

# Financial Statements

## The Gym Group Holdings Limited

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For the period ended 31 December 2013



Registered number: 08528493

**The Gym Group Holdings Limited**

## Company Information

**Directors**

D Burns  
A J Mathews  
P J T Gilbert  
J R Thomas  
Bridges Ventures LLP  
J Treharne

**Registered number**

08528493

**Registered office**

Woodbridge House  
Woodbridge Meadows  
Guildford  
Surrey  
GU1 1BA

**Independent auditor**

Grant Thornton UK LLP  
Chartered Accountants & Statutory Auditor  
Grant Thornton House  
Melton Street  
Euston Square  
London  
NW1 2EP

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# Group Strategic Report

For the period ended 31 December 2013

## Introduction

These financial statements report on the consolidated Group accounts for the period from incorporation of The Gym Group Holdings Ltd on 14 May 2013 to 31 December 2013.

The full year report and financial statements for The Gym Ltd, the principal trading entity, including 2012 comparatives, is contained in the annual financial statements of The Gym Ltd.

## Principle objectives

The principal activity of the company is that of a holding company, which, through wholly owned subsidiary companies, provides financing and management services to its operating subsidiary The Gym Limited.

Details of the objectives and business model of The Gym Limited can be found in the accounts of The Gym Limited.

## Funding Structure

The Gym Group Holdings Ltd is the ultimate parent company of The Gym Group of companies. The ownership hierarchy is The Gym Group Holdings Ltd, The Gym Group MidCo1 Ltd, The Gym Group MidCo2 Ltd, The Gym Group Ltd, The Gym Ltd.

Following the acquisition of The Gym Limited by Phoenix Equity Partners in June 2013, substantial additional capital has been made available to the group. In addition to new equity being committed, a £20m capital expenditure facility and £3m revolving credit facility have also been provided to The Gym Group Ltd to fund the rollout of new gyms.

## Pro Forma Balance Sheet

In July 2014 the conditions attached to the preference shares were changed in the Articles of Association of the company with the effect that they will be classified as equity rather than debt in the 2014 financial statements. In the opinion of the Directors this classification more accurately reflects the substance of the long-term and equity like features of this instrument. The pro-forma unaudited balance sheet below shows the effect of the change in the Articles of Association had it occurred on or before 31 December 2013:

	Group 2013 Audited	Pro-forma adjustment	Pro-forma 2013
Fixed assets	97,714,978	-	97,714,978
Net current assets	392,716	-	392,716
Creditors: amounts falling due after more than one year	(101,806,486)	48,393,939	(53,412,547)
Provision for deferred tax	(1,029,648)	-	(1,029,648)
<b>Net current assets / (liabilities)</b>	<b>(4,728,440)</b>	<b>48,393,939</b>	<b>43,665,499</b>
<b>Capital and reserves</b>			
Called up share capital	8,216	-	8,216
Share premium account	550,345	-	550,345
Preference share capital	-	48,393,939	48,393,939
Profit and loss account	(5,287,001)	-	(5,287,001)
<b>Shareholders' surplus / (deficit)</b>	<b>(4,728,440)</b>	<b>48,393,939</b>	<b>43,665,499</b>

## **Group Strategic Report (continued)**

**For the period ended 31 December 2013**

### **Principal risks and uncertainties**

#### **Premises**

The Gym's expansion strategy requires a good pipeline of suitable gym premises in locations convenient for our potential members.

The Gym's model can fit into a variety of buildings from offices and diverse leisure facilities to retail locations. We therefore find ample opportunity to expand through site acquisition. Governance remains very strong so that only those sites that meet our demanding investment and property criteria are selected. 12 gyms are currently in presale with a strong pipeline extending through the rest of 2014 and into 2015.

#### **Funding for Growth**

In June 2013 The Gym Group Holdings Ltd group of companies secured significant new funding through Phoenix Equity Partners and Bridges Ventures to support our continued growth. As a result, our capital structure is extremely robust and provides secure and committed funding sufficient to support our growth plans.

#### **Interest Rate Risk**

The group has a £31m loan on which the interest rate varies with LIBOR. In order to mitigate the risk associated with movements in LIBOR the group has an interest rate swap hedge covering 90% of the forecast loan balance.

