practice architecture and support. • All membership and business information is backed up using third party locations. • Robust disaster recovery and business continuity plans are in place. • Additional capacity has been added to our infrastructure to

The Gym Limited
Strategic Report
for the year ended 31 December 2020 (continued)

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
			cope with large spikes in usage.
ORGANIC ROLLOUT	Site scarcity may affect the delivery of our rollout plan.	Delays to our rollout plan may have an adverse impact on growth targets and operational returns. However, Covid-19 has resulted in increased availability of high quality sites, thereby resulting in a reduced risk.	<ul style="list-style-type: none"> Our highly experienced property team is focused on site selection and sourcing the best deals to deliver a strong pipeline. Our expansion into Small Box gyms increases the range of suitable sites.
DATA PROTECTION	The Company holds business critical and confidential information electronically. A breach of security or data protection rules is a key risk.	<p>Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.</p> <p>We do not consider this risk to be affected by Covid-19.</p>	<ul style="list-style-type: none"> 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. We have implemented industry-leading authentication management software. We are recruiting a Data Protection Manager to oversee and optimise our control environment in this area.
REGULATORY	Failure to adhere to regulatory requirements such as taxation, the Data Protection Act, employment law, health and safety requirements, planning regulations, noise abatement and advertising and marketing regulations.	<p>Potential reputational damage and penalties.</p> <p>We do not consider this risk to be affected by Covid-19.</p>	<ul style="list-style-type: none"> The Board has oversight of 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.

The Gym Limited

Strategic Report

for the year ended 31 December 2020 (continued)

Subsequent events and future developments

On 2 January 2021, the UK Government required all gyms in the UK to close. Our gyms subsequently re-opened on 12 April 2021 in England, 26 April 2021 in Scotland and 2 May 2021 in Wales. All remaining Covid restrictions were lifted in July 2021 and we have seen strong demand for our gym memberships and now look forward to a period of sustained recovery and accelerated growth. At the end of June 2021 we had 730,000 members and the Group has Non-Property Net Debt of £60.4 million, with £6.2 million of deferred rent and VAT payable outstanding.

On 2 July 2021, the Group's balance sheet and liquidity was further strengthened by an equity placing. The Gym Group plc issued 11,350,000 new ordinary shares and raised gross proceeds of approximately £31.2m. The costs directly related to the transaction amounted to £0.9m. At the same time as the equity placing, certain restrictions in the Group's banking facilities around capital expenditure and finance lease debt were relaxed. The proceeds of the share issue will be used to accelerate the Group's site rollout programme, targeting 40 sites in the next 18 months.

We have opened seven sites during the period from April 2021 to August.

SECTION 172 OF THE COMPANIES ACT 2006

Under section 172(1) of the Companies Act 2006 (section 172), the Directors are required to act in a way that they consider, in all good faith, would most likely promote the success of the Company. This success must be for the benefit of the Company's shareholder but also for all other stakeholders.

The disruption caused by the coronavirus pandemic has required us to work more closely with our stakeholders than ever and the Company continues to work hard to keep its employees safe and its business viable.

These are some of the Company's stakeholders and how it treats and interacts with them, especially at this time, demonstrates how seriously the Directors takes their responsibilities under section 172.

From the perspective of the Directors, as a result of the Group governance structure whereby:

- two of the Company's Directors are also the Group's Executive Directors and the other four Company Directors are senior managers in the Group; and
- the Company is the largest subsidiary in the Group, representing 100% of the Group's external revenue and operating the majority of the Group's central processes

Matters that the Directors are responsible for considering under section 172 have been considered to an appropriate extent by the Group Board in relation to both the Group and the Company. The Directors have also considered relevant matters where appropriate.

How we consider our stakeholders

Since the outbreak of Covid-19 in the UK in March 2020, we have kept our key stakeholder groups updated with information regarding the actions we are taking and how it affects them and we have considered the interests of stakeholder groups in our decision making and actions throughout the pandemic. We have included details of our stakeholder groups, the Group Board's activities in 2020 and the outcomes of engagement in the table below, including where the action taken was related to disruption from the Covid-19 pandemic.

Who They Are and Why They Matter	What Matters to Them	How we Engaged During 2020	Outcomes of that Engagement	How the Board Considers the Interests of Our Stakeholders
Shareholders Our investors provide capital for growth, whilst providing challenge and feedback on our business model and plans for the future.	<ul style="list-style-type: none"> • Timely and relevant information on performance, and measures taken to mitigate the financial impact of Covid-19 	<p>Our Executive Directors maintain an investor relations annual plan, consisting of:</p> <ul style="list-style-type: none"> • Meetings with our current and prospective shareholders; 	<p>We provided information and regular updates on our response to Covid-19 to our shareholders throughout the year, issuing market updates and press releases in addition</p>	<p>The Board is kept informed of all responses received as part of shareholder consultations by management and the brokers.</p> <p>The Board's dividend policy can be found</p>

The Gym Limited
Strategic Report
for the year ended 31 December 2020 (continued)

Who They Are and Why They Matter	What Matters to Them	How we Engaged During 2020	Outcomes of that Engagement	How the Board Considers the Interests of Our Stakeholders
	<ul style="list-style-type: none"> • Opportunities for engagement with management • Remuneration Policy • Information on ESG performance 	<ul style="list-style-type: none"> • Presentations given to shareholders upon the release of annual or interim results; • Feedback from our joint brokers following investor engagement, and reports from brokers on market trends; • Reporting to the Board as a whole on investor matters; • Preparation of investor materials. <p>In 2020, the Chairwoman met with many of our top investors to discuss their views.</p> <p>In addition, the Company's brokers held meetings with investors and provided feedback to the Board.</p>	<p>to the normal results cycle updates.</p> <p>Our shareholders supported us in the equity placing in April 2020 in which we issued a further 28m shares. Our Board members, including Executive Directors, also participated in the placing.</p> <p>The Board did not recommend a dividend in 2020 and does not recommend a final dividend for 2021 as a cash preservation measure during Covid-19.</p> <p>We took swift action on remuneration, including salary and fee reductions, delaying 2020 long term incentive grants (with no change to in-flight PSP awards) and bonus deferral.</p> <p>We have made further progress in ESG reporting by producing a Sustainability Report to GRI Standards.</p>	<p>on page 45 of the consolidated financial statements of The Gym Group plc.</p> <p>The Board welcomes questions from our shareholders at our AGM.</p> <p>As it relates to Remuneration, we will continue to consult shareholders on any future major changes to Policy. The Remuneration Report is on pages 71-89 of the consolidated financial statements of The Gym Group plc.</p> <p>The Board has committed to ongoing improvements in sustainability reporting and our Sustainability Report can be found on our website, www.tggplc.com</p>
<p>Employees</p> <p>Our employees are the driving force behind our purpose and growth. We run a People First business and consider our unique team and culture to be a vital part of our strategy.</p>	<ul style="list-style-type: none"> • Regular, relevant, clear information • Opportunities to provide feedback • Opportunities to develop careers and skills • Engagement with management • Attractive salary and benefits, including participation in share schemes 	<p>As many of our colleagues were furloughed or changed their ways of working, we brought forward the launch of our communications platform Core, which enabled us to share regular information and gather feedback.</p> <p>We launched Workday Learning to promote continued training and provide resources for our colleagues.</p> <p>In addition to communications tools, our Executive</p>	<p>Our market leading NGT model enabled us to furlough our Fitness Trainers when the CJRS was in place, providing stability for our teams.</p> <p>Core has enabled us to launch wellbeing initiatives to support our teams affected by lockdowns. We have also trained 30 employees to become Wellbeing champions to provide additional support to colleagues.</p> <p>Workday Learning enables us to provide</p>	<p>The Board has met regularly to consider, oversee and review progress of People related actions.</p> <p>All Directors visit several of our sites each year and did so once sites were permitted to reopen within Covid-secure protocols to support our teams.</p> <p>We were unable to hold our annual employee conference, but Directors have remained in contact virtually using our</p>

The Gym Limited
Strategic Report
for the year ended 31 December 2020 (continued)

