

Company Registration No. 03075946

Fleets Point Limited
Annual Report and Financial Statements for the year ended
31 October 2017

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Fleets Point Limited

OFFICERS AND PROFESSIONAL ADVISERS

For the year ended 31 October 2017

DIRECTORS

J Wartig (resigned 30 April 2018)

P Stevens

J Bickle (resigned 13 September 2017)

B Broomberg (appointed 13 September 2017)

SECRETARY

S Cadd

REGISTERED OFFICE

52 Willis Way

Poole

BH15 3SY

BANKERS

HSBC Bank PLC

165 High St

Southampton

Hampshire

SO14 2NZ

SOLICITORS

Kirkland & Ellis

30 St Mary Axe

London

EC3A 8AF

INDEPENDENT AUDITOR

Ernst & Young LLP

19 Threefield Lane

Southampton

Hampshire

SO14 3QB

STRATEGIC REPORT

For the year ended 31 October 2017

Principal activities

The principal activity of the Company during the year was that of a management company. The Company earned revenue mainly from management fees based on centrally incurred costs recharged to territories within the Moray Finance Group and royalty fees to countries within the Moray Group based on their revenue. The Company also earned secondary revenue for the provision of Finance and IT support via transitional services agreements with the acquirers of disposed businesses. The business disposals are discussed in more detail in the Business Review. The Company incurred costs relating to its management of the Moray Group and transitional services commitments.

During the year the management responsibilities and net assets of the Company have been distributed to Moray Limited. From 1 November 2017 the Company will effectively become dormant except for a £3.1m cash holding and commitments as guarantor for certain lease arrangements, which are not expected to have a financial impact on the Company.

In addition, there is £73.6m of cash on the balance sheet at 31 October 2017 which is held in a deposit account on behalf of a fellow group company, Moray Overseas Holdings Limited (MOSH). MOSH did not have a deposit account in its' own name at that time. The directors of both companies agreed that the money was held in escrow on behalf of MOSH and Fleets Point had no rights over its use. The balance is only shown in Fleets Point Limited statutory accounts as for expediency and operational efficiency the directors believed that it was better for the Group to have the money held on deposit rather than in the current account of MOSH. Post year-end MOSH opened a deposit account in its' own name and the money was transferred to this deposit account. The directors do not view this balance as belonging to Fleets Point Limited as at 31 October 2017 and it has not been considered in any going concern or liquidity reviews of Fleets Point Limited.

Business review and results for the year

As the Moray Group has made significant progress in its' exit strategy, key performance indicators for the Company have declined. As set out in the statement of comprehensive income (SOCIE), the Company reported a 44.1% decrease (2016: 21.3% decrease) in revenue, resulting in total revenue of £8.8m (2016: £15.8m). Operating loss was £43.9m (2016: £15.1m), the increase was primarily due to a decrease in revenue generated as a result of the sale of the UK, Australian and Asian businesses by the Moray Group. One-off operating costs largely relate to restructuring and reorganisation totalling £6.0m (2016: £5.4m), impairment of intercompany receivables of £31.5m (2016: £6.9m), and impairment of intangible assets of £3.2m (2016: £nil). There was other one-off income in the year of £22.4m (2016: £75.9), made up of £15.4m proceeds for the sale of IP as part of the disposal of the Asian business by the Moray Group, plus a £7.0m reversal of intercompany receivables impairment charges.

Principal risks and uncertainties

As the Company is expected to become dormant from 1 November 2017 and the net assets are a £3.1m sterling cash holding (excluding the £73.6m cash deposit held on behalf of MOSH and related intercompany liability), very little risk or uncertainty is anticipated going forward.

The main risk to the Company could be from its' responsibilities as guarantor of certain lease arrangements. However, the Directors consider any financial impact to the Company from these responsibilities as being very unlikely as, with the exception of the head office lease, under the sale purchase agreements the buyers have agreed to reimburse the Company for any claims made. This is discussed further in note 20 to the Financial Statements.

Fleets Point Limited

STRATEGIC REPORT (CONTINUED)

For the year ended 31 October 2017

Approved by the Board of Directors and signed on behalf of the Board by:

A handwritten signature in black ink, appearing to be 'P Stevens', written over a horizontal line.

P Stevens
Director
22 June 2018

DIRECTORS' REPORT

For the year ended 31 October 2017

The Directors present their annual report on the affairs of the Company, together with the audited financial statements for the year ended 31 October 2017.

Business review

During the year as part of the exit strategy, the Moray Group has disposed of its' Australian, Asian and Digital businesses. Just after the year end the Group also sold its' German business up to its' parent Fitness First Luxembourg SCA. The disposals have had a significant impact on the Company, mainly due to the restructuring of intercompany debt prior to the disposals, and the resulting reduced royalty and management fees received. The key debt restructuring activities that have taken place are as follows:

On 10 February 2017 the Company paid £21.0m to Fitness First Luxembourg SCA in part settlement of its shareholder loan. On 28 February 2017 the Vendor Loan Note (VLN) of £26.0m, plus accrued interest of £0.2m, was transferred to Fitness First Luxembourg SCA in full settlement of the shareholder loan. The VLN had been issued in the prior year as part of the sale of the UK business.

During March and April 2017 the Company was involved in significant debt restructuring in anticipation of the sale of the Group's Asian business which completed on 30 June 2017. This took place as follows:

On 1 March 2017, Fitness First Singapore Pte Limited (a fellow group subsidiary) restructured its debt. The Company transferred £17.8m of its £47.0m intercompany loan receivable from Fitness First Singapore Pte Limited to Moray Overseas Holdings Limited in exchange for debt. This debt was distributed to Moray Limited along with the remaining £29.2m of the intercompany loan receivable.

On 31 March 2017, the Company effected a capital reduction, creating an additional £215.8m of distributable reserves.

On 1 April 2017, all receivables owed to the Company by its fellow Asian subsidiary companies totalling £38.1m were transferred to Moray Overseas Holdings Limited at book value. The debt due from Moray Overseas Holdings Limited was then distributed to Moray Limited. Also on 1 April the Company was released from its' debt obligations to a fellow Asian subsidiary resulting in a capital contribution in the SOCIE of £21.4m. This concluded the debt restructuring for the sale of the Asian business.