### **Financial Review**

On 13th June 2013 the group acquired The Gym Limited, following which The Gym Group Limited subscribed for 37.6m ordinary shares in The Gym Limited for a total consideration of £37.6m. The proceeds were used to repay in full all outstanding Bank and Shareholder Loans of The Gym Limited. The Directors believe that this transaction further strengthens the capital base of The Gym Limited as well as bringing in significant expertise from our new shareholders and directors.

### **Key Performance Indicators**

#### **The Gym Group Holdings Ltd (Consolidated Accounts)**

The below KPIs cover the short period from incorporation on 14 May 2013 to 31 December 2013.

	14 May to 31 Dec 13
	£
Turnover	20,479,010
EBITDA	5,971,214
Operating profit (after depreciation and amortisation)	1,140,400
Loss before taxation	(4,868,903)
Operating cashflow	5,485,222
Capital expenditure	7,405,526
Number of Gyms opened in the period	4 Gyms
Closing membership	225,110 members

## Group Strategic Report (continued)

For the period ended 31 December 2013

### Key Performance Indicators (continued)

The Gym Ltd (100% owned trading subsidiary of The Gym Group Holdings Ltd)

The key performance indicators below are an extract from the financial statements of The Gym Ltd for the year ended 31 December 2013.

	2013	2012	Growth	%Growth
No. Gyms open	40	32	8	25%
No. Members	225k	166k	59k	36%
Visits	10.8m	6.9m	3.9m	57%
Turnover	£35.8m	£22.6m	£13.2m	58%
Gym EBITDAR*	£17.3m	£9.9m	£7.4m	75%
Gym EBITDA**	£14.3m	£8.0m	£6.3m	79%
Company EBITDA***	£10.9m	£5.9m	£5.0m	85%

\*Gym EBITDAR is defined as earnings before interest, taxation, depreciation and amortisation, head office costs and gym equipment rental costs.

\*\*Gym EBITDA is defined as earnings before interest, taxation, depreciation and amortisation and head office costs.

\*\*\*Company EBITDA is defined as earnings before interest, taxation, depreciation and amortisation.

### Our Team

The Gym Group is proud to be a great employer with a highly motivated and experienced team of directors and employees.

### Future expectations

On 11 February 2014 The Gym Group announced its intention to merge with Pure Gym Ltd. The merger was referred to the CMA (the Competition and Mergers Authority). In July 2014 the CMA completed its detailed first phase inquiry into the merger and initiated an in-depth phase II investigation which was unlikely to be completed until early 2015. The two companies agreed to halt merger talks after concluding that a protracted phase II investigation would have a detrimental effect on both businesses.

### Membership

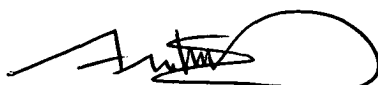
The new financial year has started very strongly with membership numbers growing by 41,129 (18%) from 225,110 to 266,239 as at 30 June 2014.

### New Gyms

We have opened five new sites so far in 2014 and have another 12 sites currently selling memberships.

This report was approved by the board on 20/8/14

and signed on its behalf.



A J Mathews  
Director

## **Directors' Report**

**For the period ended 31 December 2013**

The directors present their report and the financial statements for the period ended 31 December 2013.

### **Directors' responsibilities statement**

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Results**

The loss for the period, after taxation, amounted to £5,287,001.

### **Directors**

The directors who served during the period were:

D Burns (appointed 13 June 2013)  
A J Mathews (appointed 13 June 2013)  
P J T Gilbert (appointed 13 June 2013)  
J R Thomas (appointed 13 June 2013)  
Bridges Ventures LLP (appointed 13 June 2013)  
J Treharne (appointed 13 June 2013)

### **Disclosure of information to auditor**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

**The Gym Group Holdings Limited**

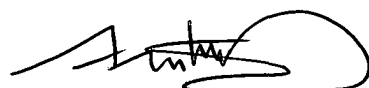
## **Directors' Report**

**For the period ended 31 December 2013**

### **Auditor**

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 20 / 8 / 14 and signed on its behalf.

A handwritten signature in black ink, appearing to read 'A J Mathews', with a large, sweeping loop at the end.

**A J Mathews**  
Director



## Independent Auditor's Report to the Members of The Gym Group Holdings Limited

We have audited the financial statements of The Gym Group Holdings Limited for the period ended 31 December 2013, which comprise the Consolidated Profit and Loss account, the Consolidated and Company Balance sheets, the Consolidated Cash Flow Statement and Reconciliation of net cash flow to movement in net funds/debt and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's loss for the period 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.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Group Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.