Who They Are and Why They Matter	What Matters to Them	How we Engaged During 2020	Outcomes of that Engagement	How the Board Considers the Interests of Our Stakeholders
		<p>Committee regularly visited our sites (when open) to update our employees on key changes, and to support reopening plans and see the Covid-secure protocols in action.</p> <p>We have implemented employee engagement and pulse surveys, results of which were fed back to the Board and action plans instigated</p> <p>In December 2020 we welcomed the first 30 recruits onto our Kickstart programme; a scheme supported by the UK Government to encourage 16-24 year-olds into new employment opportunities and training.</p>	<p>e-learning content and important messages to all employees whether furloughed or working.</p> <p>The outputs of the employee engagement surveys were considered by the Board and Exco and actions identified.</p> <p>We launched a further invitation to join our Sharesave in 2020. We were delighted that more employees took part in the 2020 Sharesave, showing support for the Company.</p> <p>We intend to develop our Kickstart programme to welcome more colleagues and offer young people opportunities for development.</p>	<p>communications platforms.</p> <p>The Board appoints one of its members as the Non-Executive Director who is responsible for people engagement. David Kelly carried out this role in 2020 and Emma Woods takes over this responsibility in 2021, and you can find out more about our activities in the Directors' Report on page 91 of the consolidated financial statements of The Gym Group plc</p>
<p>Members</p> <p>Happy members are what makes our gyms successful, and they inspire us every day with their achievements. They are the best indicator that we are delivering fitness for all.</p>	<ul style="list-style-type: none"> • A great value experience • Excellent service and equipment • Accessibility and inclusivity • Demonstration of our values • A Covid-safe environment in which to work out 	<p>We kept our members updated through clear communications in closure periods and we offered 'free freeze' on memberships so they didn't pay while gyms were closed.</p> <p>It is a key part of our strategy and business model to use technology to improve the member experience, with 2020 updates highlighted on page 20 of the consolidated financial statements of The Gym Group plc.</p> <p>In 2020 we launched new functionality in our app, including</p>	<p>We saw improved member satisfaction scores when we were open after national lockdowns.</p> <p>We provided free online classes to members and discounted access to Fiit during lockdown.</p> <p>Our Covid-secure protocols were developed in consultation with the Advanced Wellbeing Research Centre at Sheffield Hallam University and rolled out to all our sites.</p>	<p>We regularly review our member satisfaction scores at Board meetings.</p> <p>Member satisfaction forms part of our bonus targets for Executive Directors.</p> <p>Directors use member feedback to identify ways in which our member journey can be improved or enhanced.</p> <p>The Board has overseen the technology developments, receiving reports on progress of initiatives, and considers technology a strategic priority for 2021 alongside rebuilding</p>

The Gym Limited
Strategic Report
for the year ended 31 December 2020 (continued)

Who They Are and Why They Matter	What Matters to Them	How we Engaged During 2020	Outcomes of that Engagement	How the Board Considers the Interests of Our Stakeholders
		<p>contactless entry to all sites, to continue to deliver a high quality and great value member experience.</p> <p>We clearly communicate our Covid-secure protocols on our website and in the gyms.</p> <p>Promoting wellbeing is also a key part of our sustainability strategy as on page 32 of the consolidated financial statements of The Gym Group plc.</p>		<p>membership, developing our member value proposition, and securing a high quality pipeline of great sites for members.</p>
<p>Suppliers</p> <p>We believe our partnerships ensure we source the best value goods and services for the benefit of our members.</p> <p>High standards of ethics and business conduct is an important part of being a responsible part of the communities in which we operate.</p>	<ul style="list-style-type: none"> • High levels of business conduct and integrity in dealing with suppliers and carrying out our property management commitments • Strong listed company covenant • Responsible tenants • Open and clear communication 	<p>We commenced close engagement with landlords to discuss revisions to terms and payment schedules at the time of national lockdowns.</p> <p>Our strong, listed company covenant continues to be highly attractive to landlords.</p> <p>We actively manage our supplier relationships and have worked with our major suppliers through the pandemic to minimise costs and disruption.</p> <p>The Company has in place whistleblowing arrangements which enable employees to raise concerns should they suspect wrongdoing or unethical conduct.</p> <p>We publish our Payment Practices Report twice a year at Companies House.</p>	<p>We have received positive feedback for our practices in engagement with our landlords in Covid-19 disruption – we conducted clear and timely discussions and demonstrated flexibility in our approach.</p> <p>We maintained helpful and positive relationships with major suppliers, including our cleaning firms, equipment suppliers, contact centre operators and vending suppliers who all furloughed staff to ensure that contractual costs were minimised.</p> <p>We maintain our properties to a high standard, maintaining good relationships with property management companies and act as responsible tenants.</p>	<p>The Board is committed to high standards of ethical business conduct.</p> <p>The policies and procedures relevant to business conduct are available to all employees.</p> <p>Executive Directors, on behalf of the Board, have also held discussions directly with our lender banks and have worked with key suppliers to develop joint plans for the crisis.</p> <p>The Board takes a zero-tolerance approach to bribery and corruption. It also reviews the Company's Modern Slavery Act Statement annually.</p>

The Gym Limited
Strategic Report
for the year ended 31 December 2020 (continued)

Who They Are and Why They Matter	What Matters to Them	How we Engaged During 2020	Outcomes of that Engagement	How the Board Considers the Interests of Our Stakeholders
<p>Communities</p> <p>Being a valuable part of the communities in which we operate is hugely important to us; a strong relationship between our gyms and our communities is mutually beneficial.</p>	<ul style="list-style-type: none"> Be a responsible corporate citizen Contribute positively to the local community Be inclusive and accessible Support local and national charities 	<p>Our low price model enables fitness to be affordable for all, and supports those accessing a gym for the first time.</p> <p>We have strengthened our diversity and inclusion actions at all levels.</p> <p>In 2020 we raised over £32,000 for Movember and over £23,000 through the online membership join journey.</p> <p>We have worked closely with local authorities to support the safe inspection of our gyms</p>	<p>Our Covid-secure protocols were developed in consultation with Sheffield Hallam University Advanced Wellbeing Centre.</p> <p>Widened our gym network to afford access to 49.6% of the UK population (up from 46% in 2019).</p> <p>Published our Diversity & Inclusion Manifesto and made progress with diversity initiatives such as improving data collection to support equalities monitoring, and actions in recruitment and training practices.</p>	<p>The Board recognises the importance of contributing to wider society and considers it a vital part of achieving our purpose.</p> <p>The Board considers the long-term impact of its operations as part of its Sustainability strategy.</p> <p>The Board's policy on diversity is set out on page 67 of the consolidated financial statements of The Gym Group plc. The Board considers diversity to be a focus for succession planning.</p> <p>In 2020, we commissioned 4Global to calculate the Social Value created by The Gym Group, results of which can be seen on page 32 of the consolidated financial statements of The Gym Group plc.</p>
<p>Environment</p> <p>We continually seek out opportunities to improve our environmental performance and to contribute to the wellbeing and sustainability of the communities in which we operate.</p>	<ul style="list-style-type: none"> Minimise the impact of the Company's operations on the environment Energy efficiency and sustainable working practices 	<p>During the year we have expanded the remit of our Sustainability Working Group and continued to enhance reporting.</p> <p>We continue to make energy saving improvements in our sites, such as further rollout of LED lighting.</p> <p>Our Sustainability Report details our environmental strategy, activity and initiatives. This can be found on pages 30-41 of the consolidated financial statements</p>	<p>We implemented requirements of the Streamlined Energy and Carbon Reporting scheme.</p> <p>We launched electronic solution to replace paper-based process in gyms.</p> <p>We purchased 100% of energy in 2020 from renewable sources.</p> <p>Completed work on a further 23 sites to upgrade lighting systems. 93% of our estate now operates with full LED lighting.</p>	<p>The Board is conscious of the Company's impact on the environment and aims to take progressive steps to continually improve the energy efficiency of our gyms. For more on our responsibility for the environment, please see pages 30-41 of the consolidated financial statements of The Gym Group plc.</p>

The Gym Limited
Strategic Report
for the year ended 31 December 2020 (continued)

Who They Are and Why They Matter	What Matters to Them	How we Engaged During 2020	Outcomes of that Engagement	How the Board Considers the Interests of Our Stakeholders
		of The Gym Group plc.		
<p>Lending Banks</p> <p>Our lending banks provide funds for growth and day-to-day working capital to enable us to operate and grow our business to its full potential.</p>	<ul style="list-style-type: none"> Regular and clear reporting that demonstrates company performance is meeting agreed covenant targets Regular engagement with management to understand business strategy and risks 	<p>During the year we provided regular updates on company performance and reported on performance versus agreed debt covenants.</p> <p>In June 2020, as the Covid-19 pandemic developed, we agreed an amendment to the Group's existing £70 million Revolving Credit Facility ('RCF') with our three lending banks: NatWest, HSBC and Banco de Sabadell, which extended the RCF by incremental commitments totalling £30 million.</p>	<p>During the year we worked with the Company's banks on debt refinancing and maintained open communication throughout the crisis and provided information on performance and debt covenants.</p> <p>In December 2020, to adapt to site closures related to further Covid-19 restrictions, we agreed an amendment to the terms of the RCF, extending terms and allowing flexibility in covenant tests.</p> <p>In February 2021 and June 2021, the Banks agreed a waiver of the March 2021 and June 2021 covenant tests in light of the national lockdown.</p>	<p>Management holds regular meetings/calls with lending banks during the year to enable them to be updated on the progress and performance in the business.</p> <p>Representatives from the lending banks are invited to our half-year and full-year results presentations.</p> <p>In financial plans discussed at the Board, analysis is presented on how plans would impact debt covenants to ensure the interests of the lending banks are protected.</p> <p>The Board's annual going concern and viability assessment is performed with specific reference to the level of borrowings required under different scenarios and the impact of such scenarios on debt covenants.</p>

By order of the board

Mark George

Mark George (Sep 3, 2021 08:42 GMT+1)

M George
Director

3 September 2021

The Gym Limited

Directors' Report

for the year ended 31 December 2020

The Directors present their report and the financial statements for the year ended 31 December 2020.

