Registration number: 03273728

Next Generation Clubs Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

Next Generation Clubs Limited

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Next Generation Clubs Limited

Company Information

Directors	PJ Burrows DG Earlam
Registered office	The Hangar Mosquito Way Hatfield Business Park Hatfield Hertfordshire AL10 9AX
Registered Number	03273728
Auditor	Deloitte LLP Statutory Auditor London United Kingdom
Bankers	Bank of Scotland Level 3 City Mark 150 Fountainbridge Edinburgh EH3 9PE

Strategic Report for the Year ended 31 December 2020

The directors present their strategic report for the year ended 31 December 2020.

Principal activity
The principal activity of Next Generation Clubs Limited (the "Company") is provision of access to its land, buildings and other property, plant and equipment to its immediate parent, David Lloyd Leisure Limited

Strategy
The Company is part of the Deuce Midco Limited group (the "Group") and the Group's vision, values, brand, strategy and business model are disclosed within the annual report of Deuce Midco Limited on pages 2 to 6.

Key performance indicators
The directors monitor the performance of the clubs and business on a Group basis. Key financial and other performance indicators are disclosed within the annual report of Deuce Midco Limited on pages 4 to 6. The Group's annual report can be obtained from The Hangar, Mosquito Way, Hatfield, Hertfordshire, AL10 9AX. The Company's directors believe that analysis using the key performance indicators for the Company alone is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company.

Impact of COVID-19
The COVID-19 pandemic meant that 2020 was the most challenging year in our history. The impact of the COVID-19 pandemic was significant, as the Company's clubs were required by the UK Government to close on 20 March 2020. The clubs re-opened in Summer 2020, but a second wave of COVID-19 in Autumn 2020 led to increased government restrictions resulting in clubs closing again. The Company's clubs were closed for 5.5 months in total for the year-ended 31 December 2020.

Economic Environment
As well as having serious implications for people's health and the NHS, the coronavirus (COVID-19) pandemic continues to have a significant impact on businesses and the economy.

In the latest IMF World Economic Outlook, the UK was estimated to have experienced the largest decline in GDP last year of all the major economies the IMF included in its latest forecast, except for Spain. UK GDP is estimated to have fallen by 10% in 2020 due to consumer spending (going to the cinema, out to eat at restaurants etc) being particularly hit by COVID restrictions.

The UK economy grew by 1% in Q4 2020, exceeding expectations as businesses and people continue to adapt to restrictions. However, GDP is still 8.6% smaller than it was at the end of 2019 and the labour market remains under pressure (Source: PwC UK Economic Update February 2021).

Prior to COVID-19, the UK health and fitness industry has evolved over the last three decades into a relatively mature yet still attractive and growing market. The Leisure Database Company estimates the fitness market (private and public) to be worth c. £5 billion. Prior to the pandemic, the UK private fitness market was showing year on year growth across all four-key metrics: penetration rate, market value, number of members and clubs.

The COVID-19 pandemic had a significant impact on the fitness and leisure industry in 2020 as gyms were forced to close. European fitness operators will face increased consolidation, accelerated digitalisation and the new reality of creating hybrid models due to the COVID-19 pandemic (Source: Deloitte report: impact of COVID-19 on the European fitness market). UKActive projections show the latest lockdown and closure of gyms and leisure centres affects more than 7,000 facilities across the UK, serving more than 17 million people, including more than 10 million members. The economic cost of lockdown for the sector was £90 million in lost revenue every week, based on lost membership fees despite the Government's furlough and business rate support. UKActive estimates that 2,800 facilities are at risk of permanent closure, along with 100,000 jobs in fitness and leisure.

Economic environment (continued)
However, there is reason for optimism. According to PwC's Consumer Sentiment Index, consumer confidence is at its highest level since before the financial crisis as consumers prepare to spend. Improvements in consumer confidence have been seen across all demographic groups and all UK regions with the over-65s demographic driving the increase, reflecting the vaccine effect.

The UK Government's vaccine programme has been largely successful with c. 48 million people in the UK having received at least two doses of a coronavirus vaccine. Furthermore, every eligible adult has been offered a booster jab by the end of December 2021 with c. 36m administered to date. The booster programme provides further protection against the virus.

Financial review of the business
The results reflect a period of significant disruption in which the Company's club was required by the UK Government to close due to COVID-19. The Company's clubs were closed for 5.5 months in total for the year-ended 31 December 2020.