On 29 September 2017 the Company waived debt of £7.7m due from Connected Fitness Laboratories Ltd (CFL), a fellow UK subsidiary, in advance of the Groups' sale of CFL which completed on 24 October 2017. The waiver has been treated as a capital transaction resulting in a decrease in the accumulated surplus in the SOCIE. £6.9m of the receivable had been fully impaired in 2016 and just prior to the waiver this impairment was fully reversed.

On 1 September 2017 the Company distributed its' debt of £197.3m due from Moray Finance Limited to Moray Ltd.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 October 2017

Business review (continued)

On 31 October 2017 the Company declared a dividend of £81.4m which was satisfied by the distribution of receivables due to the Company from fellow subsidiaries Fitness First Germany GmbH and Fitness First Germany Holdings GmbH. Prior to the distribution the receivables were impaired by £31.5m to their estimated fair value. This preceded the Group's transfer of ownership of the Germany business to Fitness First Luxembourg SCA on 8 November 2017.

On 31 October 2017 the Company distributed its' remaining trade and net assets to Moray Ltd at a combined value of £0.1m, except for £3.1m of cash in hand and £73.6m cash held on behalf of fellow group companies with the corresponding liability held in Intercompany payables. The net assets have been transferred at book value which is also considered to reflect the fair value. The Company is now expected to become dormant going forward.

Dividends

During the year the Company has made total distributions of £363.9m, as described above.

Directors

The Directors who served during the year are set out on page 1.

Future developments

During the year the management responsibilities and net assets of the Company have been distributed to Moray Limited. From 1 November 2017 the Company will effectively become dormant except for a £3.1m cash holding and commitments as guarantor for certain lease arrangements, which are not expected to have a financial impact on the Company. The guarantor commitments are discussed in more detail in note 20 to the Financial Statements.

Going concern

The Company is expected to become dormant in the future. The Directors have satisfied themselves that the Company has sufficient cash to meet any potential contingent claims, however remote, on the Company.

Directors' indemnity

The Company has granted indemnity to its Directors against liability in respect of proceedings brought by third parties, subject to conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year and is in force as at the date of approving the Directors' report.

Subsequent events

Subsequent to the year end, the £73.6m cash held on deposit on behalf of MOSH was transferred back to MOSH, in settlement of intercompany debt. This left £3.1m of cash remaining in the Company.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 October 2017

Auditor

In the case of the persons who are Directors of the Company at the date when this report is approved:

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each of the Directors has taken all the steps that they ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Ernst & Young LLP have expressed their willingness to continue in office.

Approved by the Board of Directors and signed on behalf of the Board.

A handwritten signature in black ink, appearing to be 'P Stevens', written over a horizontal line.

P Stevens
Director
22 June 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 October 2017

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws 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 Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). 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 and loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently; and
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- make judgements and accounting estimates that are reasonable and prudent; and
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state whether the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLEETS POINT LIMITED

Opinion

We have audited the financial statements of Fleets Point Limited for the year ended 31 October 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of cashflows, the statement of changes in equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 October 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLEETS POINT LIMITED (CONTINUED)

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

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

- adequate accounting records have not been kept by the parent Company, 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 6, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLEETS POINT LIMITED (CONTINUED)

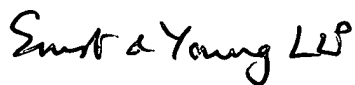
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

A handwritten signature in black ink, appearing to read "Ernst & Young LLP".

Geraint Davies (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton, United Kingdom
27 June 2018

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2017

	Note	2017 £'000	2016 £'000
Revenue	4	8,828	15,797
Administrative expenses			
- one-off operating costs	5	(41,024)	(16,282)
- other	5	(11,958)	(14,574)
Operating (loss)	5	<u>(44,154)</u>	<u>(15,059)</u>
Loss on disposal of UK operation	11	-	(24,479)
Profit on disposal of franchise operation	11	-	17,072
Profit on disposal of intangible assets	9	-	2,695
Other one-off income		22,374	75,868
Finance costs	7	(12,581)	(13,656)
Finance income	7	20,024	88,419
(Loss)/profit before tax		<u>(14,337)</u>	<u>130,860</u>
Tax charge	8	<u>(695)</u>	<u>(1,440)</u>
Total comprehensive (loss)/income for the year		<u><u>(15,032)</u></u>	<u><u>129,420</u></u>

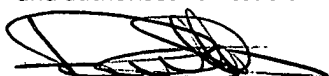
There was no other comprehensive income or loss for the year. All results arise from continuing operations.

STATEMENT OF FINANCIAL POSITION

As at 31 October 2017

		2017 £'000	2016 £'000
	Note		
Non-current assets			
Intangible assets	9	-	5,405
Property, plant and equipment	10	-	1,774
Investments	11	-	-
Trade and other receivables	12	-	313,645
		<u>-</u>	<u>320,824</u>
Current assets			
Trade and other receivables	12	-	266,724
Cash and cash equivalents	13	3,072	17,842
Cash held on behalf of fellow group companies	13	73,606	-
		<u>76,678</u>	<u>284,566</u>
Total assets		<u>76,678</u>	<u>605,390</u>
Current liabilities			
Trade and other payables	14	73,606	6,605
Provisions	17	-	1,559
		<u>73,606</u>	<u>8,164</u>
Non-current liabilities			
Borrowings and other financial liabilities	15	-	228,151
Provisions	17	-	759
		<u>-</u>	<u>228,910</u>
Total liabilities		<u>73,606</u>	<u>237,074</u>
Net assets		<u>3,072</u>	<u>368,316</u>
Equity			
Share capital	18	-	14,470
Share premium		-	201,361
Accumulated surplus		3,072	152,485
Total surplus		<u>3,072</u>	<u>368,316</u>

The financial statements of Fleets Point Limited, registered number 03075946, were approved by the Board of Directors and authorised for issue on 22 June 2018.



