

# Total Fitness Health Clubs Limited

Registered number: 07334974

## Annual report and financial statements

For the year ended 31 December 2018



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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## COMPANY INFORMATION

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<b>Directors</b>	S E Lawler J S Sanghera
<b>Company secretary</b>	J Sanghera
<b>Registered number</b>	07334974
<b>Registered office</b>	Wilmslow Way Handforth Wilmslow Cheshire SK9 3EP
<b>Independent auditor</b>	Mazars LLP Chartered Accountants & Statutory Auditor One St. Peter's Square Manchester M2 3DE
<b>Bankers</b>	Barclays Bank Plc 51 Mosley Street Manchester M2 3HQ
<b>Solicitors</b>	DWF LLP 1 Stott Place 2 Hardman Street Manchester M3 3AA

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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### Introduction

The directors present the Strategic Report of Total Fitness Health Clubs Limited ("the Company") for the year ended 31 December 2018.

### Business review

The business' principal activity is the operation of 17 (2017: 17) full service health and fitness centres in the UK, one of the largest fitness industry markets in Europe. The business serves those markets in greater need than those currently served by the majority of commercial operators - predominately in the North.

The clubs are destination locations with a wide range of fitness products including 3 pools and 4 studios in every site.

Underlying macro trends in the UK remain favourable. Despite the current political/economic uncertainty the outlook for the sector is robust - driven by increasing demand for wellness services (with notable demand from the millennial population in particular), reducing public sector provision, and rising rates of lifestyle/fitness related medical conditions. Furthermore research suggests that the sector is becoming more "recession-proof" than other leisure sectors due to the 'utilitarian' nature of subscription based fitness; fitness is no longer considered a luxury commodity.

The directors report underlying EBITDA, defined as operating profit before exceptional items, depreciation and amortisation for the year as a profit of £0.9m (2017: profit of £3.8m). Movement in underlying EBITDA from the prior year is mainly due to the full year impact of a decrease in member numbers during 2017, in addition to increased landlord and property related costs, including increased investment in the clubs for infrastructure maintenance.

Following Management changes in June 2018, the decline in the member base from 2017 was arrested and by January 2019 the member base demonstrated growth, surpassing the 2018 opening member base.

During September 2018, the business secured a new round of additional investment capital from shareholders that was deployed to enhance the clubs and update the fitness product offering for members.

### Principal risks and uncertainties

The key risk to the business is competitive activity around our clubs, with a number of budget operators stating expansion plans. The risk of new entrants in the full-service mid market space however remains minimal due to high costs to entry.

Interest rate risk exists in the financing of the Group, mitigated by the majority of the debt being in fixed rate loan notes.

The terms on which the United Kingdom may withdraw from the European Union are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Group's and Company's trade, customers, suppliers and the wider economy. However, we do not view Brexit as a significant risk to the business due to the Geographies in which the Group operates and key suppliers traded with mainly being in the United Kingdom.

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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### Employee relations

During the year under review the business employed on average 636 colleagues (2017: 596).

The engagement of our team is critical to performance, and the business has made a significant investment in it's people to secure long term sustainable growth.

The increase in average number of colleagues employed reflects the focus and importance we have placed on our people agenda during the year.

In support of all our colleagues the business operates an active and supportive Human Resources function and is committed to the further development of colleagues.

### Disabled employees

It is the policy of the business to consider the skills and aptitudes of disabled persons fully and fairly at all times in recruitment, career development, training and promotion. In pursuing this policy and having special concern for employees who become disabled, all practical measures are taken to ensure that disabled persons are placed in jobs suited to their individual circumstances.

### Employee consultation

To build the level of employee engagement with the business and it's purpose, the business engages in regular listening and communication exercises which include but are not limited to; employee engagement surveys; listening and briefing sessions (formal and informal), and club visits by the Board and Senior Leadership Team.

### Environment

The business strives to minimise the environmental impact of its activities and to operate within recognised standards.