During the year, the directors identified a prior year adjustment which resulted in the restatement of balances in the Income Statement and the Statement of Financial Position. The prior year adjustment is discussed further in the directors' report.

On a statutory basis, the Company recorded revenue of 15.8m (2019: £21.2m) a decrease of £5.4m (25%).

Net interest payable for the year was £12.4m (2019: £11.4m). This resulted in an overall loss after taxation of £6.5m (2019: £1.2m).

The Company had net liabilities of £22.6m (2019: £16.2m) and net current liabilities of £25.9m (2019: £26.4m) at the balance sheet date. The increase in liabilities is driven by an increase in the IFRS 16 lease liability, where leases have been renegotiated as a result of COVID-19.

Going concern
The director notes that as at 31 December 2020, the Company is in a net liabilities position of £22.6m (2019: £16.1m), and a net current liabilities position of £25.9m (2019: £26.4m). The Company is reliant on the Group for financial support. In preparing the Group's financial statements the director has considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period to June 2023. These forecasts indicate that the Group will have sufficient cash and operate with a satisfactory level of headroom. The directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for at least 12 months and for the foreseeable future thereafter. Deuce Midco Limited has provided a letter of support to the Company and committed to ensure that all intercompany balances are repayable. Accordingly, the director continues to adopt the going concern basis in preparing the annual reports and financial statements.

Principal risks and uncertainties
The risks and uncertainties of the Company remain largely unchanged from those previously reported. The impact of COVID-19 and resulting risks continue to be significant.

Principal risks - financial
The Company's activities expose it to several financial risks. The Board is responsible for identifying financial risks and for agreeing and reviewing policies to manage these risks. The most important components of financial risk impacting the Company are as follows:

Principal risks - financial (continued)

Price risk
The Company is exposed indirectly through the royalty from David Lloyd Leisure Limited to increases in the price of electricity and gas. The Company manages its exposure by purchasing its utility requirements in advance through industry leading advisers. Unused utility volumes are sold back to the market with the Company liable for any losses due to lower pricing. We have recently extended our electricity supply contract to October 2022.

Inflation risk is the risk that the cost of key services and products procured by the Company will rise with inflation and affect the Company's margin. The Company's leasehold rent is subject to RPI or CPI increases which presents an ongoing risk. The Company has comprehensive cost control processes in place to ensure these inflation driven risks are minimised.

Principal risks - non-financial
The Company is exposed indirectly through a potential reduction in the royalty receivable from David Lloyd Leisure Limited, to a variety of non-financial risks which could materially affect the financial results of operations. The Board is responsible for identifying non-financial risks and for agreeing and reviewing policies to manage these risks. The most important non-financial risks are:

Coronavirus (COVID-19)
Extended periods of closure due to the COVID-19 pandemic would result in a loss of revenue and a decrease in membership numbers. Over an extended period, a loss of revenue coupled with the inability of the Company to remove certain of its cost base in a closure scenario means this could result in a liquidity risk.

We have identified and implemented proven measures to quickly mothball our club, preserve cash and reduce discretionary spend during a period when the Company's clubs are closed, and to be able to reopen quickly to minimise revenue loss.

Injury of club members
Any injury or death of a member could impact the Company's reputation and value. Failure to manage this risk could result in reputational damage, criminal fines, civil damages, and regulatory fines. The key risks for the Company are safety around the swimming pools, child safeguarding within the DL Kids programmes and safe use of the gym equipment. Effective procedures have been put in place to prevent their occurrence including prominent signage around swimming pools, establishing remote pool monitoring outside lifeguarding hours and fully documented procedures and operating practices for the supervision of children within the DL Kids programme. These policies are under continuous review. The Group also takes out comprehensive insurance against these risks where this is possible.

Legislation
The Company is subject to a broad range of environmental, health and safety and other laws, regulations, standards and best practices which affect the way the Company operates and give rise to significant compliance costs and potential legal liability exposure. Compliance with laws and regulations is monitored.

UK's decision to leave the European Union
On 31 December 2020, the transition period for the UK to withdraw from the European Union otherwise known as "Brexit," expired. This was replaced with the Trade & Cooperation Agreement ("TCA") which came into provisional effect at 11pm GMT on 31 December 2020 and establishes the commercial and regulatory arrangements between the EU and the UK. Goods moving between the UK and EU are now subject to customs declarations and a new UK Border Operating Model is in place. This impacts supply chains and buyer behaviours, not only between the UK and EU, but also between Great Britain and Northern Ireland. Employing EU nationals without settled status is now more complicated and costly for UK businesses.