P Stevens
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2017

	Share capital £'000	Share Premium £'000	Accumulated surplus £'000	Total £'000
At 1 November 2015	14,470	201,361	58,448	274,279
Total comprehensive loss for the year	-	-	129,420	129,420
Dividend	-	-	(35,383)	(35,383)
At 31 October 2016	14,470	201,361	152,485	368,316
Total comprehensive loss for the year	-	-	(15,032)	(15,032)
Capital reduction	(14,470)	(201,361)	215,831	-
Capital contribution	-	-	21,397	21,397
Waiver of loan due from fellow subsidiary	-	-	(7,726)	(7,723)
Dividends	-	-	(363,883)	(363,886)
At 31 October 2017	-	-	3,072	3,072

There is no other comprehensive income in 2017 (2016: £nil).

Details of the dividend payments are disclosed in note 25.

STATEMENT OF CASH FLOWS

For the year ended 31 October 2017

	Note	2017 £'000	2016 £'000
Cash generated from operating activities			
Cash generated from operations	19	63,908	(83,170)
Net cash inflow/(outflow) from operating activities		<u>63,908</u>	<u>(83,170)</u>
Cash flows from investing activities			
Proceeds from sale of investments		-	44,649
Purchase of property, plant and equipment		-	(482)
Payments to acquire intangible assets		(191)	(535)
Proceeds from sale of intangible assets		2	4,988
Proceeds from sale of franchise operation		-	17,072
Issue of Vendor Loan Note		-	26,000
Proceeds from sale of Asia IP		15,391	-
Interest received		666	-
Net cash used in investing activities		<u>15,868</u>	<u>91,692</u>
Cash flows from financing activities			
Repayment of shareholder loan		(20,940)	(2,127)
Interest paid		-	(9,262)
Net cash outflow from financing activities		<u>(20,940)</u>	<u>(11,389)</u>
Net increase/(decrease) in cash and cash equivalents		58,836	(2,867)
Opening cash and cash equivalents		17,842	20,711
Effect of foreign exchange rate changes		-	(2)
Closing cash and cash equivalents	13,19	<u>76,678</u>	<u>17,842</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2017

1. CORPORATE INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

Fleets Point Limited (the "Company") is a limited liability company incorporated in England and Wales and domiciled in the United Kingdom ("UK").

Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) (including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB") and its committees) as adopted for use in the European Union ("EU") and the Companies Act 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies set out below have been applied consistently throughout the current and preceding year to items considered material to the financial statements.

Basis of preparation

The financial statements have been prepared on the historical cost basis as described in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The financial statements are presented in pounds sterling which is the currency of the country in which the Company was incorporated and the functional currency of the Company.

Going concern

The Company is expected to become dormant in the future. The Directors have satisfied themselves that the Company has sufficient cash to meet any potential contingent claims, however remote, on the Company.

Consolidated financial statements

In accordance with s400 of the Companies Act 2006 the Company is exempt from producing group financial statements since it is a wholly owned subsidiary of Fitness First Luxembourg SCA which prepares consolidated financial statements that are publicly available.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

The financial statements are presented in pounds sterling which is the currency of the country in which the Company was incorporated and the functional currency of the Company.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Revenue

The Company derives its revenue principally from management fees based on centrally incurred costs recharged to territories within the Moray Group, royalty fees to countries within the Moray Group based on their revenue and the provision of IT and Finance support to the disposed UK and Australian operations. All income is recognised on an accruals basis over the period to which the income relates.

Intangible assets

Other software assets

Costs to acquire computer software licences and bring them into use by the Company are capitalised and amortised on a straight-line basis over their estimated useful lives (3 to 10 years).

Internally-generated intangible assets

Information technology development costs which can be measured reliably are capitalised to the extent that an identifiable asset is created which will generate future economic benefits for the Company. Internally-generated assets are amortised on a straight-line basis over their useful lives (3 to 10 years). Where no internally-generated asset can be capitalised, information technology development costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is charged on all assets, except for freehold land, based on cost less estimated residual value in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Land and buildings	over the term of the lease
Furniture, fittings and equipment	6.67% to 20% per annum
Computer equipment	10% to 33.3% per annum

The appropriateness of depreciation rates is reviewed on an annual basis. Any change in the estimated useful life, or residual value, is adjusted through the depreciation rates on a prospective basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Impairment of property, plant and equipment and intangible assets, excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss for the year. No reversals of impairment losses were made in the year ended 31 October 2017.

Provisions

A provision is recognised if, as a result of a past event, the Company has a present, legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect is material, the obligation is discounted to present value using a pre-tax rate that reflects current market assessments of the time value of money. A risk free rate is used as cash flows are already adjusted for risk. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contract provisions

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract; usually where a property is vacant or sublet. The provision is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

Long-term employee benefits

An enhanced redundancy scheme is in place whereby individuals accrue a % of salary if they continue in employment, payable when they are a good leaver.

The MIP scheme is based on regional cash generation, payable in the event of an exit which resulted in a charge of £2.6m (2016: £1.5m). This scheme does not meet the criteria of IFRS 2 Share based payments but is considered an employee benefit.

Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets have historically included cash and short-term deposits, trade and other receivables, and unquoted financial instruments. During the year and at year-end, the Company has only designated financial assets as loans and receivables.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. During the year and at year-end, the Company has only designated financial liabilities as loans and borrowings.

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities (continued)

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, unless there is a significant modification to the terms of the borrowings in which case it is re-measured at fair value.

Borrowing costs directly attributable to the acquisition of a loan, or other borrowing facility, are capitalised against the fair value. Where costs relate to a drawn down facility they will be capitalised against the loan amount, and are amortised over the life of the facility, using the effective interest rate method, where material. Any costs in relation to an undrawn facility will be disclosed as a prepayment and released over the life of the facility.

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the profit or loss for the year immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Pensions

Pension costs represent the amounts payable into personal pension schemes on behalf of certain Directors and employees, together with amounts payable under defined contribution schemes for certain employees of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax

The tax expense represents the sum of the corporation tax currently payable and deferred tax.