The business review, principal risks and uncertainties, subsequent events and Section 172 statement are included in the Strategic Report.

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.

Going concern

The Company is financed by cash generated from its own operations, lease arrangements and intercompany loans from other group companies, including its ultimate parent company, The Gym Group Plc ("TGG plc"). These intercompany loans are either repayable on demand or due for repayment in December 2021. The Company is therefore reliant on adequate financial resources being made available by group companies, including TGG plc, and not demanding repayment of amounts due to group companies before 31 December 2022, to enable the Company to continue during the going concern period. TGG plc is financed by shareholder equity and bank facilities, including a £70.0 million Revolving Credit Facility ('RCF') and a £30.0 million debt facility extension (the 'New Bank Facility').

The outbreak of Covid-19 and its continuing impact on the economy has affected the Company and the wider Group (being the Company, its ultimate parent and fellow subsidiaries). When assessing the ability of the Company to continue as a going concern the Directors have considered:

- the Company's trading performance since the re-opening of gyms on 12 April 2021
- future expected trading performance to December 2022, including membership levels and behaviours
- the Company's site rollout programme
- the latest situation and UK Government guidance with respect to the Covid-19 pandemic;
- and the Group's financing arrangements to December 2022.

The Board has reviewed the financial forecasts and sensitivities of the Group and has a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the period to 31 December 2022. Accordingly, and based upon the receipt of a letter of support from The Gym Group plc, which states that The Gym Group plc will continue to provide financial support to the Company and will provide sufficient funds to the Company for these purposes the Directors continue to adopt the going concern basis in preparing these financial statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Group's current and forecast liquidity position; the Covid-19 situation and success of the UK vaccination programme; the support received to date from the Group's lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios. Further detail is provided in Note 2.

The Gym Limited

Directors' Report

for the year ended 31 December 2020 (continued)

Directors

In addition to the Directors noted on page 1, the following served during the year were:

N Henwood (resigned 30 June 2020)

J Spaven (resigned 30 June 2020)

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 were Directors at the time when this Directors' report was 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



Mark George (Sep 3, 2021 08:42 GMT+1)

M George

Director

3 September 2021

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

for the year ended 31 December 2020

Opinion

We have audited the financial statements of The Gym Limited for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of changes in Equity and the related notes 1 to 26, 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 2020 and of its loss 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. 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern to 31 December 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 contained in the annual report.

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.

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 course of 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 themselves. 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.

The Gym Limited

Independent Auditor's Report

to the members of The Gym Limited

for the year ended 31 December 2020 (continued)

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 17, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the company has to comply with laws and regulations relating to its operations, including in relation to the Coronavirus Job Retention Scheme rules, health and safety and GDPR.

The Gym Limited
Independent Auditor's Report
to the members of The Gym Limited
for the year ended 31 December 2020 (continued)

- We understood how the company is complying with those frameworks by making inquiries of management to understand how the company maintains and communicates its policies and procedures in these areas. We corroborated our inquiries through reading board minutes and correspondence with relevant authorities.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue recognition and the impairment of property, plant and equipment, intangible and right of use assets to be fraud risks. Our testing of revenue included agreeing specific transactions to supporting membership data and the receipt of payment in bank statements, re-performing management's deferred membership fee income calculation, and the testing of certain revenue journals. Our testing in respect of impairment included evaluating and testing the impairment model methodology and integrity, challenging and assessing the reasonableness of management's assumptions, considering management's sensitivity analysis showing the impact of a reasonably possible change in key impairment assumptions and performing our own sensitivity analysis by reference to the results of our assessment of assumptions. As part of our work we utilised EY valuations specialists to assist in assessing the appropriateness of the methodology used and to assist in our assessment of the discount rate and long term growth rate assumptions used in the impairment model.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved testing journals identified by specific risk criteria. Our procedures also included a focus on the Coronavirus Job Retention Scheme to understand how the company complied with the scheme rules and the testing of a sample of claims made under the Scheme. We read the minutes of Directors' meetings to identify any non-compliance with laws and regulations. We also made enquiries with the Directors and of management of the company regarding compliance with laws and regulations.

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 UK

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

3 September 2021

The Gym Limited
Statement of Comprehensive Income
for the year ended 31 December 2020

		31 December 2020	31 December 2019
	Note	£'000	£'000
Revenue	4	80,470	149,024
Cost of sales		(2,116)	(1,421)
Gross profit		78,354	147,603
Other income	5	6,533	-
Administration expenses		(117,697)	(126,784)
Operating (loss)/profit	6	(32,810)	20,819
Finance income	9	72	32
Finance costs	10	(13,458)	(13,641)
(Loss)/profit before tax		(46,196)	7,210
Tax credit/(charge)	11	10,764	(3,067)
(Loss)/profit for the year attributable to equity shareholders		(35,432)	4,143
Other comprehensive income for the year		-	-
Total comprehensive (expense)/income attributable to equity shareholders		(35,432)	4,143

The Gym Limited
Statement of Financial Position
as at 31 December 2020

		31 December 2020	31 December 2019
	Note	£'000	£'000
<i>Non-current assets</i>			
Property, plant and equipment	12	171,386	176,002
Right-of-use assets	12	254,342	237,409
Intangible assets	13	30,888	30,729
Deferred tax assets	11	6,819	-
Total non-current assets		463,435	444,140
<i>Current assets</i>			
Inventories	14	290	654
Trade and other receivables	15	6,185	10,784
Income taxes receivable		75	-
Cash and cash equivalents	16	3,626	2,591
Total current assets		10,176	14,029
Total assets		473,611	458,169
<i>Current liabilities</i>			
Trade and other payables	17	59,003	33,518
Lease liabilities	18	21,842	15,637
Other financial liabilities	19	2,609	3,875
Borrowings	20	20,268	20,268
Provisions	21	46	352
Income taxes payable		-	986
Total current liabilities		103,768	74,636
<i>Non-current liabilities</i>			
Lease liabilities	18	284,473	262,706
Provisions	21	1,241	1,303
Deferred tax liabilities	11	56	428
Total non-current liabilities		285,770	264,437
Total liabilities		389,538	339,073
Net assets		84,073	119,096
<i>Capital and reserves</i>			
Issued capital	22	68,162	68,162
Share premium		37,633	37,633
Capital contribution reserve		2,548	2,056
Retained (deficit)/earnings		(24,270)	11,245
Total equity shareholders' funds		84,073	119,096

The notes on pages 24 to 52 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 3 September 2021 and were signed on its behalf by:

Mark George

Mark George (Sep 3, 2021 08:42 GMT+1)

M George
Director

Company Registration Number 05659669

The Gym Limited
Statement of Changes in Equity
For the year ended 31 December 2020

	Note	Issued capital £'000	Share premium £'000	Capital contribution reserve £'000	Retained (deficit)/ earnings £'000	Total £'000
At 1 January 2019		68,162	37,633	1,398	9,102	116,295
Profit for the year and total comprehensive income		-	-	-	4,143	4,143
Long term employee incentives	23	-	-	646	-	646
Deferred tax on long term employee incentives	11	-	-	12	-	12
Dividends paid		-	-	-	(2,000)	(2,000)
At 31 December 2019		68,162	37,633	2,056	11,245	119,096
Loss for the year and total comprehensive expense		-	-	-	(35,432)	(35,432)
Long term employee incentives	23	-	-	478	-	478
Deferred tax on long term employee incentives	11	-	-	(69)	-	(69)
Transfer between reserves				83	(83)	-
At 31 December 2020		68,162	37,633	2,548	(24,270)	84,073

Issued capital comprises the nominal value of Ordinary shares issued.

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

Capital contribution reserve comprises capital contributions from The Gym Group plc in relation to long term employee incentive costs.

Retained (deficit)/earnings comprises cumulative comprehensive income and losses less equity dividends paid.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

1. General information

The Gym Limited ('the Company') provides low cost, high quality health and fitness facilities. It 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, OneCroydon, 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 thousand Pounds 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.

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

Going concern

The Company is financed by cash generated from its own operations, lease arrangements and intercompany loans from other group companies including its ultimate parent company, The Gym Group plc ("TGG plc"). These intercompany loans are either repayable on demand or due for repayment in December 2021.