## Independent Auditor's Report to the Members of The Gym Group Holdings Limited

### **Matters on which we are required to report by exception**

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

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

A handwritten signature in black ink, appearing to read "Mark Henshaw".

Mark Henshaw (Senior statutory auditor)  
for and on behalf of Grant Thornton UK LLP  
Chartered Accountants  
Statutory Auditor  
London  
Date: 20 August 2014

## Consolidated Profit and Loss Account

For the period ended 31 December 2013

		Period ended 31 December 2013 £
	Note	
<b>Turnover</b>	1,2	20,479,010
Cost of sales		(641,062)
		<hr/>
<b>Gross profit</b>		19,837,948
Administrative expenses		(18,697,548)
		<hr/>
<b>Operating profit</b>	3	1,140,400
Interest receivable and similar income		57
Interest payable and similar charges	6	(6,009,360)
		<hr/>
<b>Loss on ordinary activities before taxation</b>		(4,868,903)
Tax on loss on ordinary activities	7	(418,098)
		<hr/>
<b>Loss for the financial period</b>	17	<u>(5,287,001)</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2013 other than those included in the Profit and loss account.

The notes on pages 12 to 30 form part of these financial statements.

## Consolidated Balance Sheet

As at 31 December 2013

	Note	£	2013 £
<b>Fixed assets</b>			
Intangible assets	8		53,130,201
Tangible assets	9		44,584,777
			<u>97,714,978</u>
<b>Current assets</b>			
Stocks	11	138,501	
Debtors	12	4,007,277	
Cash at bank		4,090,955	
		<u>8,236,733</u>	
<b>Creditors: amounts falling due within one year</b>	13	<u>(7,844,017)</u>	
<b>Net current assets</b>			<u>392,716</u>
<b>Total assets less current liabilities</b>			<u>98,107,694</u>
<b>Creditors: amounts falling due after more than one year</b>	14		(101,806,486)
<b>Provisions for liabilities</b>			
Deferred tax	15		<u>(1,029,648)</u>
<b>Net liabilities</b>			<u><u>(4,728,440)</u></u>
<b>Capital and reserves</b>			
Called up share capital	16		8,216
Share premium account	17		550,345
Profit and loss account	17		<u>(5,287,001)</u>
<b>Shareholders' deficit</b>	18		<u><u>(4,728,440)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 20/8/14



A J Mathews  
Director

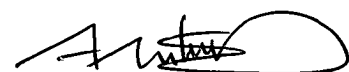
The notes on pages 12 to 30 form part of these financial statements.

## Company Balance Sheet

As at 31 December 2013

	Note	£	2013 £
<b>Fixed assets</b>			
Investments	10		49,838,084
<b>Current assets</b>			
Debtors	12	1,747,237	
<b>Creditors: amounts falling due within one year</b>	13	<u>(48,721)</u>	
<b>Net current assets</b>			<u>1,698,516</u>
<b>Total assets less current liabilities</b>			<u>51,536,600</u>
<b>Creditors: amounts falling due after more than one year</b>	14		<u>(52,017,011)</u>
<b>Net liabilities</b>			<u><u>(480,411)</u></u>
<b>Capital and Reserves</b>			
Called up share capital	16		8,216
Share premium account	17		550,345
Profit and loss account	17		<u>(1,038,972)</u>
<b>Shareholders' deficit</b>	18		<u><u>(480,411)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 20/8/14



A J Mathews  
Director

The notes on pages 12 to 30 form part of these financial statements.

## Consolidated Cash Flow Statement

For the period ended 31 December 2013

		Period ended 31 December 2013 £
	Note	
Net cash flow from operating activities	20	5,485,222
Returns on investments and servicing of finance	21	(764,383)
Capital expenditure and financial investment	21	(5,403,804)
Acquisitions and disposals	21	(22,834,064)
<b>Cash outflow before financing</b>		<b>(23,517,029)</b>
Financing	21	27,607,984
<b>Increase in cash in the period</b>		<b>4,090,955</b>

## Reconciliation of Net Cash Flow to Movement in Net Funds/Debt

For the period ended 31 December 2013

	Period ended 31 December 2013 £
Increase in cash in the period	4,090,955
Cash inflow from increase in debt and lease financing	(27,327,563)
<b>Change in net debt resulting from cash flows</b>	<b>(23,236,608)</b>
New finance lease	(1,727,155)
Other non-cash changes	(30,275,779)
Acquired with subsidiary	(37,598,341)
<b>Movement in net debt in the period</b>	<b>(92,837,883)</b>
<b>Net debt at 31 December 2013</b>	<b>(92,837,883)</b>

The notes on pages 12 to 30 form part of these financial statements.