Principal risks - non-financial (continued)

UK's decision to leave the European Union (continued)
The Board assessed the potential impact that Brexit could have on the Company. The key risk identified was a temporary supply chain issue regarding the delivery of food into our clubs. Other risks identified include employee recruitment and retention, due to the number of employees from the EU working in the UK. To date the business has incurred minimal disruption because of Brexit.

Health and safety
As well as providing a fantastic experience for our members, David Lloyd is also committed to a high standard of health and safety. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing and health and safety. The majority of clubs attain our expected standards and the minority that do not are provided with the coaching, advice and guidance to achieve the required standards. Every club has multiple audit visits and support visits every year to drive standards, foster continual improvement and imbed safety culture.

Data Protection (Cyber security)
The Company holds business critical and confidential information electronically. Unauthorised access, loss or disclosure of this information may lead to regulatory penalties, disruption of operations, reputational damage, and legal claims. A cyber security steering group assesses the risks posed by cyber threats and makes changes to its technologies, policies, and procedures to mitigate identified risks. Insurance policies have been taken out against this risk. Systems are protected by anti-virus software and firewalls, which are regularly kept up to date.

Asset security
A substantial proportion of the Company's value lies in its property interests and capital equipment. The buildings are at risk of being destroyed or damaged through fire or misuse and the equipment is also at risk of theft. All properties are fitted with appropriate fire protection and security systems. Insurance policies have been taken out to replace damaged or destroyed assets and to insure against business interruption.

Information technology dependency
The Company depends on accurate, timely information from key software applications to manage its day-to-day operations. Disruption to critical IT systems could cause operational disruption as well as our ability to collect revenue leading to financial loss. To mitigate the risk our primary data systems are hosted by fully qualified organisations in suitable data centres. All memberships and business information is backed up and robust disaster recovery and business continuity plans are in place.

Anti-bribery and anti corruption
The Company has anti-bribery and anti-corruption policies in place which are available to all employees via the intranet. All giving and receiving of gifts, hospitality and entertainment are logged on the gift, hospitality and entertainment register and any issues are reported to the designated Bribery Act Compliance Officer. In addition, employees are required to complete mandatory training on anti-bribery and anti-corruption via the learning management system.

Tax strategy
The tax strategy of the Group has been published on its website: www.davidlloyd.co.uk.

Human rights: Modern Slavery Act 2015
David Lloyd Clubs has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all its business dealings and relationships to ensure that modern slavery is not taking place in the business or supply chains.

In accordance with section 54(1) of the Modern Slavery Act 2015, the Company's slavery and human trafficking statement for the financial year ended 31 December 2020 has been published on our website: www.davidlloyd.co.uk.

Section 172(1) statement
Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. This statement sets out how the directors have complied throughout 2020 with the requirements of Section 172 of the Companies Act 2006.

The Role of the Board
The Board's principal responsibility is to promote the long-term success of the Group through creating shareholder value and contributing to a healthy society and a sustainable environment. The Board's key objective remains constant; that doing the right thing by our members, our team and the communities in which we operate is integral to our future success as a sustainable business.

The COVID-19 pandemic has required us to work more closely with our key stakeholders. We have kept them informed of the decisions we have taken because of the pandemic and how it affects them.

In practice, the Board sits at the Deuce Midco Limited level and consists of 7 directors and 2 non-executive directors. Next Generation Clubs Limited is a subsidiary of Deuce Midco Limited. As is normal for large companies, the Deuce Midco Limited Board delegates authority for day-to-day management of the Company and its subsidiaries to the Executive Board and then engages management in setting, approving and overseeing execution of the business strategy and related policies. The corporate governance structure and group policies are set by the Board of Deuce Midco Limited. The Board ensure that when they are applying these group policies, they have due regard to their fiduciary duties and responsibilities.

The Board meets monthly and is advised of stakeholder views in several different ways, including:

- The CEO's Board Report;
- Health & Safety, Strategy and Finance Packs;
- Employee survey reports;
- Annual conference;
- The Annual Budget and Business planning process and;
- Corporate governance, and regulatory development updates.