The Company is therefore reliant on adequate financial resources being made available by group companies, including TGG plc, and not demanding repayment of amounts due to the parent before 31 December 2022, to enable the Company to continue during the going concern period. TGG plc is financed by shareholder equity and bank facilities, including a £70.0 million Revolving Credit Facility ('RCF') and a £30.0 million debt facility extension (the 'New Bank Facility').

In assessing the appropriateness of the going concern basis of accounting, the Directors have considered a detailed analysis of the Group's forecast future cashflows that has been prepared by management.

In TGG plc's 2020 Annual Report and Financial Statements, the Directors concluded that, whilst the Group was a going concern, the potential impact of Covid-19 and uncertainty over possible mitigating actions, including covenant waivers or extending the New Bank Facility, represented a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

At the time of signing off on those financial statements in March 2021, the third Government-enforced lockdown was in place and there remained significant uncertainty about when it would end and how quickly membership would recover after gyms re-opened. In addition, the vaccination programme was in its infancy and the efficacy of the vaccine programme was not proven.

Since then, we have seen a lot of positive momentum with gyms re-opening on 12 April, stronger than expected post-reopening trading and membership recovery, and the successful vaccination programme leading to full lockdown easing in July. In addition, TGG plc have successfully raised £30.3m from shareholders (net of fees) to fund our accelerated roll-out programme and have agreed a relaxation of capex and finance lease restrictions with lenders, as well as covenant waivers for both the March 2021 and June 2021 covenant tests necessitated by the Government-enforced lockdown.

As a result, the Directors consider that it is appropriate to prepare the Company's statutory financial statements, on the going concern basis without material uncertainty.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

Going concern (continued)

In assessing the going concern position of the Company for the period ended 31 December 2020, the Directors have considered the following:

- the Company's trading performance since the re-opening of gyms on 12 April 2021;
- future expected trading performance to December 2022 (the going concern period), including membership levels and behaviours;
- the Company's site rollout programme;
- the latest situation and UK Government guidance with respect to the Covid-19 pandemic; and
- the Group's recent £30.3m equity placing, the relationship with the Group's banks and financing arrangements to December 2022.

Since the re-opening of gyms on 12 April 2021, the Company has seen strong demand in terms of both membership numbers and yield. Total membership increased from 547,000 at the end of February 2021 to 730,000 at the end of June 2021. We continued to receive the benefit of Business Rates relief until the end of August 2021. During periods when the relief is in place, the Company requires approximately 540,000 members to break even at the cash flow level; without the relief, the cash flow break-even point is approximately 610,000 members.

The Company has opened four new gyms in the first half of the year and all are performing well, in line with historical (pre-Covid) performance for new sites. The Directors believe that the strong post-lockdown trading performance, together with the Covid-impacted commercial property market, provide the Company with a unique opportunity to accelerate growth and gain market share. The Company is targeting opening 40 new sites in the next 18 months, which are expected to be phased evenly over the period. All sites will be expected to meet the Group's 30%+ ROIC threshold on maturity.

To facilitate this accelerated growth, on 2 July 2021, the Company's ultimate parent, The Gym Group plc ("TGG"), raised additional financing in the form of an equity placing, which raised net proceeds of £30.3m. In addition, the Group agreed revised terms on its existing £100m banking facility from its lending banks. These amendments provide TGG and its subsidiaries greater flexibility around capital expenditure and finance lease arrangements.

As at 30 June 2021, the Group had Non-Property Net Debt of £60.4m and £41.0m of headroom (calculated off bank debt less cash) under the £100m of borrowing capacity under the Revolving Credit Facility ("RCF") (reducing to £70m in June 2022 and maturing in October 2023). After adjusting for the equity raise, net debt reduced to £30.1m. Rent deferrals of £5.5m and deferred VAT payments of £1.7m remained outstanding at 30 June 2021.

Until June 2022, the RCF is subject to quarterly financial covenant tests primarily relating to the performance of the Group against agreed targets for Group Adjusted EBITDA less Normalised Rent. From June 2022, the covenants revert back to those of the original £70m RCF, with quarterly tests on leverage (net debt : Group Adjusted EBITDA less Normalised Rent) and fixed charge cover.

The Group's Base Case forecast for the period to end December 2022 anticipates continued recovery of membership and robust yields, together with the successful execution of the accelerated rollout plan. Under this scenario, all financial covenants are passed with a significant level of headroom, and the Group can operate comfortably within its financing facilities.

The Directors have considered a downside scenario which anticipates a much slower recovery in which membership numbers only return to pre-pandemic levels of c.5,000 members per mature site in 2023. Under this scenario, all financial covenants continue to be passed and the Group continues to operate within its financing facilities.

The Directors have also considered reverse stress test scenarios that model the impact of a significantly lower recovery in membership numbers or significant downturn in trading and a further Government-enforced lockdown as follows:

Trading scenarios

- A significant delay to the recovery in membership such that member numbers decline in Q4 2021 and remain flat in Q1 2022 at c.690,000 (a period when significant increases would be expected). Under this scenario, the March 2022 EBITDA covenant would be breached in the absence of mitigating actions (see below) but the Group would remain within its liquidity limits;
- A more prolonged delay to the recovery in which membership levels decline in Q2 and Q3 2022 to c.600,000 at which point the Group becomes loss-making at the EBITDA level. Under this scenario, the Group would breach its £70 million maximum debt facility in September 2022 without further mitigating actions (see below).

The Directors believe the trading stress test scenarios above are implausible given the solid trading post-opening and other mitigating actions that could be deployed.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

Going concern (continued)

Further Government-enforced lockdown

- A further Government-enforced lockdown in the next 12 months during which gyms are required to close for at least one month. Under this scenario, the Group would remain within its liquidity limits, whilst the EBITDA covenant would be breached despite the mitigating actions below.

The Directors believe that the success of the UK's vaccination programme, the removal of all Covid restrictions in all parts of the UK and all sectors of the economy and the UK Government's stance that we must learn to live with the virus and focus on economic recovery, are all positive indicators that further periods of enforced closure are unlikely. In addition, the Group has a very good relationship with its lenders who have been supportive throughout the pandemic. The lenders understand the Group's business model, our significant profit and cash generation when open, and our relatively low gearing. As a result, in the unlikely event there is another national lockdown that results in a breach of a quarterly EBITDA covenant, the Directors believe that the banks would continue to support the Group with covenant flexibility in the form of waivers or amendments, as they have done on a number of occasions in the last 18 months during previous lockdown periods and given the liquidity position of the Group. The Directors therefore consider that the combination of a lockdown being unlikely and a subsequent lack of flexibility from banks is such that, the risk of a lockdown leading to a going concern risk is remote.

Under all stress test scenarios, the Directors would introduce additional measures to mitigate the impact on the Group's liquidity, covenants and cash flow including: (i) further reductions in operating costs, and marketing and capital expenditure; (ii) a slowdown/pause of the new site rollout programme; (iii) additional support from the UK Government (in the event of a further lockdown); (iv) requesting an extension of the £30m debt facility beyond June 2022 and/or covenant waivers; (v) seeking continued deferral of, or reductions in, rent payments to landlords; and (vi) the potential to raise additional funds from third parties.

Conclusion

The Board has reviewed the financial forecasts and sensitivities of the Company and Group and has a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the period to 31 December 2022. Accordingly and based upon the receipt of a letter of support from The Gym Group plc, which states that The Gym Group plc will continue to provide financial support to the Company and will provide sufficient funds to the Company for these purposes, the Directors continue to adopt the going concern basis in preparing these financial statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Company and Group's current and forecast liquidity position; the Covid-19 situation and success of the UK vaccination programme; the support received to date from the Group's lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios.

New and amended IFRS Standards that are effective for the current year

There were a number of narrow scope amendments to existing standards which were effective from 1 January 2020. None of these had a material impact on the company except for the amendment to IFRS 16 – Covid-19-Related Rent concessions.

Impact of the initial application of 'Covid-Related Rent Concessions' Amendment to IFRS 16

In May 2020, the IASB issued Covid-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a Covid-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the Covid-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met:

- a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c) There is no substantive change to other terms and conditions of the lease.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

New and amended IFRS Standards that are effective for the current year (continued)

In the current financial year, the Company has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

Impact on accounting for changes in lease payments applying the exemption

The Company has applied the practical expedient retrospectively to all rent concessions that meet the conditions in IFRS 16:46B, and has not restated prior period figures.

The Company has benefited from a one-month waiver of lease payments on five sites and additional rent free periods on a further six sites in exchange for the removal of break clauses in the leases. The waiver of lease payments of £682,000 has been accounted for as a negative variable lease payment in profit or loss. The Company has derecognised the part of the lease liability that has been extinguished by the forgiveness of lease payments, consistent with the requirements of IFRS 9:3.3.1.