### Health and safety

The business gives high priority to providing a safe and healthy working environment for all employees and contractors and is determined to maintain its good record for the preservation of health and safety.

### Key performance indicators

Management monitor the following key performance indicators – turnover and operating margin generated as a % of turnover.

	2018	2017
Turnover (£'000)	35,211	36,462
Operating margin (%)	(4)	(4)
Underlying EBITDA (£'000) on operating items	940	3,817

Underlying EBITDA is defined as operating profit before adjusting for exceptional items, depreciation and amortisation.

Management also monitor the following on a regular basis: net membership movement; daily cash control; club profitability; club quality; and employee turnover.

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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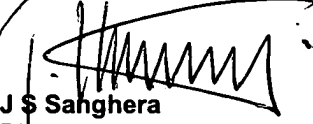
#### Charitable contributions

The business regularly hosts charitable events and actively encourages its staff and members to raise funds for local and national charities. During the year, the company made £nil charitable donations (2017: £2,500).

#### Political contributions

During the year, the company made £nil political contributions (2017: £nil).

This report was approved by the board and signed on its behalf.

  
J S Sanghera  
Director

Date: 30/4/19

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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

### Future developments

Details of future developments can be found in the Strategic Report.

### Results and dividends

The loss for the year, after taxation, amounted to £3,204 thousand (2017 - loss £4,652 thousand).

The directors report underlying EBITDA, defined as operating profit before exceptional items, depreciation and amortisation for the year as £0.9m (2017: £3.8m). The company reports a net loss for the financial year, after depreciation charges, of £3,222k (2017: net loss of £4,509k). During the year the company did not declare or pay any dividends.

### Directors indemnities

During the financial year and at the date of approval of these financial statements, the Company has provided an indemnity for certain Directors of the Company, which is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006. The Company also maintains directors' and officers' liability insurance.

### Principal risks and uncertainties

#### *Financial risk management*

The Company's management of financial risk is overseen by the Board of directors who have responsibility to oversee the risk management and internal control of the organisation. These cover the strategic, operational, financial and compliance controls and are communicated to the senior management team to implement, monitor, review and report, as required.

### Directors

The directors who served during the year were:

D C Hill (resigned 16 March 2018)  
B J Wildsmith (resigned 25 July 2018)  
S E Lawler (appointed 25 July 2018)  
J S Sanghera (appointed 25 July 2018)

### Going concern

As described in Note 2.2 to the financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### 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 the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the 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.

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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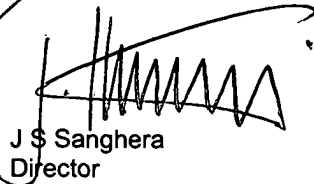
#### Post balance sheet events

There have been no significant events affecting the Company since the year end.

#### Auditor

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

This report was approved by the board on 30/4/19 and signed on its behalf.



J S Sanghera  
Director



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## **TOTAL FITNESS HEALTH CLUBS LIMITED**

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### **DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018**

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The directors are responsible for preparing the 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to 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.

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# **TOTAL FITNESS HEALTH CLUBS LIMITED**

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOTAL FITNESS HEALTH CLUBS LIMITED**

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### **Opinion**

We have audited the financial statements of Total Fitness Health Clubs Limited (the 'Company') for the year ended 31 December 2018 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

### **The impact of uncertainties due to Britain exiting the European Union on our audit**

The Directors' view on the impact of Brexit is disclosed on page 1.

The terms on which the United Kingdom may withdraw from the European Union are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

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# **TOTAL FITNESS HEALTH CLUBS LIMITED**

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOTAL FITNESS HEALTH CLUBS LIMITED**

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### **Conclusions relating to going concern**

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

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

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this 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 the Directors' Report have been prepared in accordance with applicable legal requirements.

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

In 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 the Directors' Report.