During 2020, the Board met virtually for several meetings as a result of the COVID-19 pandemic. All formal Board meetings are minuted and these minutes are formally approved at the following meeting.

a) The likely consequences of any decisions in the long-term;	The Board's decision making is focused around ensuring that the Company is sustainable in the long term. Each year, the Board considers our 3-year Business Plan, which assesses the opportunities and risks for the Group over this timeframe. Each year the Board considers the Group's strategy and key performance indicators and how we will achieve our goal. This is communicated and discussed with the wider transformation group at an annual. Unfortunately, the 2020 conference had to be cancelled because of COVID-19 restrictions. Significant capex investment appraisals potential acquisitions and disposals are reviewed and subsequently approved/declined by the Board. In making these decisions, the Board considers the financial merits of each proposal and whether it is aligned to our strategy and premium offering. In 2020, the Board signed-off the decision to complete the sale and leaseback of the Emersons Green club plus completed the acquisitions of the Meridian Group and Geneva Country Club. During 2020, the Board's priority was managing the business during the COVID-19 pandemic. Our response to COVID-19 focussed on preserving cash, member engagement and implementing COVID-secure re-opening procedures. The Board took great care in ensuring the decisions they made struck the right balance between protecting the interest of the Group and its stakeholders in the short term and longer-term.
b) The interests of the company's employees.	The Board places considerable value on communicating with its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, the Group's employee app 'Kitbag' and periodic business communications from the CEO. Employee engagement is measured twice a year (going forward three times a year) by way of an online employee survey to ensure the Board is listening and responding to its employees' needs. Due to COVID-19 and our clubs being closed no formal engagement surveys happened in 2020. The Board recognised that the COVID-19 pandemic caused considerable financial hardship for our team members and created a hardship fund for which team members and self-employed professionals could apply. The Board spends a good proportion of time on people matters with regular discussions on Health & Safety, employee engagement, talent, and succession planning. Read more on our engagement with employees on pages 20 to 21 of the Deuce Midco Limited strategic report.
c) The need to foster the company's business relationships with suppliers, customers and others.	The Board recognises the importance of its role and responsibility in contributing to a healthy society and a sustainable environment in addition to its responsibilities to members, employees, suppliers and shareholders. Members - Our vision "My Club For My Life" seeks to create an environment where our members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members' lives, throughout their lives.

c) The need to foster the company's business relationships with suppliers, customers and others (continued)

Doing the right thing for our members was a key priority for us and we communicated with them throughout the pandemic. We did not charge customers when our clubs were closed and provided members with health concerns relating to COVID-19 the ability to freeze memberships. We used lockdown to accelerate our digital transformation to keep members engaged. Within 3 days of Lockdown 1 we had developed @home training, resulting in member satisfaction reaching an all-time high.

The Board developed COVID-secure operating protocols to give our members confidence to return to our clubs. Specifically, our members can maintain at least a 2m distance from each other in all areas of our Clubs, including our Group Exercise Studios where we've created 2.5m spaces for all class participants. Our cleaning schedules and procedures have been greatly enhanced to maintain a high level of hygiene across all our Clubs.

Feedback from our members is monitored continuously through multiple channels. Read more on our engagement with members on page 8 of the financial statements of Deuce Midco Limited.

Investors - We are responsible to the Group's shareholders and key stakeholders for the proper conduct and success of the business through setting the strategy, values, and culture of the Group. Shareholders are represented on the Board and thus engaged through the monthly board meetings.

Suppliers – We recognise the importance of our supply chains and invest in our relationships with them to ensure that they are treated in a fair and consistent way. Upon closure of the clubs due to COVID-19, we engaged with landlords to manage rent obligations through securing rent-free periods/rent deferrals. We have also worked with our key suppliers through the pandemic to minimise contractual costs and to discuss revisions to payment terms. We are grateful for their support. During the year, the Board received updates on our payment practices and on our supply chain, where relevant, from our business line leaders.

d) The impact of the company's operations on the community and environment.

The Board recognises the importance of its role and responsibility in contributing to a healthy society and a sustainable environment. The Board is committed to actions and initiatives that support our other Corporate Social Responsibility (CSR) principles. This includes doing our utmost towards combating climate change by reducing our clubs' waste and using sustainable raw materials.

From 1 January 2020, DLL began purchasing renewable electricity for its group UK contract.

The Board monitors on a quarterly basis the Group's performance against key Environmental, Social and Governance metrics which are also benchmarked against other portfolio businesses. Read more in the Environmental, Social and Governance Performance Management section in the Strategic report on pages 18 to 19 of the financial statements of Deuce Midco Limited.