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. Longer term membership fees comprises student membership fees which typically cover a nine month period and corporate annual 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, with any subscriptions in advance of the period in which the service is provided being recorded as a contract liability on the statement of financial position. Joining fee income is recognised over the period in which the membership commences since the performance obligation attached to that income is satisfied in that period and to match against the costs associated of a new member joining.

Rental income from Personal Trainers is recognised on a straight-line basis over the term of the rental agreement.

Other income, mainly vending income, is recognised at a point in time, which is 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.

Other income

Other income comprises amounts receivable not in the ordinary course of business and government grants. Where the income relates to an identifiable expense, the income is offset against the relevant expense. Where an expense is not easily identifiable, the income is recognised within Other income.

Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

Other income (continued)

Government grants (continued)

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

All government grants are recognised in Other income.

Exceptional items

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

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.

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 over the estimated useful lives on the following bases:

- Leasehold improvements over the shorter of the useful life and the term of lease
- Fixtures, fittings and equipment between three and ten years
- Gym and other equipment between five and ten 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.

Assets under construction represents the construction of gyms and are included in Property, plant and equipment. No depreciation is provided on assets under construction until the asset is available for use.

Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

Leases (continued)

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are related to the property leases and are depreciated on a straight-line basis over the lease term.

The carrying values of right-of-use assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease payments change due to changes in an index or rate, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did remeasure lease liabilities during the year ended 31 December 2020.

Although the Company enjoys security of tenure as tenant in respect of certain of its lease arrangements, there are conditions associated with these rights such that no unconditional right to extend the lease term exists.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets 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.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

Intangible assets (continued)

Goodwill (continued)

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. As the Company has just one operating segment and no monitoring on a lower level of goodwill occurs, goodwill is tested over the one operating segment.

Brands and customers lists

Brands and customers lists are initially recognised at historical cost, or at fair value if acquired as part of a business combination. Brands and customers 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 brands and customers lists over their estimated useful lives of five and three years respectively.

Technology related

Technology-related intangible assets are the intellectual property rights represented by the development costs associated with the development of the bespoke membership and customer related management systems that provide highly tailored functionality and integrate closely with website and online payment systems. This asset is amortised on a straight-line basis over its useful economic life of three years.

Contract related

Contract related intangibles relate to the premium paid to acquire certain concession arrangements. These assets have been amortised on a straight-line basis over the useful lives of the individual contracts, ranging from three to 22 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 cost less accumulated amortisation and any recognised impairment loss.

Amortisation is calculated to write down the cost of the assets on a straight-line basis over their estimated useful lives, over three to five 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 depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

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 CGUs that are expected to benefit from the asset, that being each trading health and fitness facility.

Any impairment charge is recognised in the income statement in the period in which it occurs. 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 and those recognised at fair value through other comprehensive income.

The Company's 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.

Financial assets (continued)

Investments in unquoted equity securities are designated as fair value through other comprehensive income if they are held as long-term strategic investments that are not expected to be sold in the short to medium term. All fair value movements in value in respect of those assets are recognised in other comprehensive income and are not recycled to profit or loss.

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 deferred and 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, which is reassessed at each reporting period.

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.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

Borrowing costs (continued)

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Pensions

The Company operates a defined contribution pension 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.

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 carried at the lower of cost and net realisable value.

Trade and other receivables

Trade and other receivables consist mainly of prepayments and accrued income.

Cash and cash equivalents

Cash and cash equivalents 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.

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 substantively 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;

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

2. Summary of significant accounting policies (continued)

Deferred taxation (continued)

- 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 amended to the extent that it is 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.

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of the cost of meeting this obligation.

Dividends

Dividends payable by the Company are recognised on declaration.

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.

The preparation of the financial statements in accordance with IFRS 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 the Company's 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 significant judgements that management has made in applying its accounting policies and the estimates and assumptions for which there is a significant risk of a material adjustment to the Financial Statements within the next financial year are set out below.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

3. Significant accounting judgements, estimates and assumptions

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

Incremental borrowing rate

The calculation of lease liabilities requires the Company to determine an incremental borrowing rate (IBR) to discount future minimum lease payments. Judgement is applied in determining the components of the IBR used for each lease including risk free rates, the Company's borrowing margin and any lease specific adjustments. The applicable IBR for each lease varies between 3.5% and 8.7%. See note 18 for further detail on the methodology used.

Source of estimation uncertainty

Going concern

As set out above, the Directors have considered a number of scenarios in concluding that the going concern assumption is appropriate in the preparation of these financial statements. By definition, going concern is a judgemental area as it relies on forecasts of future trading and membership behaviour. However, the level of judgement is further complicated in the current climate due to the ongoing Covid pandemic and the potential for further Government-enforced lockdowns.

However, as noted in the Going concern section above, having reviewed the financial forecasts and sensitivities of the Company and Group, the Board has concluded that it has a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the forecast period to 31 December 2022. In making this assessment, consideration has been given to the current and future expected trading performance; the Company and Group's current and forecast liquidity position; the Covid-19 situation and success of the UK vaccination programme; the support received to date from the Group's lenders and shareholders; the mitigating actions that can be deployed in the event of reasonable downside scenarios; and their judgement as to the likelihood of bank support in the event of a future Government imposed lockdown.

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 Consolidated 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 12 and 13. Significant accounting judgements, estimates and assumptions (continued)

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. In addition, the Company has reviewed plant, property and equipment for indicators of impairment and where such indicators exist, has estimated the recoverable amount of the CGUs. For each of these, 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 notes 12 and 13.

While the Directors have currently assessed that reasonably possible changes in key assumptions are unlikely to cause an impairment in the carrying value of goodwill, 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. Further, the Directors have currently assessed that the carrying value of plant, property and equipment is sensitive to reasonably possible changes in key assumptions – see note 12 for further details. In addition, 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 in relation to other CGUs.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

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

Source 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 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 159 of the Company's 184 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 2020 would increase by £124,000. If a provision was required for a site where the Company does benefit from security of tenure, the provision at 31 December 2020 would increase by £50,000. A 10 basis points change in the discount rate would increase / decrease the provision recognised at 31 December 2020 by £13,000.

Details of dilapidation provisions recognised are set out in note 21.

4. Revenue

The main revenue streams are those described in the last annual financial statements: membership income, rental income and other income. The majority of revenue is derived from contracts with customers.

Disaggregation of revenue

In the following table, revenue is disaggregated by major products and service lines and timing of revenue recognition. All revenue arises in the United Kingdom.

	31 December 2020 £'000	31 December 2019 £'000
<i>Major products/service lines</i>		
Membership income	77,041	143,190
Rental income	2,454	4,124
Other income	975	1,710
	80,470	149,024
<i>Timing of revenue recognition</i>		
Products transferred at a point in time	1,162	2,466
Products and services transferred over time	79,308	146,558
	80,470	149,024
<i>Assets and liabilities relating to contracts with customers</i>		
Contract liabilities (note 17)	(6,442)	(7,961)
<i>Revenue recognised that was included in contract liabilities in the prior year</i>		
Membership income	7,952	6,912
Other income	9	61
	7,961	6,973

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

4. Revenue (continued)

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 and are included within trade and other payables (see note 17). During periods of gym closure, no revenue is recognised for membership fees thereby increasing contract liabilities. The contract liability balance increases as the Company's membership numbers increase, and therefore has decreased between 2019 and 2020 following a fall in membership numbers. The Company does not receive any consideration in advance from customers greater than 12 months hence the total contract liability at 31 December 2019 of £7,961,000 has been recognised as revenue during the year ended 31 December 2020.

5. Other income

	31 December 2020	31 December 2019
	£'000	£'000
Government grant for the purposes of immediate financial support	6,357	-
Government grant towards training costs	26	-
Compensation for disruption caused by building works	150	-
	6,533	-

In 2020, as a result of the Covid-19 pandemic, the Company received £6,357,000 of direct grant support from the UK Government:

- Grants of £6,106,000 (see note 5) were received as part of a government initiative to provide immediate financial support in the form of the Coronavirus Job Retention Scheme ('CJRS'). The Company was entitled to the CJRS payments because it had to shut down its operations and furlough its employees from March to July 2020 and in November and December 2020. There is no outstanding balance of deferred income and a receivable related to this grant of £244,000 in the Statement of Financial Position as at 31 December 2020;
- Local government grants totalling £251,000 (see note 5) were received under the Local Restrictions Support Grant (Closed) scheme ('LRSG') to provide immediate financial support for businesses that were forced to cease operations or close as a result of local restrictions. These grants were recognised in profit or loss in Other income as the related costs were recognised. There are no future related costs in respect of these grants which were received solely as compensation for costs incurred in the year. There is no outstanding balance of deferred income or receivable related to this grant as at 31 December 2020.