Corporation tax payable is based on taxable profit for the year using current tax rates that have been enacted or substantively enacted.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised if it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

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

Deferred tax is calculated on an undiscounted basis at the rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been substantively enacted at the balance sheet date.

Deferred tax is charged or credited through profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Changes in accounting policies and disclosures

The Company is assessing the impact of accounting standards, interpretations and amendments that are not yet effective. Where already endorsed by the EU, these changes will be adopted on the effective dates noted. Where not yet endorsed by the EU, the adoption date is less certain. Management is currently assessing the impact on the Group on the releases and amendments noted. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The three new standards with the most significant potential effect on the group's financial statements are: IFRS 9, IFRS 15 and IFRS 16.

- IFRS 9 Financial Instruments: Classification and Measurement effective for annual periods ending on or after 1 January 2018.
- IFRS 15 Revenue from Contracts with Customers effective for annual periods ending on or after 1 January 2018.
- IFRS 16 Leases effective for annual periods beginning on or after 1 January 2019 (not yet endorsed by the EU)

The company consider there to be no significant impact on the financial statements of any of the above new standards given there is only cash on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Accounting judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Software development costs

Software development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed and that the software is useful to the Company, generating future economic benefits. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 October 2017 the carrying amount of capitalised development costs was nil. At 31 October 2016, the carrying amount was £5.1m which predominantly related to a proprietary billing and membership management system.

Accounting estimates

The following estimates are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

Impairment of intangible assets and intercompany receivables

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. In the current year we do not believe there are indicators of impairment of our intangible assets, based on the continued use of the assets which continue to drive value to the business.

Provision for onerous property lease contracts

The Company makes provision against the cost of certain property lease contracts where it no longer operates a club on the site and the site is either vacant or sublet.

The value of the provision is determined based on the expected unavoidable future costs of the contract and the expected period during which these costs will continue to be incurred. Management estimates the expected period during which these costs will be incurred on a lease by lease basis, based on the current contract status, historical experience of resolving similar contracts, and knowledge of the local rental markets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

4. REVENUE

The Company's revenue includes royalty fees and the provision of management services to group companies. These are charged out on an arm's length basis. In 2017 revenue also includes fees for IT and Finance support to the disposed UK and Australian operations under transitional services agreements.

Revenue by territory is as follows:

	2017 £'000	2016 £'000
Asia	3,199	5,153
Australia	470	3,487
Germany	3,789	3,818
UK	1,085	2,869
Other	285	470
Total revenue	8,828	15,757

5. OPERATING (LOSS)

	2017 £'000	2016 £'000
Operating (loss) is stated after charging:		
Loss on disposal of:		
Property, plant and equipment	680	20
Intangibles	47	248
Depreciation of property, plant and equipment (Note 10)	782	952
Amortisation of intangible assets (Note 9)	2,287	1,699
Staff costs (see note 6)	5,365	6,182
Auditors' remuneration	136	26
One-off operating costs:		
Restructuring, reorganisation and strategy costs	2,727	5,395
Other one-off operating costs*	38,297	10,887

The analysis of auditors' remuneration is as follows:

Fees payable to the Company's auditor for the audit of the Company's annual accounts	7	26
Tax Advisory services	107	-
Corporate Finance services	22	-

* Other charges and credits which are considered to be outside of underlying trading activity by virtue of their one-off incidence, size or nature and accordingly are not allocated to individual segments. Within the year an addition of £3.7m to the enhanced redundancy and MIP provision (2016: £3.1), impairment of intercompany receivables of £31.5m (2016: £6.9m) and impairment of intangible assets of £3.2m (2016: £nil) have been included within this classification.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

Average number of persons (including Directors) employed by the Company in the year:	2017 No.	2016 No.
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Office and management	47	62
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Staff costs (including Directors) incurred during the year in respect of these employees were:	2017 £'000	2016 £'000
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Wages and salaries	2,328	3,843
MIP costs	2,784	1,548
Social security costs	145	657
Other pension costs	108	134
	<u>5,365</u>	<u>6,182</u>

Directors' emoluments	2017 £'000	2016 £'000
Wages and salaries	604	1,160
MIP costs	1,840	-
Pension costs	19	20
Sums paid to third parties in respect of Directors' services	6	6
	<u>2,469</u>	<u>1,186</u>

Highest paid Director	2017 £'000	2016 £'000
Wages and salaries	408	793
MIP costs	1,473	-
Sum paid to third parties in respect of Director's services	5	4
	<u>1,886</u>	<u>797</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

7. NET FINANCE INCOME

	2017	2016
	£'000	£'000
Finance costs consist of:		
Interest expense		
Interest on amounts owed to Fitness First Luxembourg SCA	1,020	4,390
Other intercompany interest expense	1,527	8,331
Total interest expense	<u>2,547</u>	<u>12,721</u>
Other finance costs		
Net exchange losses on foreign currency intercompany balances	10,034	-
Change in fair value of derivative	-	931
Unwinding of discount on provisions	-	4
Total other finance costs	<u>10,034</u>	<u>935</u>
Total finance costs	<u>12,581</u>	<u>13,656</u>
	2017	2016
	£'000	£'000
Finance income consists of:		
Bank interest receivable	243	227
Intercompany interest received	18,426	30,584
Vendor loan note interest received	424	-
Total interest income	<u>19,093</u>	<u>30,811</u>
Other finance income		
Net exchange gains on foreign currency intercompany balances	-	57,381
Net other foreign exchange differences	-	227
Change in fair value of derivative	931	-
Total other finance income	<u>931</u>	<u>57,608</u>
Total finance income	<u>20,024</u>	<u>88,419</u>
Net finance income	<u>7,443</u>	<u>74,763</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

8. TAX ON (LOSS)/PROFIT BEFORE TAX

	2017	2016
	£'000	£'000
Current tax		
Overseas tax charge for the year	<u>695</u>	<u>1,440</u>

UK corporation tax is calculated at 19.0% (2016: 20.0%) of the estimated taxable (loss)/profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Withholding tax is incurred in Asia and Australia on intercompany charges.