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

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

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TOTAL FITNESS HEALTH CLUBS LIMITED

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#### 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 intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

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

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

#### Use of the audit 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.



Neil Barton (Senior statutory auditor)

for and on behalf of

Mazars LLP  
Chartered Accountants and Statutory Auditor  
One St. Peter's Square  
Manchester  
M2 3DE

Date: 1 MAY 2019

# TOTAL FITNESS HEALTH CLUBS LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Operating items 2018 £000	Exceptional items 2018 £000	Total 2018 £000	Operating items 2017 £000	Exceptional items 2017 £000	Total 2017 £000
Turnover	4	35,211	-	35,211	36,462	-	36,462
Cost of sales		(17,215)	-	(17,215)	(16,885)	-	(16,885)
<b>Gross profit</b>		17,996	-	17,996	19,577	-	19,577
Administrative expenses		(17,056)	(1,666)	(18,722)	(15,760)	(2,883)	(18,643)
<b>Operating (loss)/profit</b>	5	940	(1,666)	(726)	3,817	(2,883)	934
Depreciation and amortisation	13	(2,496)	-	(2,496)	(5,443)	-	(5,443)
<b>Total operating loss</b>		(1,556)	(1,666)	(3,222)	(1,626)	(2,883)	(4,509)
Interest payable and expenses	10	(168)	-	(168)	(289)	-	(289)
<b>Loss before tax</b>		(1,724)	(1,666)	(3,390)	(1,915)	(2,883)	(4,798)
Tax on loss	11	186	-	186	146	-	146
<b>Loss for the financial year</b>		(1,538)	(1,666)	(3,204)	(1,769)	(2,883)	(4,652)

There was no other comprehensive income for 2018 (2017:£Nil).

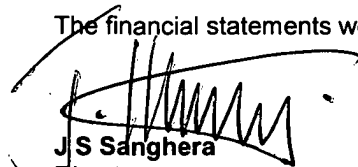
The notes on pages 13 to 31 form part of these financial statements.

**TOTAL FITNESS HEALTH CLUBS LIMITED**  
**REGISTERED NUMBER: 07334974**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2018**

	Note	2018 £000	2017 £000
<b>Fixed assets</b>			
Tangible assets	13	18,294	17,268
		<u>18,294</u>	<u>17,268</u>
<b>Current assets</b>			
Stocks	15	107	115
Debtors: amounts falling due within one year	16	5,659	4,647
Cash at bank and in hand	18	2,397	4,057
		<u>8,163</u>	<u>8,819</u>
Creditors: amounts falling due within one year	19	(23,019)	(17,873)
<b>Net current liabilities</b>		<u>(14,856)</u>	<u>(9,054)</u>
<b>Total assets less current liabilities</b>		<u>3,438</u>	<u>8,214</u>
Creditors: amounts falling due after more than one year		(6,844)	(8,533)
<b>Provisions for liabilities</b>			
Other provisions		(2,296)	(2,179)
		<u>(2,296)</u>	<u>(2,179)</u>
<b>Net liabilities</b>		<u>(5,702)</u>	<u>(2,498)</u>
<b>Capital and reserves</b>			
Revaluation reserve	25	2,352	3,014
Capital redemption reserve	25	3,186	3,186
Profit and loss account	25	(11,240)	(8,698)
		<u>(5,702)</u>	<u>(2,498)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

  
**J S Sanghera**  
 Director

Date: 30/4/19

The notes on pages 13 to 31 form part of these financial statements.

# **TOTAL FITNESS HEALTH CLUBS LIMITED**

## **STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018**

	<b>Called up share capital £000</b>	<b>Capital redemption reserve £000</b>	<b>Revaluation reserve £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
<b>At 1 January 2017</b>	-	3,186	3,676	(4,108)	2,754
<b>Comprehensive income for the year</b>					
Loss for the year	-	-	-	(4,652)	(4,652)
Dividend to parent company	-	-	-	(600)	(600)
Transfer to/from profit and loss account	-	-	(662)	662	-
<b>At 1 January 2018</b>	-	3,186	3,014	(8,698)	(2,498)
<b>Comprehensive income for the year</b>					
Loss for the year	-	-	-	(3,204)	(3,204)
Transfer to/from profit and loss account	-	-	(662)	662	-
<b>At 31 December 2018</b>	-	3,186	2,352	(11,240)	(5,702)

The notes on pages 13 to 31 form part of these financial statements.