# Notes to the Financial Statements

For the period ended 31 December 2013

## 1. Accounting Policies

### 1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

### 1.2 Going concern

The group's balance sheet at 31 December 2013 shows a net liability position, predominantly because the preference shares issued by the company have been classified as debt. Subsequent to the year end the company's Articles of Association have been amended such that there is no longer an obligation on the company to settle the dividends accruing on its preference shares, or to redeem the shares, and consequently the preference shares will be classified as equity going forward. The Preference Shares are classified as equity in group's forecasts and its balance sheet now shows a positive net asset position.

The directors have reviewed the forecasts and are satisfied that the group will have sufficient resources to continue for the foreseeable future and these accounts have therefore been prepared on a going concern basis.

### 1.3 Basis of consolidation

The financial statements consolidate the accounts of The Gym Group Holdings Limited and all of its subsidiary undertakings ('subsidiaries').

The results of subsidiaries acquired during the period are included from the date of acquisition.

### 1.4 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied in the principal activities of the group and non-refundable joining fees received during the period, exclusive of Value Added Tax and trade discounts.

### 1.5 Intangible fixed assets and amortisation

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the Profit and loss account over its estimated economic life of 15 years.

### 1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

L/Term Leasehold Property	-	Straight line over life of the lease
Fixtures & fittings	-	20% per annum straight line
Office equipment	-	20% per annum straight line
Computer equipment	-	33% per annum straight line
Other fixed assets	-	20% per annum straight line

# Notes to the Financial Statements

For the period ended 31 December 2013

## 1. Accounting Policies (continued)

### 1.7 Investments

Investments in subsidiaries are valued at cost less provision for impairment where necessary, to reduce book value to recoverable amount. The investment cost is the purchase price including acquisition expenses.

### 1.8 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

### 1.9 Operating leases

Rentals under operating leases are charged to the Profit and loss account on a straight line basis over the lease term.

Benefits received and receivable from a landlord as an incentive to sign an operating lease and deemed to benefit the company are recognised as an asset and amortised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

### 1.10 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks.

### 1.11 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.



# Notes to the Financial Statements

For the period ended 31 December 2013

## 2. Turnover

An analysis of turnover by class of business is as follows:

	Period ended 31 December 2013 £
Membership income	20,235,024
Vending machine income	211,481
Tanning bed income	32,505
	<hr/>
	20,479,010
	<hr/>

All turnover arose within the United Kingdom.

## 3. Operating profit

The operating profit is stated after charging:

	Period ended 31 December 2013 £
Amortisation - intangible fixed assets	2,023,339
Depreciation of tangible fixed assets:	
- owned by the group	1,866,271
- held under finance leases	324,983
Auditor's remuneration	35,000
Operating lease rentals:	
- other operating leases	2,223,374
	<hr/>

3,000

# Notes to the Financial Statements

For the period ended 31 December 2013

## 4. Staff costs

Staff costs, including directors' remuneration, were as follows:

	Period ended 31 December 2013 £
Wages and salaries	2,181,480
Social security costs	203,702
Other pension costs	9,563
	<u>2,394,745</u>

The average monthly number of employees, including the directors, during the period was as follows:

	Period ended 31 December 2013 No.
Average number of operational staff	88
Average number of management staff	12
	<u>100</u>

## 5. Directors' remuneration

	Period ended 31 December 2013 £
Remuneration	357,578
Company pension contributions to defined contribution pension schemes	<u>9,563</u>

During the period retirement benefits were accruing to 3 directors in respect of defined contribution pension schemes.

The highest paid director received remuneration of £106,450.