The charge for the year can be reconciled to the (loss)/profit for the year as follows:

	2017	2016
	£'000	£'000
(Loss)/ profit before tax	<u>(14,337)</u>	<u>130,860</u>
Tax (credit)/charge calculated at UK standard rate of corporation tax	(2,724)	26,172
%	19.0%	20.0%
Expenses not deductible for tax purposes	5,885	(92,808)
Losses claimed from other group companies for nil consideration	(3,161)	70,139
Unprovided deferred tax movement	-	(3,214)
Withholding tax	695	1,440
Double tax relief	-	(288)
Tax charge	<u>695</u>	<u>1,440</u>
Effective tax rate %	(4.8%)	(1.1%)

The 2015 Finance Act No 2 enacted a reduction of the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and 18% effective from 1 April 2020. A further reduction to the main rate of corporation tax for the year starting 1 April 2020 was introduced by Finance Act 2016, setting the rate at 17% rather than 18%. For the years ended 31 October 2016 and 2017, the reduction to 17% has been enacted. Unrecognised deferred tax is calculated at 17%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

9. INTANGIBLE ASSETS

	Internally developed software £'000	Other software £'000	Total £'000
Cost			
At 1 November 2015	30,365	4,586	34,951
Additions	399	136	535
Disposals	(3,014)	(1,462)	(4,476)
At 31 October 2016	27,750	3,260	31,010
 Additions	 196	 3	 199
Disposals	-	(943)	(943)
Transferred to Parent	(27,946)	(2,320)	(30,266)
At 31 October 2017	-	-	-
 Amortisation			
At 1 November 2015	(21,689)	(4,172)	(25,861)
Amortisation charge for the year	(1,449)	(250)	(1,699)
Disposals	513	1,442	1,955
At 31 October 2016	(22,625)	(2,980)	(25,605)
 Amortisation charge for the year	 (2,124)	 (163)	 (2,287)
Impairment charge in the year	(3,197)	(71)	(3,268)
Disposals	-	896	896
Transferred to Parent	27,946	2,318	30,264
At 31 October 2017	-	-	-
 Total at 31 October 2017	-	-	-
 Total at 31 October 2016	5,125	280	5,405

Impairment charges of £3.3m were recognised in the year (2016: £nil) in relation to a bespoke membership management and billing system. The system was no longer considered to have future value to the Company or Group due to the disposal of the most significant business segments by the Moray group.

On 31 October 2017 the company distributed its' remaining trade and assets to the parent company except for a £3.1m cash holding and £73.6m cash held on deposit on behalf of a fellow group company.

On 1 November 2015, the Company sold its intangible assets relating to Customfit to a subsidiary company, Connected Fitness Labs Limited, for its estimated fair value of £5.1m resulting in a gain on disposal in 2016 of £2.7m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

10. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings £'000	Computer Equipment £'000	Total £'000
Cost			
At 1 November 2015	162	4,958	5,120
Additions	-	482	482
Disposals	-	(253)	(253)
At 31 October 2016	162	5,187	5,349
Additions	-	-	-
Disposals	-	(2,288)	(2,288)
Transferred to Parent	(162)	(2,899)	(3,061)
At 31 October 2017	-	-	-
Accumulated depreciation			
At 1 November 2015	(71)	(2,785)	(2,856)
Depreciation charge for the year	(14)	(938)	(952)
Disposals	-	233	233
At 31 October 2016	(85)	(3,490)	(3,575)
Depreciation charge for the year	(37)	(745)	(782)
Impairment charge for the year	-	(119)	(119)
Disposals	(1)	1,600	1,599
Transferred to Parent	123	2,754	2,877
At 31 October 2017	-	-	-
Total at 31 October 2017	-	-	-
Total at 31 October 2016	77	1,697	1,774

The net book value of land and buildings comprises:

	2017 £'000	2016 £'000
Short leasehold	-	77

On 31 October 2017 the company distributed its' remaining trade and assets to the parent company except for a £3.1m cash holding and £73.6m cash held on deposit for a fellow group company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

11. INVESTMENTS

At 31 October 2017 and 2016 the Company did not hold any investments. During 2016 the Company sold or transferred its' investments as follows:

On 30 November 2015, the Company sold its franchise operations to the incumbent franchisee for £17.5m. This resulted in a profit on disposal of £17.1m in the prior year.

During the year to 31 October 2016 the Company also transferred its' investments in Moray Overseas Holdings Limited (formerly Fitness First Overseas Holdings Limited), Connected Fitness Labs Limited and Fitness First Germany GmbH to the parent company, Moray Limited. This transaction took place for £nil consideration with no gain or loss on transfer; a dividend in specie payment was recognised in that year with a value of £35.4m, resulting in the reversal of these investment balances with a corresponding entry in reserves.

On 30 September 2016, the Company sold its investment in Fitness First Clubs Limited, which was held at £nil value, to Dave Whelan Fitness Ltd for a total consideration of £70.6m of which £44.6m was cash and £26.0m in the form of a vendor loan note. Immediately prior to the sale, the Company forgave its intercompany receivable with Fitness First Clubs Limited, resulting in an additional investment of £95.1m. As a result, the Company recognised a loss on disposal of £24.5m in the year ended 31 October 2016.

12. TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Current		
Trade receivables	-	167
Other receivables	-	32,370
Prepayments and accrued income	-	1,030
Intercompany receivables	-	233,157
	<u>-</u>	<u>266,724</u>
Non-current		
Intercompany loans receivable	-	313,645
	<u>-</u>	<u>313,645</u>
Total	<u>-</u>	<u>580,369</u>

Further detail on credit risk is provided in note 21.

On 31 October 2017 the company distributed its' remaining trade and assets to the parent company except for a £3.1m cash holding and £73.6m cash held on deposit on behalf of a fellow group company (offset by a corresponding liability in Intercompany payable).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

All intercompany receivables have been fully settled during the year as part of the ongoing restructuring and monetisation strategy of the Moray group. A £31.5m impairment charge was also booked in the year in relation to loans owed by the German business. These loans were impaired down to estimated fair value before being distributed up to the Parent company.