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### 1. General information

Total Fitness Health Clubs Limited ("the Company") is a company incorporated in the United Kingdom under Companies Act 2006. The Company is a private company limited by shares and is registered in England and Wales. The address of the registered office is given on the Company information page. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

### 2. Accounting policies

#### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The functional currency of Total Fitness Health Clubs Limited is considered to be pounds sterling.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

Total Fitness Health Clubs Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Total Fitness Health Clubs Limited is consolidated in the financial statements of its ultimate parent, TFHC Investments Limited, which may be obtained from Wilmslow Way, Handforth, Wilmslow, Cheshire, SK9 3PE. Exemptions have been taken in these separate financial statements in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its ultimate parent, TFHC Investments Limited. The financial statements of the ultimate parent can be obtained as per the details in note 29.

The following principal accounting policies have been applied:



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# **TOTAL FITNESS HEALTH CLUBS LIMITED**

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

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### **2. Accounting policies (continued)**

#### **2.2 Going concern**

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future; that is for at least 12 months from the date of signing of the financial statements. After making enquiries, and considering the matters that are described in this Annual Report, the directors have concluded that they have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future.

As part of their going concern assessment, the directors have reviewed trading and cash flow forecasts which take into consideration the uncertainties in the current operating environment. Although the Company is in a net current liabilities and net liabilities position the Company's short-term cash flow forecasts indicate that the Company will not experience a funding short fall. This is mainly driven by the nature of 12 month membership agreements operated by the Company, and predictability of future membership income.

At 31 December 2018 the Group is funded by fixed rate investor loan notes of £15.3m and bank loans of £4.3m. Bank loans are subject to certain financial covenants, which are forecast for the coming 12 months and are regularly reviewed by directors. The directors maintain a strong relationship with the Group's finance providers in order to minimise any associated risks and do not foresee any risks associated with meeting the covenant requirements going forward.

On the basis of this assessment, the directors have concluded the Group and Company is a going concern.

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### 2. Accounting policies (continued)

#### 2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

##### **Sale of goods**

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### **Rendering of services**

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

#### 2.4 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

#### 2.5 Finance costs

Finance costs are charged to the Profit and Loss Account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### 2. Accounting policies (continued)

#### 2.6 Pensions

##### Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

#### 2.7 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

#### 2.8 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

#### 2.9 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### 2. Accounting policies (continued)

#### 2.9 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Plant and machinery	- between 10 years and period of lease
Fixtures and fittings	- between 3 and 12 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

#### 2.10 Revaluation of plant and machinery

Plant and machinery were revalued in 2012 with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the Profit and Loss account. A deficit which represents a clear consumption of economic benefits is charged to the Profit and Loss account regardless of any such previous surplus.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves. On the disposal or recognition of a provision for impairment on a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the Profit and Loss account as a movement on reserves.

#### 2.11 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

#### 2.12 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

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# **TOTAL FITNESS HEALTH CLUBS LIMITED**

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

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### **2. Accounting policies (continued)**

#### **2.13 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

#### **2.14 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

#### **2.15 Provisions for liabilities**

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

#### **2.16 Financial instruments**

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Investments in non-convertible preference shares and in non-puttable ordinary and preference shares are measured:

- at fair value with changes recognised in the Profit and Loss Account if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### 2. Accounting policies (continued)

#### 2.16 Financial instruments (continued)

#### 2.17 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

### 3. Judgments in applying accounting policies and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

#### *Accruals and provisions*

A key source of estimation uncertainty relates to accruals and provisions, which includes property dilapidation provisions. The potential area of uncertainty would involve the possibility of financial commitments entered into, but not accounted for. A purchase order and invoicing system is operated by the company for all purchases. Accruals are calculated using this system with the addition of the knowledge of experienced persons reviewing past trends, knowledge of the business requirements and, where necessary, using educated estimations to value liabilities and provisions.