# Notes to the Financial Statements

For the period ended 31 December 2013

## 6. Interest payable

	Period ended 31 December 2013 £
Bank interest and similar charges	2,353,146
Loan note interest	991,233
Preference share interest	2,664,981
	<hr/>
	6,009,360
	<hr/>

## 7. Taxation

	Period ended 31 December 2013 £
<b>Analysis of tax charge in the period</b>	
<b>Deferred tax</b>	
Origination and reversal of timing differences	611,194
Adjustments in respect of subsidiary's prior periods	(72,204)
Effect of tax rate change on opening balance of subsidiary	(120,892)
	<hr/>
<b>Total deferred tax</b> (see note 15)	418,098
	<hr/>
<b>Tax on loss on ordinary activities</b>	418,098
	<hr/>

# Notes to the Financial Statements

For the period ended 31 December 2013

## 7. Taxation (continued)

### Factors affecting tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 23%. The differences are explained below:

	Period ended 31 December 2013 £
Loss on ordinary activities before tax	(4,868,903)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23%	(1,119,848)
<b>Effects of:</b>	
Expenses not deductible for tax purposes	953,980
Capital allowances for period in excess of depreciation	(224,735)
Utilisation of tax losses	112,259
Other timing differences leading to an increase in taxation	12,520
Group relief	265,824
<b>Current tax charge for the period</b> (see note above)	-

### Factors that may affect future tax charges

There were no factors that may affect future tax charges.

## 8. Intangible fixed assets

	Goodwill £
<b>Group</b>	
<b>Cost</b>	
At 15 May 2013	-
On acquisition of subsidiaries	55,153,540
At 31 December 2013	55,153,540
<b>Amortisation</b>	
At 15 May 2013	-
Charge for the period	2,023,339
At 31 December 2013	2,023,339
<b>Net book value</b>	
At 31 December 2013	53,130,201

Please refer to Note 19 for details of the acquisition.

# Notes to the Financial Statements

For the period ended 31 December 2013

## 9. Tangible fixed assets

Group	Leasehold improvements £	Fixtures & fittings £	Office equipment £	Computer equipment £	Website costs £	Total £
<b>Cost</b>						
Additions	4,954,962	416,068	1,896,049	64,467	73,980	7,405,526
Disposals	(19,237)	-	(279,702)	(954)	-	(299,893)
On acquisition of subsidiaries	33,770,679	1,944,454	3,454,577	131,749	368,939	39,670,398
At 31 December 2013	<u>38,706,404</u>	<u>2,360,522</u>	<u>5,070,924</u>	<u>195,262</u>	<u>442,919</u>	<u>46,776,031</u>
<b>Depreciation</b>						
Charge for the period	1,228,319	325,856	523,260	48,225	65,594	2,191,254
At 31 December 2013	<u>1,228,319</u>	<u>325,856</u>	<u>523,260</u>	<u>48,225</u>	<u>65,594</u>	<u>2,191,254</u>
<b>Net book value</b>						
At 31 December 2013	<u><u>37,478,085</u></u>	<u><u>2,034,666</u></u>	<u><u>4,547,664</u></u>	<u><u>147,037</u></u>	<u><u>377,325</u></u>	<u><u>44,584,777</u></u>

Included within the net book value of £44,584,777 is £934,005 relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £1,100,644. The depreciation charged to the financial statements in the year in respect of capitalised finance costs amounted to £12,987.

# Notes to the Financial Statements

For the period ended 31 December 2013

## 10. Fixed asset investments

Company	Investments in subsidiary companies £
<b>Cost or valuation</b>	
At 15 May 2013	-
Additions	49,838,084
At 31 December 2013	49,838,084
<b>Net book value</b>	
At 31 December 2013	49,838,084

Details of the principal subsidiaries can be found under note number 28.

## 11. Stocks

	<u>Group</u>	<u>Company</u>
	2013	2013
	£	£
Finished goods for resale	138,501	-

## 12. Debtors

	<u>Group</u>	<u>Company</u>
	2013	2013
	£	£
Amounts owed by group undertakings	-	1,734,866
Other debtors	102,195	7,370
Prepayments and accrued income	3,905,082	-
Deferred tax asset (see note 15)	-	5,001
	4,007,277	1,747,237

# Notes to the Financial Statements

For the period ended 31 December 2013

## 13. Creditors:

### Amounts falling due within one year

	<u>Group</u>	<u>Company</u>
	2013	2013
	£	£
Net obligations under finance leases and hire purchase contracts	440,703	-
Trade creditors	1,830,608	44,221
Other taxation and social security	475,056	-
Other creditors	229,720	-
Accruals and deferred income	4,867,930	4,500
	<u>7,844,017</u>	<u>48,721</u>

## 14. Creditors:

### Amounts falling due after more than one year

	<u>Group</u>	<u>Company</u>
	2013	2013
	£	£
Bank loans	28,807,744	-
Loan notes	18,000,000	908,084
Net obligations under finance leases and hire purchase contracts	1,286,452	-
Accruals and deferred income	5,318,351	2,714,988
Share capital treated as debt (Note 16)	48,393,939	48,393,939
	<u>101,806,486</u>	<u>52,017,011</u>

Disclosure of the terms and conditions attached to the non-equity shares is made in note 16.