The Company has enrolled in the Kickstart scheme offered by the Government to combat youth unemployment. Under this scheme, the Company receives financial support in order to offer six-month work placements for young people aged 16-24 who are claiming Universal Credit. Grant income is recognised evenly over each six-month placement term, and during the period, the Company has recognised £26,000 in other income. A further balance of £38,000 within deferred income (note 17) will be recognised in future periods. There is no outstanding balance receivable related to this grant as at 31 December 2020.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

6. Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	31 December 2020 £'000	31 December 2019 £'000
Depreciation of property, plant and equipment (excluding right-of-use assets)	23,531	22,204
Depreciation of right-of-use assets	21,562	19,050
Amortisation of IT intangible assets	2,901	1,932
Amortisation of non-IT intangible assets	717	931
Impairment of property, plant and equipment (note 7)	1,059	1,696
Impairment of right-of-use asset (note 7)	547	1,189
Impairment of intangible assets (note 7)	1	-
Loss/(gain) on disposal of property plant and equipment	676	(112)
Cost of inventory recognised as an expense	1,722	260
Employee benefit expense (note 8)	26,640	22,668
Auditors' remuneration		
Fees payable for the audit of the Company's annual accounts	67	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.

In addition to the grants received under CJRS and LRSG, the Company also received government assistance in the form of a business rates holiday for the period 1 April 2020 to 31 March 2021. During this period, business in the retail, hospitality and leisure sectors in England will not have to pay business rates for the 2020 to 2021 tax year. The value of business rates saved during the year ended 31 December 2020 is £9,600,000.

7. Exceptional items

	31 December 2020 £'000	31 December 2019 £'000
Impairment of tangible and intangible assets	1,607	1,379
Restructuring costs	344	410
Adjustments to net assets acquired in business combinations	(171)	-
Finalisation of site closures	(403)	1,240
Gain on reduction of lease term	(568)	-
Remeasurement of contingent consideration	-	2,988
Total exceptional items in operating expenses	809	6,017

Impairment and tangible and intangible assets

Impairment costs in 2020 relate to the writedown of assets of £881,000 for one site whereby the discounted present value of future cash flows using a pre-tax discount rate of 11.1% do not support the full value of the assets and an additional £726,000 for one site which was announced as closing in 2019 where the lease surrender has been delayed to 2021. The £1,379,000 recognised in 2019 relates to the impairment of assets for the closure of three sites announced in 2019 (see Finalisation of site closures below).

Restructuring costs

Restructuring costs in the current year relate primarily to the costs associated with restructuring the central support team in June 2020. The costs in 2019 relate primarily to changing the operating model for the use of Personal Trainers within the business that was completed in 2019.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

7. Exceptional items (continued)

Adjustment to net assets acquired in business combinations

Certain provisions that were recognised as part of acquisition of gyms from easyGym have been released as the costs are unlikely to be incurred.

Finalisation of site closures

Finalisation of site closures relate to the closure of the three sites announced in 2019, which arose as part of our estate management in order to optimise Company performance; the closures comprised two sites acquired from the Lifestyle and easyGym acquisitions plus one site opened in 2015 for which a five-year break clause was exercised by the Company in 2019. The gain in the current year primarily arises due to certain costs provided for in 2019 not being incurred, or no longer being expected to be incurred, in closing these sites.

Gain on reduction of lease term

The landlord on one of our sites has reduced the lease term and in exchange for doing so the lease has been renegotiated in 2020. As a consequence of the renegotiation, the Company has recognised a one-off gain of £568,000 this year related to the remeasurement of the lease liability and associated right-of-use asset.

Remeasurement of contingent consideration

Remeasurement of contingent consideration relates to a change in the probability-based estimate of contingent consideration that will be payable for the acquisition of two easyGym sites in the event the Company is successful in acquiring new leases for these sites. This remeasurement of the acquisition consideration has been recognised in the income statement but has no cash impact in 2020 and 2019.

8. Employee information

	31 December 2020	31 December 2019
	£'000	£'000
Wages and salaries	23,979	20,041
Social security costs	1,859	1,555
Employers' pension costs	343	347
Long term employee incentive costs (note 23)	459	725
	26,640	22,668

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

	31 December 2020	31 December 2019
	Number	Number
Operational	1,965	1,314
Administration	95	96
	2,060	1,410

Included within staff costs is £2,111,000 (2019: £2,647,000) recharged from The Gym Group Operations Limited in respect of the Directors of the Company.

9. Finance income

	31 December 2020	31 December 2019
	£'000	£'000
Bank interest receivable	72	32
	72	32

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

10. Finance costs

	31 December 2020	31 December 2019
	£'000	£'000
Loans from Group undertakings	834	765
Lease interest	12,661	12,852
Unwinding of discount	29	24
	13,524	13,641
Capitalised interest	(66)	-
	13,458	13,641

11. Taxation

Tax on profit comprises:

	31 December 2020	31 December 2019
	£'000	£'000
<i>Current income tax</i>		
Current tax on (loss)/profit for the period	(2,400)	2,515
Adjustments in respect of prior years	(1,104)	493
Total current income tax	(3,504)	3,008
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(6,077)	229
Change in tax rates	(79)	-
Adjustments in respect of prior years	(1,104)	(170)
Total deferred tax	(7,260)	59
Tax (credit)/charge in the Statement of Comprehensive Expense	(10,764)	3,067

The tax assessed on the profit on ordinary activities for the year is higher (2019: lower) than the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%).

Reconciliation of income tax charge:

	31 December 2020	31 December 2019
	£'000	£'000
(Loss)/profit before tax	(46,196)	7,210
Tax calculation at standard rate of corporation tax of 19.0% (2019: 19.0%)	(8,777)	1,370
Expenses not deductible for tax purposes	301	709
Exceptional costs not deductible	(1)	666
Change in tax rates	(79)	-
Adjustments in respect of prior years	(2,208)	322
	(10,764)	3,067

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

11. Taxation (continued)

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	Other £'000	Total £'000
At 1 January 2019	(3,376)	-	(271)	156	3,110	(381)
Adjustment in respect of prior years	93	-	(14)	-	91	170
Recognised in income statement	(23)	-	125	59	(390)	(229)
Recognised in equity	-	-	-	12	-	12
At 31 December 2019	(3,306)	-	(160)	227	2,811	(428)
Adjustment in respect of prior years	1,073	-	-	-	31	1,104
Recognised in income statement	3,963	1,956	123	324	(289)	6,077
Recognised in equity	-	-	-	(69)	-	(69)
Change in deferred tax rate	(263)	-	(19)	27	334	79
At 31 December 2020	1,467	1,956	(56)	509	2,887	6,763

Unrecognised tax losses

The Company has tax losses of £nil (2019: £nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Change in tax rate

The 2020 Finance Bill announced that the planned reduction in the main rate of corporation tax from 19% to 17% from 1 April 2020 would be not occur and that the corporation tax rate would remain at 19% from 1 April 2020 and that this rate will be maintained from 1 April 2021. Deferred tax assets and liabilities have been measured at 19% as that is the rate expected to be in effect when the asset or liability reverses.

The Finance Bill 2018- 2019 introduced a number of changes to the capital allowances regime. These included the following:

- a temporary increase in the maximum annual investment allowance from £200,000 to £1 million per annum from 1 January 2019 - 31 December 2020;
- the introduction of a new Structures and Buildings Allowance of 2% per annum on certain structural construction, improvements and repairs; and
- a reduction in the rate of relief applying to Special Rate plant and machinery from 8% to 6% from 1 April 2019.

Each of these changes has been considered within the calculation of the tax charge for the year.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

11. Taxation (continued)

Full provision is made for deferred tax arising from all timing differences between the recognition of gains and losses in the financial statements and their respective recognition in the tax computation for the year. The company has calculated deferred tax at 19%. On 3 March 2021, the Government announced that the rate of corporation tax will increase to 25% for companies with profits over £250,000 from 1 April 2023. As at 31 December 2020, the legislation had not been substantially enacted and therefore the rate used in calculating deferred tax is 19%. The new rate will be reflected in the financial statements for the year ended 31 December 2021. Had the 2020 results been adjusted for this change, the deferred tax asset would increase by £1,518,000.

Uncertain tax positions

The Company had no material uncertain tax provisions as at 31 December 2020 (2019: £nil).