Other receivables in the prior year related primarily to the Vendor Loan Note of £26.0m issued as part of the proceeds from the sale of the UK business. On 28 February 2017, the Vendor Loan Note of £26.0m plus accrued interest of £0.2m was transferred to Fitness First Luxembourg SCA in settlement of the shareholder loan. In addition, £1.9m related to the net working capital adjustment on the sale of the UK business and £2.5m of accrued royalty fees due from territories.

Impairment reversals of £73.8m in 2016 related to intercompany balances with the Group's Australian entities which have been fully settled in the current year as part of the loan restructuring pre-sale on 9 December 2016.

13. CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Cash and cash equivalents	3,072	17,842
Cash held on behalf of fellow group companies	73,606	-
	<u>76,678</u>	<u>17,842</u>

Cash and cash equivalents comprise cash and demand deposits. The carrying amount of these assets is approximately equal to their fair value.

In addition, there is £73.6m of cash on the balance sheet at 31 October 2017 which is held in a deposit account on behalf of a fellow group company, Moray Overseas Holdings Limited (MOSH). MOSH did not have a deposit account in its' own name at that time. The directors of both companies agreed that the money was held in escrow on behalf of MOSH and Fleets Point had no rights over its use. The balance is only shown in Fleets Point Limited statutory accounts as for expediency and operational efficiency the directors believed that it was better for the Group to have the money held on deposit rather than in the current account of MOSH. Post year-end MOSH opened a deposit account in its' own name and the money was transferred to this deposit account. The directors do not view this balance as belonging to Fleets Point Limited as at 31 October 2017 and it has not been considered in any going concern or liquidity reviews of Fleets Point Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

14. TRADE AND OTHER PAYABLES

	2017	2016
	£'000	£'000
Current		
Trade payables	-	1,024
Other payables	-	735
Derivative financial instruments	-	931
Accruals	-	3,284
Intercompany payables	73,606	631
	<u>73,606</u>	<u>6,605</u>

All trade and other payables were current at the balance sheet date.

On 31 October 2017 the company distributed its' remaining trade and assets to the parent company except for a £3.1m cash holding and £73.6m cash held on deposit on behalf of a fellow group company. The corresponding liability of £73.6m for the cash held on behalf of a fellow group company is in Intercompany payables.

15. BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2017	2016
	£'000	£'000
Non-current		
Loans owed to Fitness First Luxembourg SCA	-	88,904
Loans owed to fellow Group companies	-	139,247
Total non-current	<u>-</u>	<u>228,151</u>
Total borrowings	<u>-</u>	<u>228,151</u>

Interest on the loan to Fitness First Luxembourg SCA was accruing at a fixed rate of 5.6183%. This loan was repaid in full in February 2017.

A fixed interest rate of 5.6183% was accruing on loans owed to subsidiaries and parent companies. These loans were fully repaid during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

16. DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current income tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle them on a net basis. The amounts after offset are as follows:

	2017	2016
	£'000	£'000
Deferred tax assets	-	-
Deferred tax liabilities	-	-
Deferred tax assets (net)	<u>-</u>	<u>-</u>

The following are the major deferred tax liabilities and assets not recognised by the Company and movements thereon during the current and prior reporting period.

	2017	2016
	£'000	£'000
Unprovided deferred tax		
Timing differences on fixed assets	-	3,731
Deferred tax assets (net)	<u>-</u>	<u>3,731</u>

Net provided deferred tax assets and liabilities:

The Company did not recognise the above deferred tax asset in the prior year as it was not considered probable that the assets would be recovered. Deferred taxation of £3.7m had not been recognised in relation to short term timing differences on fixed assets as there was insufficient evidence that the asset would be recovered in the near future. All fixed assets have been transferred to the Parent company during the current year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

17. PROVISIONS

	Onerous leases provision £'000	Other provision £'000	Total £'000
At 1 November 2015	273	812	1,085
Additions	-	3,163	3,163
Utilisation for the year	(21)	(1,301)	(1,322)
Reversal of unused amounts	-	(612)	(612)
Unwinding of discount in the year	4	-	4
At 31 October 2016	256	2,062	2,318
Additions	-	3,663	3,663
Utilisation for the year	(256)	(5,259)	(5,515)
Transferred to Parent	-	(466)	(466)
At 31 October 2017	-	-	-

The onerous lease provision represented amounts recognised in connection with property commitments which were considered onerous in line with Group policy. The onerous lease was settled during the year and the provision released in full.

The Other provision related to the enhanced redundancy and MIP schemes. The enhanced redundancy is accrued by individuals as a % of salary, payable when they become a good leaver. The MIP provision is based on regional cash generation, payable in the event of an exit. The provisions were transferred to the Parent company on 31 October 2017 as part of the distribution of remaining trade and assets.

Analysis of total provisions	2017 £'000	2016 £'000
Current	-	1,559
Non-current	-	759
Total provisions	-	2,318

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

18. SHARE CAPITAL

	2017	2016
	No. '000	No. '000
Authorised		
Ordinary shares of 12.5p each	<u>159,040</u>	<u>159,040</u>
Allocated, called up and fully paid		
Ordinary shares of 12.5p each	<u>-</u>	<u>115,761</u>
	Nominal value	Nominal value
	2017	2016
	£'000	£'000
Authorised		
Ordinary shares of 12.5p each	<u>19,880</u>	<u>19,880</u>
Allocated, called up and fully paid		
Ordinary shares of 12.5p each	<u>-</u>	<u>14,470</u>

During the year the Company undertook a special resolution to reduce its' share capital and share premium. 115,761,609 allocated shares were cancelled and share premium was reduced to £nil. The resulting reserves were treated as a realised profit and can be seen in the accumulated surplus in the SOCIE.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