### 4. Turnover

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

	2018 £000	2017 £000
Sale of goods	1,516	1,879
Rental services	975	977
Rendering of services	32,701	33,601
Commission	19	5
	<u>35,211</u>	<u>36,462</u>

All turnover arose within the United Kingdom.

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 5. Operating loss

The operating loss is stated after charging:

	2018 £000	2017 £000
Amortisation of goodwill	-	3,133
Depreciation of fixed assets	2,496	2,310
Exceptional costs/(profit) (note 6)	1,666	(2,883)
Operating lease rentals	8,346	8,119
Tangible asset impairment	-	124
Cost of stock recognised as an expense	821	1,096
	<u>          </u>	<u>          </u>

#### 6. Exceptional costs

	2018 £000	2017 £000
Professional fees	1,129	468
Non-operating costs	537	712
Impairment of goodwill	-	3,136
Sale and leaseback of property	-	(1,433)
	<u>          </u>	<u>          </u>
	1,666	2,883
	<u>          </u>	<u>          </u>

During the year, the business went through a number of organisational changes and a refinancing exercise. The costs for these transactions have been treated as exceptional and one off in nature.

Professional fees of £1,129,046 relate to legal and consultancy fees incurred in relation to a number of specific projects undertaken during the year which supported organisational change.

Non-operating costs of £537,000 primarily relate to the business' restructuring of the executive team, in addition to costs associated with the implementation of other strategic changes.

The prior year non-operating costs of £712,000 relate to restructuring costs. Prior year also included the impairment of the full carrying balance of Goodwill and a sale and leaseback of a freehold property.

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 7. Auditor's remuneration

	2018 £000	2017 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	33	47
<b>Fees payable to the Company's auditor and its associates in respect of:</b>		
Other services	3	-
	3	-

#### 8. Employees

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

	2018 £000	2017 £000
Wages and salaries	9,854	9,049
Social security costs	640	608
Cost of defined contribution scheme	267	52
	10,761	9,709

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

	2018 No.	2017 No.
Health and fitness	578	535
Office and administration	58	61
	636	596



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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 9. Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	158	503
Company contributions to defined contribution pension schemes	9	1
Compensation for loss of office	94	30
	<u>261</u>	<u>534</u>

During the year retirement benefits were accruing to 3 directors (2017 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £76 thousand (2017 - £222 thousand).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £5 thousand (2017 - £NIL).

#### 10. Interest payable and similar expenses

	2018 £000	2017 £000
Bank interest payable	168	289
	<u>168</u>	<u>289</u>

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 11. Taxation

	2018 £000	2017 £000
<b>Total current tax</b>	-	-
<b>Deferred tax</b>		
Current year deferred tax (credit)/charge	(361)	(371)
Adjustment in respect of prior years	175	225
<b>Total deferred tax</b>	(186)	(146)
<b>Taxation on loss on ordinary activities</b>	(186)	(146)

#### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2017 - higher than) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). The differences are explained below:

	2018 £000	2017 £000
Loss on ordinary activities before tax	(3,390)	(4,799)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	(644)	(924)
<b>Effects of:</b>		
Chargeable gain on disposal of property	-	391
Permanent differences	241	113
Adjustment to deferred tax charge in respect of prior periods	175	225
Difference in tax rates	42	49
<b>Total tax charge for the year</b>	(186)	(146)

#### Factors that may affect future tax charges

A reduction in the UK corporation tax rate to 17% from 1 April 2020, was enacted in September 2016.