The Gym Limited

Notes to the financial statements For the year ended 31 December 2020

12. Property, plant and equipment

	Assets under Construction £'000	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Gym and other equipment £'000	Computer equipment £'000	Total before right-of-use assets £'000	Right-of-use assets £'000	Total £'000
<i>Cost</i>								
At 1 January 2019	2,365	153,855	10,709	67,343	2,766	237,038	265,915	502,953
Additions	24,672	7,462	519	4,700	251	37,604	40,372	77,976
Disposals	-	(157)	-	(580)	-	(737)	-	(737)
Transfers	(23,339)	15,566	655	6,903	215	-	-	-
At 31 December 2019	3,698	176,726	11,883	78,366	3,232	273,905	306,287	580,192
Additions	19,661	1,536	39	80	385	21,701	38,069	59,770
Disposals	(563)	(435)	(43)	(859)	(17)	(1,917)	(1,759)	(3,676)
Transfers	(20,461)	13,954	(614)	6,073	40	(1,008)	1,008	-
Transfer to intangible assets	(94)	-	-	-	-	(94)	-	(94)
At 31 December 2020	2,241	191,781	11,265	83,660	3,640	292,587	343,605	636,192
<i>Accumulated depreciation</i>								
At 1 January 2019	-	35,673	5,473	31,675	1,625	74,446	48,639	123,085
Charge for the year	-	12,238	1,308	8,039	618	22,203	19,050	41,253
Impairment	-	(110)	-	(332)	-	(442)	-	(442)
Disposals	-	1,165	24	498	9	1,696	1,189	2,885
At 31 December 2019	-	48,966	6,805	39,880	2,252	97,903	68,878	166,781
Charge for the year	-	13,525	1,240	8,146	620	23,531	21,562	45,093
Impairment	-	809	9	241	-	1,059	547	1,606
Disposals	-	(439)	(58)	(769)	(26)	(1,292)	(1,724)	(3,016)
At 31 December 2020	-	62,861	7,996	47,498	2,846	121,201	89,263	210,464
Net book value								
At 31 December 2019	3,698	127,760	5,078	38,486	980	176,002	237,409	413,411
At 31 December 2020	2,241	128,920	3,269	36,162	794	171,386	254,342	425,728

The Gym Limited

Notes to the financial statements For the year ended 31 December 2020

12. Property, plant and equipment (continued)

The impairment charge of £1,606,000 for 2020 includes £726,000 in relation to the closure of one site announced in 2019 following a delay in the surrender of the lease to 2021 (2019: £2,885,000 includes £2,688,000 in relation to the closure of three sites announced). See note 7 for further details. The impairment loss for the open site was calculated based on the value in use of the assets for the site being lower than the carrying value of the assets making the recoverable amount £nil. The discount rate used in measuring value in use was 11.1%. Under reasonably possible downside scenarios arising in relation to a potential 5% shortfall in long-term membership, further impairment of up to £470,000 would arise in relation to two sites.

Included within additions for the year are £72,000 of capitalised interest (2019: £176,000), £168,000 of capital contributions from landlords not yet received (2019: £nil), £820,000 of accrued capital expenditure for invoices not received (2019: £2,278,000) and £116,000 of invoices received but not paid at 31 December 2020 (2019: £3,382,000).

Right-of-use assets relate to property leases – see note 18.

13. Intangible assets

	Goodwill £'000	Customer list £'000	Contract £'000	Computer software £'000	Total £'000
<i>Cost</i>					
At 1 January 2019	21,118	2,420	-	7,918	31,456
Additions	894	84	1,019	3,403	5,400
At 31 December 2019	22,012	2,504	1,019	11,321	36,856
Additions	-	-	-	3,684	3,684
Disposals	-	-	-	(2)	(2)
Transfers	-	-	4	(4)	-
Transfer from tangible assets	-	-	-	94	94
At 31 December 2020	22,012	2,504	1,023	15,093	40,632
<i>Accumulated amortisation</i>					
At 1 January 2019	-	742	-	2,522	3,264
Charge for the year	-	819	112	1,932	2,863
At 31 December 2019	-	1,561	112	4,454	6,127
Charge for the year	-	646	71	2,901	3,618
Impairment	-	-	-	1	1
Disposals	-	-	-	(2)	(2)
Transfer between asset classes	-	83	(83)	-	-
At 31 December 2020	-	2,290	100	7,354	9,744
Net book value					
At 31 December 2019	22,012	943	907	6,867	30,729
At 31 December 2020	22,012	214	923	7,739	30,888

In November 2019, intangible assets with a net book value of £1,996,000 were transferred from one the Group's undertakings to the Company as part of the Group's restructuring.

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 group of CGUs expected to benefit from the business combination in which the goodwill arose. Since 2018, all the gyms operated under The Gym brand and the Company now operates only as one chain of gym.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

13. Intangible assets (continued)

Goodwill acquired through business combinations has therefore been allocated for impairment testing purposes accordingly as follows:

	31 December 2020	31 December 2019
	£'000	£'000
The Gym chain of gyms	22,012	22,012
	22,012	22,012

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:

	2020		2019	
	Discount rate	Growth rate	Discount rate	Growth rate
The Gym chain of gyms	11.1%	3.0%	9.4%	3.0%

Discount rates reflect estimate of return on capital employed required in each business by an investor. This is also the benchmark used by management to assess operating performance and to evaluate future capital investment proposals. The above pre-tax discount rates are derived from the Company's post tax 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 subscription rates and increases applied to costs have been modelled on a site-by-site basis based upon a mixture of historical experience and expected recovery post Covid-19 and range from 7% to 67% for revenue and 2% to 50% for costs. The impact of any new openings are not included in the assessment as they do not form part of the existing asset. The performance of any gyms expected to close are included within the calculation up to the point of closure.

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.

14. Inventories

	31 December 2020	31 December 2019
	£'000	£'000
Goods for resale	290	654
	290	654

The Gym Limited

Notes to the financial statements For the year ended 31 December 2020

15. Trade and other receivables

	31 December 2020	31 December 2019
	£'000	£'000
Trade receivables	990	2,125
Loss allowance	(240)	(88)
	750	2,037
Other receivables	660	406
Prepayments and accrued income	4,763	6,302
Amounts owed by Group undertakings	12	2,039
	6,185	10,784

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

16. Cash and cash equivalents

	31 December 2020	31 December 2019
	£'000	£'000
Cash at bank	119	3
Short term deposits	3,557	2,597
	3,676	2,600
Bank overdrafts	(50)	(9)
	3,626	2,591

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company and earn interest at the respective short term deposit rates.

17. Trade and other payables

	31 December 2020	31 December 2019
	£'000	£'000
Trade Payables	2,700	10,354
Social security and other taxes	356	619
Accruals	8,267	9,223
Contract liabilities (note 4)	6,442	7,961
Deferred income (note 5)	38	-
Amounts owed to Group undertakings	41,200	5,361
	59,003	33,518

Amounts owed to Group undertakings are unsecured, interest free and are repayable on demand.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

18. Leases

This note provides information for leases where the Company is a lessee.

i. Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2020 £'000	31 December 2019 £'000
<i>Right-of-use assets</i>		
Property leases	254,342	237,409
<i>Lease liabilities</i>		
Current	21,842	15,637
Non-current	284,473	262,706

Maturity analysis of lease liabilities:

	31 December 2020 £'000	31 December 2019 £'000
Within one year	34,550	28,410
Greater than one year but less than two years	32,370	29,691
Greater than two years but less than three years	32,491	29,911
Greater than three years but less than four years	32,714	29,634
Greater than four years but less than five years	32,241	29,862
Five years or more	232,296	227,136
	396,662	374,644
Less: unearned interest	(90,347)	(96,301)
	306,315	278,343

As described in Note 2 the IASB issued Covid-19-Related Rent Concessions – amendment to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic.

Many lessors have provided rent concessions to lessees as a result of the Covid-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Applying the requirements in IFRS 16 for changes to lease payments, particularly assessing whether the rent concessions are lease modifications and applying the required accounting, could be practically difficult in the current environment. The objective of the amendment is to provide lessees that have been granted Covid-19 related rent concessions with practical relief, while still providing useful information about leases to users of the financial statements.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic.

As permitted by this concession, the Company has derecognised £682,000 of the lease liability that has been extinguished by the forgiveness of lease payments on buildings.

Where landlords have agreed to permanently change the frequency of rental payments, the change in the value of the lease liability of £843,000 has been recognised within finance costs in the Income Statement as all changes impact solely on the interest charge related to the lease liability.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

18. Leases (continued)

i. Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	31 December 2020 £'000	31 December 2019 £'000
Depreciation charge of right-of-use assets	21,562	19,050
Impairment of right-of-use-assets	547	1,696
Interest expense (included in finance cost)	12,661	12,852

Total cash outflow for leases in 2020 was £22,609,000 (2019: £25,913,000). A maturity analysis of future lease payments is set out above.

Additionally, the Company has benefited from a one-month unconditional waiver of lease payments on six properties in England and additional rent free benefits on six properties in exchange for removal of break clauses without modification to the original lease contract. The waiver of lease payments of £682,000 and the decrease in the lease liability of £682,000 has been accounted for as a negative variable lease payment in profit or loss.