19. NOTES TO CASHFLOW STATEMENT

	2017	2016
	£'000	£'000
Total comprehensive (Loss)/income for the year	(15,032)	129,420
<i>Non-cash and non-operating items:</i>		
Depreciation of tangible fixed assets	782	952
Amortisation of intangible assets	2,288	1,699
Impairment of property, plant and equipment	119	-
Impairment of intangible assets	3,266	-
Loss on disposal of investment	-	24,426
Profit on disposal of property, plant and equipment and intangibles	725	(2,447)
Other one off income	(15,392)	(17,072)
Finance costs	12,582	13,656
Finance income	(20,025)	(88,419)
Tax charge	695	1,440
Operating (loss)/ profit before changes in working capital and provisions	(29,992)	63,655
<i>Change in operating assets and liabilities:</i>		
Decrease / (increase) in receivables	6,787	(30,934)
(Decrease) / increase in payables	(3,613)	1,664
(Decrease) / increase in provisions	(2,318)	1,234
Decrease / (increase) in intercompany	112,151	(118,789)
Provision for intercompany receivables	(19,107)	-
Cash generated from operations	63,908	(83,170)
Cash and cash equivalents	76,678	17,842

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

20. CONTINGENT LIABILITIES

The Company is Guarantor for a short-term lease of head office space held by its' Parent. The lease has been treated as onerous by the Parent company, with a provision of £0.5m held at the year-end to reflect the expected remaining rental costs until the lease is exited. The Directors' do not expect this guarantee to have any future financial impact on the Company as the Parent has adequate funds to cover the future lease payments. If a claim should be made against the Company, the cash balance of £3.1m would be more than sufficient to cover the cost.

The Group has retained certain landlord guarantees in respect of UK clubs sold to Dave Whelan Sports Limited and Australian clubs sold to Fitness Lifestyle Group, which are in the process of being transferred to the buyer. There are no known or anticipated circumstances in which we expect a liability to materialise to the Group as, under the sale purchase agreements, the buyers have agreed to reimburse the Company for any claims made.

As at 31 October 2016, the Company, in conjunction with other Group companies, was a Guarantor of certain liabilities of an intermediate parent entity in the United Kingdom, Moray Finance Limited, under an Agreement for provision of a £115.0m senior loan facility. As part of these guarantee arrangements, the Company charged certain of its assets in favour of the Lenders under that credit Agreement (for which the Agent is HSBC Bank PLC, London). During the current year the Group fully repaid its external bank debt.

21. FINANCIAL INSTRUMENTS

Treasury policy and financial risk management

As at 31 October 2017 the Company's only financial instrument is cash. In prior years financial instruments comprised intercompany borrowings, cash and liquid resources and various other items, such as trade receivables and payables.

The Company uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. The main risks historically faced by the Company are liquidity and funding, foreign exchange and credit risk. It is the Company's policy not to hold financial instruments for trading purposes. The Company's policies in respect of the management of these risks are as follows:

Liquidity and funding risk

Liquidity and funding risk is the risk that the Company could be unable to settle or meet its obligations as they fall due. The Company finances its operations through a combination of cash generated from operations and borrowings from its parent company. The Company monitors the maturity of financial liabilities to avoid the risk of a shortage of funds.

As at 31 October 2017 the only financial liability that the company had was a £73.6m intercompany payable, associated to the £73.6m cash held on deposit on behalf of a fellow group company, which was transferred back within 3 months of the year end in settlement of the intercompany debt.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

21. FINANCIAL INSTRUMENTS (continued)

Liquidity and funding risk (continued)

At 31 October 2016 the maturity profile of financial liabilities was as follows:

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Total £'000
2016					
Loans owed to:					
FF Luxembourg SCA	-	-	-	88,904	88,904
Fellow group subsidiaries	-	-	-	139,247	139,247
Parent companies	-	-	-	-	-
Trade and other payables	-	5,974	-	-	5,974
Other payables owed to fellow group subsidiaries	-	631	-	-	631
Provisions	-	-	67	189	256
Total	-	6,605	67	228,340	235,012

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates arises primarily where the Company has financial assets or liabilities in foreign currency which are not matched with cash flows within the Company. The Company has historically been primarily exposed to foreign exchange risk in relation to movements in the Euro, Australia dollar, Hong Kong dollar and Singapore dollar against Sterling.

At 31 October 2017 the Company held £73.6m of cash denominated in US dollars on deposit on behalf of MOSH, a fellow group company. As the cash did not belong to the Company and was repaid to MOSH within three months after the year end, the Company was not exposed to any foreign exchange risk. At 31 October 2016 the Company held significant foreign currency denominated monetary assets and liabilities. Of loans owed to FF Luxembourg SCA, £88.9m was held in Euros. Of intercompany receivables, including loan receivables, £65.3m was held in Australian dollars, £104.4m was held in Euros, £47.6m was held in Singapore dollars, £nil was held in Hong Kong dollars, £17.1m was held in Malaysia ringgits, £12.8m in Philippine peso, £9.1m in Indonesian rupiah, and £0.9m in other currency balances. Of intercompany payables to subsidiaries £21.6m was due in Hong Kong dollars. All intercompany balances have been waived, settled or passed to other Group companies during the current year as part of the ongoing restructuring and monetisation strategy of the Moray Group.

As the Company would not be liable for any foreign exchange risk on the £73.6m cash held for a fellow group company, and there are no other significant foreign currency denominated monetary assets or liabilities at 31 October 2017 there is no sensitivity to possible changes in Sterling against foreign currency exchange rates. The following table demonstrates the estimated sensitivity as at 31 October 2016 to reasonably possible changes in the Sterling against significant foreign currency exchange rates with all other variables held constant. This was primarily the effect on the Company's profit before tax due to re-translation of foreign currency monetary assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

21. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments held at the prior year end.

	Loans and receivables £'000	Amortised cost £'000	Total book value £'000	Fair value £'000
Financial assets				
Trade and other receivables	32,537	-	32,537	32,537
Intercompany receivables	233,157	-	233,157	233,157
Loans to fellow group subsidiaries	313,645	-	313,645	313,645
Financial liabilities				
Trade and other payables	-	(5,673)	(5,673)	(5,673)
Derivative financial instruments	-	-	(931)	(931)
Loans owed to:				
FF Luxembourg SCA	-	(88,904)	(88,904)	(88,904)
Fellow group subsidiaries	-	(139,879)	(139,879)	(139,879)
At 31 October 2016	<u>579,339</u>	<u>(234,456)</u>	<u>343,952</u>	<u>343,952</u>

The fair value of trade and other receivables and trade and other payables was equal to book value as they were short term in nature with the exception of the £26.0m Vendor Loan Note (VLN) which was considered equal to its book value as it was on commercial terms and Fitness First Luxembourg SCA had agreed to assign it in their favour in exchange for an equal repayment of the loans owed to them. This took place during the current year. The intercompany positions were stated after provision for impairment and hence were considered approximate to fair value. The book value of the loans owed to FF Luxembourg SCA was considered to approximate fair value as the terms of these loans were considered to be at arm's length.