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Strategic Report for the Year ended 31 December 2020

e) The desirability of the company maintaining a reputation for high standards of business conduct.

The Board take the reputation of the Group seriously and is committed to a high standard of health & safety. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing and health & safety. The majority of clubs attain our expected standards and the minority that do not are provided with the coaching, advice and guidance to achieve the required standards. Refer to page 18 of the financial statements of Deuce Midco Limited for our health & safety internal audit scores.

The Board is fully committed to respecting the human rights of our employees and to compliance with all applicable laws. David Lloyd Clubs has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all its business dealings and relationships to ensure that modern slavery is not taking place in the business or supply chains.

All new team members are required to complete a compulsory online training module on 'Modern Slavery' to drive awareness and understanding.

In accordance with section 54(1) of the Modern Slavery Act 2015, the Group's slavery and human trafficking statement for the financial period ended 31 December 2020 has been published on our website: www.davidlloyd.co.uk.

f) The need to act fairly between members of the company.

The Board seeks to act fairly between all members of the Group by seeking to align the interests of the majority shareholders (TDR) and minority shareholders (Management). The Board is represented by all parties and the Board culture allows for healthy and constructive debates.

Approved by the Board on 19 January 2022 and signed on its behalf by:

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PJ Burrows
Director

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

Principal activity
The principal activity of the Company is the provision of access to its land, buildings and other property, plant and equipment to its immediate parent, David Lloyd Leisure Limited. The Company is a private company limited by shares, registered in England and Wales. The address of the registered office is shown on page 1.

Directors of the company
The directors who held office during the year, and up to the date of signing the financial statements are given below:

PJ Burrows

DG Earlam

Directors' liabilities
The Company maintains liability insurance for its directors and officers. Following shareholder approval, the Company has also provided an indemnity for its directors and the company secretary, which is a qualifying indemnity provision for the purposes of the Companies Act 2006. This provision was in force during the financial year and onwards, including the date of approval of the financial statements.

Future developments
There are no significant changes planned to the principal activity Company.

Dividends
The directors do not recommend the payment of a final dividend (2019: £nil).

Political donations
The Company made no political donations during the year (2019: £nil).

Post balance sheet events
Significant post balance sheet events are disclosed in note 22.

Prior year adjustment
During the year the directors assessed the classification of intercompany balances as current or non-current. Although the intercompany balances are repayable on demand, the likelihood of repayment within the next 12 months is remote. Following this reassessment, the Directors have concluded that the loans to group undertakings should be reclassed to non-current assets. As a result, a prior year adjustment has been made and is reflected in the restated 2019 balances as presented. The effect of the prior year restatement is to decrease trade and other receivables by £25.9m and increase loans to group undertakings by £25.9m. The net impact on the income statement and statement of financial position is £nil. The restatement has been made to ensure comparability between the periods.

In the current year we reassessed the relationship between Next Generation Clubs Limited and its parent company, David Lloyd Leisure Limited. It was concluded that David Lloyd Leisure Limited is the principal in terms of the sales made to external customers, as it has primary responsibility for providing services across the David Lloyd clubs, even when the associated PPE does not sit directly in the legal entity of David Lloyd Leisure Limited. Therefore, the revenues that were previously recognised directly in Next Generation Clubs Limited are now recognised in David Lloyd Leisure Limited, together with associated costs where the contractual obligation is arising in David Lloyd Leisure Limited. In Next Genration Clubs Limited's accounts the net income from providing the parent company, David Lloyd Leisure Limited, with rolling access to the PPE is now reflected. Depreciation is recognised in cost of sales. The prior year revenue, cost of sales and administrative expenses balances have been restated to reflect this conclusion. There is a nil impact on operating profit.

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Directors' Report for the Year ended 31 December 2020

Information included in the strategic report

A fair review of the business, including an analysis of the performance, financial position and going concern of the Company, together with key performance indicators, a description of the principal risks and uncertainties facing the Company and employee information has been included within the Strategic Report.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

Disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he 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 auditors are aware of that information.

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

Reappointment of auditors

The auditors, Deloitte LLP, have indicated their willingness to continue in office and appropriate arrangements have been put in place concerning their re-appointment in the absence of an Annual General Meeting.

Approved by the Board on 19 January 2022 and signed on its behalf by:

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PJ Burrows
Director

Independent auditor's report to the members of Next Generation Clubs Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Next Generation Clubs Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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Independent auditor's report to the members of Next Generation Clubs 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 contained within the annual report. 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.