The Company does not have any low value or short term leases.

ii. The Company's leasing activities and how these are accounted for

The Company leases gym sites and its head office. Rental contracts are typically made for fixed periods of ten to 20 years, but may have extension options as well. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Amounts expected to be payable by the Company under residual value guarantee; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. There are no variable lease payments nor residual value guarantees.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by The Gym Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

18. Leases (continued)

iii. The Company's leasing activities and how these are accounted for (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

iv. Extension and termination options

Extension and termination options are included in a number of property leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

During the period, the Company has extended 12 leases (2019: nil) which resulted in additional lease liabilities of £16,654,000 being recognised (2019: £nil). In addition, one lease term has been reduced by the landlord resulting in £568,000 being recognised in profit and loss (see note 7).

19. Other financial liabilities

	Deferred consideration £'000	Contingent consideration £'000	Total £'000
At 1 January 2019	2,115	887	3,002
Cash paid in the year	(2,115)	-	(2,115)
Recognised in relation to prior acquisition	-	2,988	2,988
At 31 December 2019	-	3,875	3,875
Transfer from contingent consideration to deferred consideration	3,875	(3,875)	-
Cash paid in the year	(1,266)	-	(1,266)
At 31 December 2020	2,609	-	2,609

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 £14,500,000, with an additional £6,100,000 deferred consideration payable on completion of lease assignment on three sites and further contingent consideration if lease extensions are agreed on two sites. £4,000,000 of deferred consideration was paid shortly after acquisition. At 31 December 2018, deferred and contingent consideration with fair value of £3,002,000 million was outstanding and recognised within other financial liabilities. During the year ended 31 December 2019 the remaining deferred consideration of £2,115,000 was paid. During 2019 the Directors reassessed the probabilities of the lease extensions occurring in respect of the two sites concerned and considered these to be virtually certain. As a consequence, the estimated fair value of contingent consideration payable in respect of these lease extensions at 31 December 2019 increased by £2,988,000 to £3,875,000. During 2020, the two lease extensions were obtained which crystallises the remaining consideration. As a result, the contingent consideration has been reclassified as deferred consideration, with £1,266,000 being paid during the year.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

20. Borrowings

	31 December 2020 £'000	31 December 2019 £'000
Amounts owed to Group undertakings	20,268	20,268
	20,268	20,268
Due in less than one year	20,268	20,268
	20,268	20,268

The Company has a £17,000,000 intercompany loan owed to The Gym Group plc which is unsecured, bears interest at 4.5%. This loan has originally due for repayment in November 2020 but subsequently been rolled over and is now repayable on 31 December 2021.

In November 2019, the Company had purchased the net assets from its Group undertakings Derwent Fitness NW Limited and Derwent Fitness GS Limited via an issue of a promissory note amounting to £3,268,000 which is secured, bears no interest and is repayable on demand.

21. Provisions

	Dilapidations £'000	Other £'000	Total £'000
At 1 January 2019	1,145	679	1,824
New provisions	134	161	295
Utilisation of provisions	-	(412)	(412)
Unwinding of discount	24	-	24
Release of provision	-	(76)	(76)
At 31 December 2019	1,303	352	1,655
New provisions	58	46	104
Utilisation of provisions	-	(60)	(60)
Unwinding of discount	29	-	29
Release of provision	(149)	(292)	(441)
At 31 December 2020	1,241	46	1,287
Due in less than one year	-	352	352
Due in more than one year	1,303	-	1,303
At 31 December 2019	1,303	352	1,655
Due in less than one year	-	46	46
Due in more than one year	1,241	-	1,241
At 31 December 2020	1,241	46	1,287

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of meeting this obligation, but the amount and timing of this are uncertain.

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 acquired sites.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

22. Issued share capital

	31 December 2020 £'000	31 December 2019 £'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £0.0001 each	68,162	68,162

The number of shares in issue is as follows:

	31 December 2020	31 December 2019
Ordinary shares of £0.0001 each	6,816,258,250	6,816,258,250

Each Ordinary share carries equal voting and distribution rights.

An interim dividend of £nil (2019: £0.03) per Ordinary share was declared. The Directors do not recommend a final dividend (2019: £nil).

23. Long term employee incentives

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

- The Gym Group plc Performance Share Plan
- The Gym Group plc Share Incentive Plan – Free shares
- The Gym Group plc Share Incentive Plan – Matching shares
- The Gym Group plc Restricted Stock Plan
- The Gym Group plc Long Service Award Plan
- The Gym Group plc Savings Related Share Option Scheme ('SAYE')

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 £478,000 (2019: £645,891) in respect of the Company's share based payment arrangements and a credit related to employer's national insurance of £19,000 (2019: charge of £78,932).

The exercise price of all options under the schemes held during the year is 0.01p, with the exception of the SAYE scheme where the exercise price ranges from 108.0 pence to 202.0 pence.

a) Performance Share Plan

During the year, the Company has modified its reporting of profit KPIs for 2018 and 2019 awards to reflect the impact of the introduction of IFRS 16 (leases) and also changes in accounting assumptions regarding the amortisation of IT investments. The related vesting targets of the financial measures (Adjusted EPS and ROIC) have also been subsequently modified to ensure that there is no impact on the vesting outcome of the awards from the adoption of IFRS 16.

The outstanding awards as at 31 December 2020 will all vest within three years, subject to continued employment and the achievement of certain performance targets. For awards made in 2020, the performance targets are solely based on TSR, with 33.3% based on absolute shareholder return and 66.7% based on relative TSR. For awards made prior to 2020, the targets are based on TSR and financial performance measures with each target contributing to 50% of the vesting conditions. Prior to the 2019 awards all of the financial performance measures were based on adjusted EPS targets, with the 2019 awards split equally between EPS and ROIC. The vesting conditions of the Performance Share Plan awards are set out in part B of the Report to the Remuneration Committee. The maximum term of these awards is three years and settlement is in the form of shares. The fair value of the EPS element was determined using the share price at the date of grant. The fair value of the TSR element of the award was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share price performance.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

23. Long term employee incentives (continued)

a) Performance Share Plan (continued)

The following assumptions were used for options granted during the year:

	2020	2019
Weighted average share price at date of grant	£1.45	£2.17
Exercise price	£0.0001	£0.0001
Expected volatility	49.5%	37.7%
Expected term until exercised	3 Years	3 Years
Expected dividend yield	-	-
Risk-free interest rate	(0.10)%	0.67%

The weighted average fair value of each award issued under this scheme during the year was £0.84 (2019: £1.77) and the weighted average remaining contractual life was 1.7 years (2019: 1.3 years) at 31 December 2020.

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 was 5.3 years (2019: 6.3 years) at 31 December 2020.

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 fair value of each award issued under this scheme during the year was £1.76 (2019: £2.17) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.8 years (2019: 1.4 years) at 31 December 2020.

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 fair value of each award issued under this scheme during the year was £1.45 (2019: £2.37) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 9.0 years (2019: 8.5 years) at 31 December 2020.

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 fair value of each award issued under this scheme during the year was £nil (2019: £2.37) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 0.8 years (2019: 1.3 years) at 31 December 2020.

f) Save as You Earn (SAYE) Scheme

Under the Saving-related share scheme, employees are allowed to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. 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 are dilutive for the purposes of earnings per share.

The Gym Limited

Notes to the financial statements

For the year ended 31 December 2020

23. Long term employee incentives (continued)

f) Save as You Earn (SAYE) Scheme (continued)

The options vest in full at the end of the three year period. The weighted average fair value of each award issued under this scheme during the year was £0.52 (2019: £1.00) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 3.3 years (2019: 3.4 years) at 31 December 2020.

24. Commitments and contingencies

	31 December 2020	31 December 2019
	£'000	£'000
Contracted but not provided for	2,247	3,461

25. 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.

26. Events after the reporting period

Following the phased introduction of Tier 4 restrictions in a number of regions in December 2020, the Company was required to close 162 of its 183 gyms. On 4 January 2021 all remaining gyms were required to close as the UK Government announced a nationwide lockdown.

On 12 April 2021, our gyms in England reopened and the remainder of our gyms in Scotland and Wales opened on 26 April and 3 May 2021 respectively.

In the Government's Budget statement of 3 March 2021, it was announced that Business Rates relief would be extended and further grants for closed businesses would be made available. The Company will benefit from both of these measures to an estimated combined value of approximately £8 million between April and August 2021.

On 2 July 2021, the Group's balance sheet and liquidity was further strengthened by an equity placing. The Gym Group plc issued 11,350,000 new ordinary shares and raised gross proceeds of approximately £31.2m. The costs directly related to the transaction amounted to £0.9m. At the same time as the equity placing, certain restrictions in the Group's banking facilities around capital expenditure and finance lease debt were relaxed.

The proceeds of the share issue will be used to accelerate the Group's site rollout programme, targeting 40 sites in the next 18 months.