Carrying value of the derivative financial instrument, a forward foreign exchange contract was equal to its fair value as it was short term in nature.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

22. OBLIGATIONS UNDER LEASES

Operating lease commitments

At 31 October 2017 the Company has no operating lease commitments. At 31 October 2016 the Company had a premise leased under a non-cancellable operating lease agreement that was due to expire in 2023. This lease has been fully settled during the current year.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings	
	2017	2016
	£'000	£'000
Within one year	-	46
Two to five years	-	184
After five years	-	69
	<u>-</u>	<u>299</u>

23. EMPLOYEE BENEFITS

There is no defined benefit company pension scheme although the Company does make contributions on behalf of certain Directors and employees in respect of personal pension arrangements together with contributions under defined contribution schemes relating to the employees, which are disclosed in note 6.

During the prior year a MIP scheme was put in place which is based on regional cash generation, payable in the event of an exit which resulted in a charge of £2.8m (2016: £1.5m). This scheme does not meet the criteria of IFRS 2 Share based payments but is considered an employee benefit. This scheme has been transferred to the Parent company as part of the distribution of trade and assets on 31 October 2017.

In addition, an enhanced redundancy scheme was in place during the year whereby individuals accrue a % of salary if they continue in employment, payable when they are a good leaver, resulting in a charge of £0.4m (2016: £0.7m). The liability for this scheme has also been distributed to the Parent Company in October 2017.

24. RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

The remuneration of the Directors and other employees who are the key management personnel of the Group, paid through the Company, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures:

	2017	2016
	£'000	£'000
Short-term employee benefits	1,062	1,160
MIP payments	3,329	-
Post-employment benefits	19	20
Sums paid to third parties	8	6
	<u>4,418</u>	<u>1,186</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

24. RELATED PARTY TRANSACTIONS (CONTINUED)

Remuneration of key management personnel (continued)

During the year an individual within the Company's key management personnel provided £0.4m (2016: £0.4m) of advisory services to the Group and was paid £1.5m in MIP payments (2016: £nil). £nil (2016: £nil) was owed to this related party at the year end. This is included within the remuneration of the key management personnel above.

The following transactions with related parties took place:

	Interest expense £'000	Interest income £'000	Royalty fees £'000	Management fees £'000
2016				
Transactions with fellow group subsidiaries	(8,332)	30,584	11,801	2,931
Transactions with ultimate parent company	(4,390)	-	-	-
2017				
Transactions with fellow group subsidiaries	(1,277)	18,426	6,237	1,035
Transactions with ultimate parent company	(250)	-	-	-

The Company was charged £0.1m (2016: £0.2m) for consultancy services, and £0.0m (2016: £0.1m) for re-imbursement of expenses by Oaktree Capital Management.

In the year transactions totalling £nil (2016: £1.8m) were paid for by the Company in relation to services relating to the ultimate parent company, Fitness First Luxembourg SCA. These were offset against the shareholder loan payable to that company at the year end.

The following balances were held with related parties:

	2017 £'000	2016 £'000
Intercompany loans – receivable	-	313,646
Other intercompany receivables	-	233,157
Loans owed to FF Luxembourg SCA	-	(88,904)
Intercompany loans – payable	-	(139,247)
Other intercompany payables	(73,606)	(632)
	<u>(73,606)</u>	<u>318,020</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 October 2017

25. DIVIDEND

During the year the Company has made distributions of £363.9m to Moray Limited as follows:

On 1 March 2017, Fitness First Singapore Pte Limited (a fellow group subsidiary) restructured its debt. The Company transferred £17.8m of its £47.0m intercompany loan receivable from Fitness First Singapore Pte Limited to Moray Overseas Holdings Limited in exchange for debt. This debt was distributed to Moray Limited along with the remaining £29.2m of the intercompany loan receivable.

On 1 April 2017, all receivables owed to the Company by its fellow Asian subsidiary companies totalling £38.1m were transferred to Moray Overseas Holdings Limited at book value. The debt due from Moray Overseas Holdings Limited was then distributed to Moray Limited

On 1 September 2017 the Company distributed its' debt of £197.3m due from Moray Finance Limited to Moray Ltd.

On 31 October 2017 the Company declared a dividend of £81.4m which was satisfied by the distribution of receivables due to the Company from fellow subsidiaries Fitness First Germany GmbH and Fitness First Germany Holdings GmbH. Prior to the distribution the receivables were impaired by £31.5m to their estimated fair value. This preceded the Group's transfer of ownership of the Germany business to Fitness First Luxembourg SCA on 8 November 2017.

On 31 October 2017 the Company distributed its' remaining trade and net assets to Moray Ltd at a combined value of £0.1m, except for £3.1m of cash in hand. The net assets were distributed at book value which is also considered to reflect their fair value. The remaining assets and liabilities relate to £73.6m cash held on behalf of a fellow group company and was transferred shortly after the year end.

26. SUBSEQUENT EVENTS

Subsequent to the year end, the £73.6m cash held on deposit on behalf of MOSH was transferred back to MOSH, in settlement of intercompany debt. This left £3.1m of cash remaining in the Company.

27. ULTIMATE CONTROLLING PARTY

The ultimate parent company and controlling party, which heads the largest and smallest group for which consolidated accounts are produced and of which the Company is a member, is Fitness First Luxembourg SCA (which is ultimately owned and controlled by funds advised by Oaktree Capital Management which own shares representing 83.1% of the issued share capital of that company), a company incorporated in Luxembourg.

For the year ended 31 October 2017, the Company was included in the consolidated financial statements of Fitness First Luxembourg SCA which are published in accordance with Luxembourg legal requirements.