Obligations under finance leases and hire purchase contracts, included above, are payable as follows:

	<u>Group</u>	<u>Company</u>
	2013	2013
	£	£
Between one and five years	<u>1,286,452</u>	<u>-</u>

The group's bank borrowings are secured by way of fixed and floating charge over the group's assets.

The Phoenix, Bridges and management loan notes included within creditors greater than one year are redeemable on 13 June 2023 at a coupon rate of 10% and are made up of the following:

Bridges loan notes - £5,658,683  
 Phoenix loan notes - £11,433,233  
 Management loan notes - £908,084

# Notes to the Financial Statements

For the period ended 31 December 2013

## 15. Deferred taxation

	<u>Group</u>	<u>Company</u>
	2013	2013
	£	£
At beginning of period	-	-
Other movements arising in the period	(1,029,648)	5,001
At end of period	<u>(1,029,648)</u>	<u>5,001</u>

The provision for deferred taxation is made up as follows:

	<u>Group</u>	<u>Company</u>
	2013	2013
	£	£
Accelerated capital allowances	874,390	-
Other timing differences	155,258	5,001
	<u>1,029,648</u>	<u>5,001</u>

## 16. Share capital

	2013
	£
<b>Shares classified as capital</b>	
<b>Allotted, called up and fully paid</b>	
385,575 A Ordinary shares of £0.01 each	3,856
20,486 B Ordinary shares of £0.01 each	205
87,642 C1 Ordinary shares of £0.04 each	3,506
57,963 C2 Ordinary of £0.01 each	580
6,895 C3 Ordinary shares of £0.01 each	69
	<u>8,216</u>
<b>Shares classified as debt</b>	
<b>Allotted, called up and fully paid</b>	
48,393,939 Preferences shares of £1 each	<u>48,393,939</u>



# Notes to the Financial Statements

For the period ended 31 December 2013

## 16. Share capital (continued)

On 13 June 2013, The Gym Group Holdings issued 385,575 A Ordinary shares, 20,486 ordinary shares and 130,000 C ordinary shares. On 29 November 2013, The Gym Group Holdings Limited issued 22,500 C Ordinary shares.

Both the A Ordinary and B Ordinary shares have nominal value of £0.01. The Ordinary C shares comprise three classifications: C1 Ordinary Shares, with a nominal value of £0.04 and C2 and C3 Ordinary shares with a nominal value of £0.01.

All ordinary shares have been subscribed for at a value of £1 per share.

Preference shares were issued at nominal value of £0.000001 each. All shares were subscribed for a value of £1 per share. Shares are accruing interest at a coupon rate of 10% per annum. The shares are redeemable on the occurrence of a key event.

## 17. Reserves

Group	Share premium account	Profit and loss account
	£	£
Loss for the financial period	-	(5,287,001)
Premium on shares issued during the period	550,345	-
	<hr/>	<hr/>
At 31 December 2013	550,345	(5,287,001)
	<hr/>	<hr/>
Company	Share premium account	Profit and loss account
	£	£
Loss for the financial period	-	(1,038,972)
Premium on shares issued during the period	550,345	-
	<hr/>	<hr/>
At 31 December 2013	550,345	(1,038,972)
	<hr/>	<hr/>

## Notes to the Financial Statements

For the period ended 31 December 2013

### 18. Reconciliation of movement in shareholders' deficit

	2013 £
<b>Group</b>	
Opening shareholders' funds	-
Loss for the financial period	(5,287,001)
Shares issued during the period	8,216
Share premium on shares issued	550,345
	<hr/>
Closing shareholders' deficit	(4,728,440)
	<hr/>
 <b>Company</b>	 2013 £
Opening shareholders' funds	-
Loss for the financial period	(1,038,972)
Shares issued during the period	8,216
Share premium on shares issued	550,345
	<hr/>
Closing shareholders' deficit	(480,411)
	<hr/>

The company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own Profit and loss account.