# TOTAL FITNESS HEALTH CLUBS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 12. Dividends

	2018 £000	2017 £000
Dividend to parent company £NIL per share (2017: 0.0272p per share)	-	600

### 13. Tangible fixed assets

	Plant and machinery £000	Fixtures and fittings £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2018	14,462	12,865	27,327
Additions	603	3,078	3,681
Disposals	(25)	(134)	(159)
At 31 December 2018	15,040	15,809	30,849
<b>Depreciation</b>			
At 1 January 2018	6,125	3,934	10,059
Charge for the year on owned assets	943	1,553	2,496
At 31 December 2018	7,068	5,487	12,555
<b>Net book value</b>			
At 31 December 2018	7,972	10,322	18,294
At 31 December 2017	8,337	8,931	17,268

The net book value of £18,294,000 includes £Nil (2017: £Nil) in respect of assets held under finance leases and hire purchase contracts.

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### 14. Fixed asset investments

Investments  
in  
subsidiary  
companies  
£000

#### Cost and book value

At 1 January 2018 and 31 December 2018

-

At 31 December 2018 the Company held investments in the following subsidiary undertakings:

Company	Principal activity	Registered office	Class	Shareholding
Total Swim Limited	Dormant	Wilmslow Way, Handforth, Wilmslow, Cheshire SK9 3PE	Ordinary	100%
Total Fitness Laser Limited	Dormant	Wilmslow Way, Handforth, Wilmslow, Cheshire SK9 3PE	Ordinary	100%

### 15. Stocks

	2018 £000	2017 £000
Goods for resale	107	115
	<u>107</u>	<u>115</u>

### 16. Debtors

	2018 £000	2017 £000
Trade debtors	549	453
Amounts owed by group undertakings	2,977	3,014
Prepayments and accrued income	1,017	250
Deferred taxation (note 17)	1,116	930
	<u>5,659</u>	<u>4,647</u>

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 17. Deferred taxation

	2018 £000	2017 £000
At beginning of year	930	783
Charged to profit or loss	186	147
<b>At end of year</b>	<b>1,116</b>	<b>930</b>

The deferred tax asset is made up as follows:

	2018 £000	2017 £000
Accelerated capital allowances	525	576
Tax losses carried forward	591	354
	<b>1,116</b>	<b>930</b>

#### 18. Cash and cash equivalents

	2018 £000	2017 £000
Cash at bank and in hand	2,397	4,057
	<b>2,397</b>	<b>4,057</b>

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 19. Creditors: Amounts falling due within one year

	2018 £000	2017 £000
Bank loans	1,420	1,420
Trade creditors	1,540	795
Amounts owed to group undertakings	14,890	10,427
Other taxation and social security	110	272
Other creditors	9	289
Accruals and deferred income	5,050	4,670
	<hr/>	<hr/>
	23,019	17,873
	<hr/>	<hr/>

Unsecured amounts owed to group undertakings are interest free and repayable on demand.

#### 20. Creditors: Amounts falling due after more than one year

	2018 £000	2017 £000
Bank loans	2,884	4,345
Accruals and deferred income	3,960	4,188
	<hr/>	<hr/>
	6,844	8,533
	<hr/>	<hr/>

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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### 21. Loans

Analysis of the maturity of loans is given below:

	2018 £000	2017 £000
<b>Amounts falling due within one year</b>		
Bank loans	1,420	1,420
<b>Amounts falling due 1-2 years</b>		
Bank loans	1,420	1,420
<b>Amounts falling due 2-5 years</b>		
Bank loans	1,464	2,925
	<u>4,304</u>	<u>5,765</u>

Bank loans are secured on various assets of the group. Interest on bank loans is charged at 2.5% above LIBOR and is due for full repayment on 30 June 2020.

During the year the Company had access to a £0.25m overdraft facility, which was not utilised. The facility is secured on the business and assets of the group and interest on utilisation is charged at 2% above the Bank of England base rate.

### 22. Financial instruments

	2018 £000	2017 £000
<b>Financial assets</b>		
Financial assets that are debt instruments measured at amortised cost	3,526	3,467
Cash and cash equivalents	2,397	4,057
	<u>5,923</u>	<u>7,524</u>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	<u>19,803</u>	<u>17,276</u>

Financial assets that are debt instruments measured at amortised cost comprise trade debtors and amounts owed by group undertakings.