The loss for the period dealt with in the accounts of the company was £1,038,972.

## **Notes to the Financial Statements**

**For the period ended 31 December 2013**

### **19. Acquisitions and Disposals**

On 13 June 2013 the group acquired the entire issued share capital of The Gym Limited for total consideration of £52.4 million.

As noted in the table below, there were no fair value adjustments necessary to the book value acquired.

Deferred consideration refers to utilities deposits payable to management, which has been paid since the period end.

# Notes to the Financial Statements

For the period ended 31 December 2013

## Acquisitions

	Vendors' book value £	Provisional fair value to the group £
<b>Assets and liabilities acquired</b>		
Tangible fixed assets	39,670,397	39,670,397
Stocks	31,882	31,882
Debtors	2,055,517	2,055,517
Cash at bank	3,985,569	3,985,569
Loans and finance leases	(34,198,557)	(34,198,557)
Other creditors and provisions	(11,711,103)	(11,711,103)
Net assets acquired	<u>(166,295)</u>	<u>(166,295)</u>
<b>Satisfied by</b>		
Consideration:		
Cash		28,160,405
Loan notes		24,000,000
Deferred consideration		202,351
Acquisition costs		2,624,489
		<u>54,987,245</u>
Goodwill arising on consolidation (see note 8)		<u>55,153,540</u>

Goodwill is being amortised over 15 years.

The Gym Limited, is the main trading entity for the group and contributed all of the groups operating cash flows.

In its last financial year to 31 December 2012, The Gym Limited made a profit after tax of £237,850.

The summarised profit and loss account for The Gym Limited for the period from 1 January 2013 to the date of acquisition is as follows:

Turnover	3,017,117
Operating profit	<u>981,051</u>
Profit before tax	<u>471,018</u>
Profit after tax	<u>471,018</u>

# Notes to the Financial Statements

For the period ended 31 December 2013

## 20. Net cash flow from operating activities

	Period ended 31 December 2013 £
Operating profit	1,140,400
Amortisation	2,023,339
Depreciation	2,191,254
Non-cash hedge borrowing	(18,727)
Decrease in stocks	106,619
Decrease in debtors	385,579
Decrease in creditors	(343,242)
<b>Net cash inflow from operating activities</b>	<b>5,485,222</b>

## 21. Analysis of cash flows for headings netted in cash flow statement

	Period ended 31 December 2013 £
<b>Returns on investments and servicing of finance</b>	
Interest received	6,801
Interest paid	(771,184)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(764,383)</b>

	Period ended 31 December 2013 £
<b>Capital expenditure and financial investment</b>	
Purchase of tangible fixed assets	(5,403,804)

	Period ended 31 December 2013 £
<b>Acquisitions and disposals</b>	
Purchase of The Gym Ltd shares from shareholders	(26,819,633)
Cash acquired with subsidiary - TGL	3,985,569
<b>Net cash outflow from acquisitions and disposals</b>	<b>(22,834,064)</b>

# Notes to the Financial Statements

For the period ended 31 December 2013

## 21. Analysis of cash flows for headings netted in cash flow statement (continued)

	Period ended 31 December 2013 £
<b>Financing</b>	
Issue of ordinary shares	280,421
New secured loans	31,000,000
Loan notes issued	11,433,233
Repayment of loans	(45,610,367)
Repayment of other loans	(234,149)
Shares treated as debt - Issued	30,738,846
<b>Net cash inflow from financing</b>	<b>27,607,984</b>

## 22. Analysis of changes in net funds

	15 May 2013 £	Cash flow £	Acquisition £	Other non-cash changes £	31 December 2013 £
Cash at bank and in hand	-	4,090,955	-	-	4,090,955
<b>Debt:</b>					
Debts due within one year	-	46,124,937	(46,124,937)	(440,703)	(440,703)
Debts falling due after more than one year	-	(73,452,500)	-	(23,035,635)	(96,488,135)
<b>Net funds</b>	<b>-</b>	<b>(23,236,608)</b>	<b>(46,124,937)</b>	<b>(23,476,338)</b>	<b>(92,837,883)</b>

## 23. Capital commitments

At 31 December 2013 the group and company had capital commitments as follows:

	<u>Group</u>	<u>Company</u>
	2013	2013
	£	£
Contracted for but not provided for in these financial statements	3,951,991	-

# Notes to the Financial Statements

For the period ended 31 December 2013

## 24. Operating lease commitments

At 31 December 2013 the group had annual commitments under non-cancellable operating leases as follows:

Group	Land and buildings 2013 £	Other 2013 £
Expiry date:		
Within 1 year	867,707	-
Between 2 and 5 years	5,673,482	3,615,459
After more than 5 years	375,380	-
	<u>6,916,569</u>	<u>3,615,459</u>

## Notes to the Financial Statements

For the period ended 31 December 2013

### 25. Related party transactions

Phoenix Equity Partners Limited, the Group's ultimate controlling party from 13 June 2013 by virtue of its majority shareholding in The Gym Group Holdings Limited, charged the group £729,067 in fees relating to the group restructure and refinancing in the year, £36,851 in monitoring fees and £629,611 in interest on loan notes.

As at 31 December 2013 Phoenix Equity Partners Limited held £11,433,233 of 10% loan notes in The Gym Group MidCo1 Limited and £30,738,846 10% preference shares in The Gym Group Holdings Limited. At the year end the group owed £44,221 in monitoring fees and £629,611 interest on loan notes to Phoenix Equity Partners Limited.

Phoenix Equity Partners (Guernsey) Limited, a company in the same group as Phoenix Equity Partners Limited, charged the group £611,341 in fees relating to the group restructure and refinancing of 13 June 2013. At the year end the group had no outstanding liability with Phoenix Equity Partners (Guernsey) Limited.

Bridges Ventures, The Gym Limited's ultimate controlling party until 13 June 2013 by virtue of its majority shareholding, and minority shareholding in The Gym Group Holdings Limited thereafter, charged the company £30,175 in respect of monitoring fees and out of pocket expenses in the year, of which £nil was outstanding at year end.

Bridges Ventures sold its shares and loan stock in The Gym Limited on 13 June 2013 and received loan notes in a group company, The Gym Group MidCo1 Limited, and shares in The Gym Group Holdings Limited. (2012: Subscribed for £5,050,000 of loan notes issued by The Gym Limited in the year.) During the year Bridges Ventures charged the group £925,160 in interest on loan stock.

As at 31 December 2013 Bridges Ventures held £5,658,683 of loan notes in The Gym Group MidCo1 Limited. As at 31 December 2013, Bridges Ventures was owed £311,615 of interest on the loan notes and £171,575 in deferred consideration for the sale of their shares in The Gym Limited by the group.

J Treharne, a director of the company, was issued £1,759,780 of preference shares on 13 June 2013. J Treharne was owed £20,517 at 31 December 2013 in deferred consideration for the sale of his shares in The Gym Limited on 13 June 2013.

P Gilbert, a director of the company, was issued with £345,106 preference shares on 13 June 2013. Interest of £19,004 was payable during the period and was owed to P Gilbert at 31 December 2013.

A Mathews, a director of the company, was owed £4,103 at 31 December 2013 in deferred consideration for the sale of his shares in The Gym Limited on 13 June 2013.

During the year the group was charged £2,510,297 for services from Closewall Limited, a company under the control of a family member of a director, J Treharne. At the year end, £353,531 was owed to Closewall Limited.

During the year the group was charged £3,222 for goods purchased from C Treharne who is a family member of a director, J Treharne. At the year end there was £500 (2012: £1,000) owed to C Treharne.



## Notes to the Financial Statements

For the period ended 31 December 2013

### 26. Post balance sheet events

On 11 February 2014, the group announced plans to merge with Pure Gym Limited, subject to approval from the Competition and Mergers Authority (CMA). In June 2014, the CMA completed a detailed first phase inquiry into the merger, and initiated an in-depth phase II investigation that was unlikely to be completed until early 2015.

The two companies agreed to halt merger talks after concluding that a protracted phase II investigation would have a detrimental effect on both businesses.

### 27. Controlling party

Phoenix Equity Partners Limited is the Group's ultimate controlling party by virtue of its majority shareholding in The Gym Group Holdings Limited.

### 28. Principal subsidiaries

Company name	Country	Percentage Shareholding	Description
The Gym Group Midco1 Limited	England	100	Directly owned
The Gym Group Midco2 Limited	England	100	Indirectly owned
The Gym Group Limited	England	100	Indirectly owned
The Gym Limited	England	100	Indirectly owned