Financial liabilities measured at amortised cost comprise trade and other creditors, amounts owed to group undertakings and bank loans.

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 23. Provisions

	Property provision £000
At 1 January 2018	2,179
Charged to profit or loss	117
<b>At 31 December 2018</b>	<b>2,296</b>

Property provisions relate to the estimated cost of restoring the Group's leased properties and operating equipment to the necessary standards required under the terms of the operating leases (net of the cost of works agreed to be contributed by the Group's landlords towards those costs under the terms of those leases).

#### 24. Share capital

	2018 £	2017 £
<b>Allotted, called up and fully paid</b>		
111 (2017 - 111) Ordinary shares shares of £0.01 each	1	1

The Company has one class of ordinary shares which are not redeemable. Each share has full rights in the Company with respect to voting, dividends and distributions.

#### 25. Reserves

##### Revaluation reserve

The revaluation reserve represents the cumulative effect of previous revaluations of plant and machinery net of amounts transferred annually from the revaluation reserve to the profit and loss account where depreciation charges were increased following the revaluation.

##### Capital redemption reserve

The capital contribution reserve derived during 2015 when three directors received a total payment of £3,186,000 on the sale of shares awarded to them previously under a management incentive plan. The sale of the shares occurred when the Company was sold, a trigger event under the shareholders' agreement. Based on its terms and conditions, the management incentive plan was accounted for as an employee benefit under Section 28 of FRS 102. Accordingly, the employee benefit expense was recognised in 2015 in full. The payment was made to the directors by shareholders. Consequently, a corresponding capital contribution was recognised directly in equity.



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# TOTAL FITNESS HEALTH CLUBS LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### 26. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £267,000 (2017: £52,000).

Contributions totaling £nil (2017: £Nil) were payable to the fund at the balance sheet date and are included in creditors.

### 27. Commitments under operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
<b>Land and buildings</b>		
Not later than 1 year	8,326	8,183
Later than 1 year and not later than 5 years	33,130	33,505
Later than 5 years	48,352	144,248
	<u>89,808</u>	<u>185,936</u>
	2018 £000	2017 £000
<b>Other</b>		
Not later than 1 year	20	158
Later than 1 year and not later than 5 years	12	19
	<u>32</u>	<u>177</u>

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## TOTAL FITNESS HEALTH CLUBS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 28. Related party transactions

The Company has taken advantage of the exemptions offered by FRS 102 and is therefore not required to disclose transactions with other wholly owned group companies.

Northedge Capital LLP is considered a related party by virtue of relationship with the ultimate parent company, Northedge Capital Fund I LP and the following transactions occurred during the year:  
Management charges from Northedge Capital LLP: £50,000 (2017: £60,000).

There are no amounts outstanding to or from Northedge Capital LLP at the year end.

RooGreen Ventures LLP is a related party by virtue of shareholders and loan note holders (in the ultimate parent) Warwick Ley and Brian Davidson being partners and the following transactions occurred during the year:

Consultancy fees from Roogreen Ventures LLP: £29,048 (2017: £91,834). There are no amounts outstanding to or from RooGreen Ventures LLP at the year end (2017: £Nil).

#### 29. Controlling party

The Company's immediate parent company is Total Fitness HC Holdings Limited.

The ultimate controlling party is considered to be Northedge Capital LLP, an entity incorporated in the United Kingdom, through their investment in Northedge Capital Fund LLP, which holds a majority investment in TFHC Investments Limited group of companies, of which this company is a member.

The largest and smallest group of which Total Fitness Health Clubs Limited is a member and for which group financial statements are drawn up is that headed by TFHC Investments Limited, a company incorporated in England and Wales. The principal place of business of the company is at Wilmslow Way, Handforth, Wilmslow, Cheshire, SK9 3PE. The consolidated financial statements of this group are also available to the public.