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

We have nothing to report in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

Independent auditor's report to the members of Next Generation Clubs Limited (continued)

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

Classification of refurbishment expenditure versus capital expenditure
The procedures performed to address the risk included the following:

- Obtained an understanding of the relevant controls around the maintenance and refurbishment expenditure, capital expenditure and purchasing processes;
- Tested general IT controls around the user access and change management in the system;
- Tested a sample of costs capitalised in the year across all clubs with material additions to assess whether they met the capitalisation criteria of IAS 16;
- Tested a sample of journals posted to the maintenance and refurbishment expenditure account in the Income Statement to evaluate the appropriateness of each item; and
- Performed analytical review procedures to assess if material additions were in line with expectation on a club-by-club basis, for the entities scoped in our audit.

Impairment of fixed assets (Property, Plant & Equipment and Right of Use assets)
The procedures performed to address the risk included the following:

- Obtained an understanding of the relevant controls surrounding the impairment assessment;
- Involved our internal specialists to challenge the appropriateness of the discount rate and long-term growth rate used in the model, including comparison of key inputs to market evidence;
- Engaged internal modelling specialists to assess the mechanics of the impairment model;
- Assessed the reasonableness of the key judgments around cash flow projections made in the value in use model against industry expectations and historical performance;
- Confirmed that the forecasts used in the Value in Use ("VIU") model were the latest Board approved forecasts;
- Tested management's ability to accurately forecast future revenues and growth rates by comparing actual results to management's historical forecasts;
- Performed detailed analysis on the clubs deemed most at risk of impairment;
- Performed a sensitivity analysis on the inputs into the value in use model to determine if this would materially change any impairment charge currently recognised; and
- Assessed the disclosure in the accounts, including the disclosure as a key source of estimation uncertainty.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

Independent auditor's report to the members of Next Generation Clubs Limited (continued)

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

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.

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

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.

Kate Darlison

Kate Darlison, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom

19 January 2022

Next Generation Clubs Limited

Income Statement for the Year ended 31 December 2020

	Note	Year ended 31 December 2020 £ 000	Restated [1] Year ended 31 December 2019 £ 000
Revenue	4	17,371	21,167
Cost of sales		(12,998)	(13,775)
Gross profit		4,373	7,392
(Loss)/Profit on disposal of PP&E	5	(38)	2,846
Operating profit	6	4,335	10,238
Interest receivable and similar income	8	780	1,085
Interest expenses	9	(13,231)	(12,484)
Loss before tax		(8,116)	(1,161)
Income tax credit/(charge)	11	1,640	(6)
Loss for the financial year		(6,476)	(1,167)

[1] The prior year has been restated, see note 24.

The above results were derived from continuing operations. The Company has no recognised gains or losses other than the results above, and therefore no separate Statement of Comprehensive Income is presented.

Next Generation Clubs Limited

(Registration number: 03273728)
Statement of Financial Position as at 31 December 2020

	Note	31 December 2020 £ 000	Restated [1] 31 December 2019 £ 000
Non-current assets			
Property, plant and equipment	12	31,229	33,638
Right-of-use assets	13	107,165	86,667
Investments in subsidiaries	14	14,983	14,983
Loans to group undertakings	15	23,820	25,865
Deferred tax assets	16	18,818	17,178
		196,015	178,331
Current assets			
Cash at bank and in hand	17	35	67
Total assets		196,050	178,398
Current liabilities			
Creditors: Amounts falling due within one year	18	(20,436)	(20,436)
Current lease liabilities	13	(5,514)	(6,047)
		(25,950)	(26,483)
Net current liabilities		(25,915)	(26,416)
Total assets less current liabilities		170,100	151,915
Non-current liabilities			
Lease liabilities	13	(192,740)	(168,079)
Net liabilities		(22,640)	(16,164)
Equity			
Share capital	19	454	454
Share premium		38,000	38,000
Accumulated losses		(61,094)	(54,618)
Total shareholders' deficit		(22,640)	(16,164)

[1] The prior year figures have been restated. See note 24.

Approved by the Board on 19 January 2022 and signed on its behalf by:

....
P J Burrows
Director

Next Generation Clubs Limited

Statement of Changes in Equity for the Year Ended 31 December 2020

	Share capital £ 000	Share premium £ 000	Accumulated losses £ 000	Total £ 000
At 31 December 2019	454	38,000	(54,618)	(16,164)
Loss for the financial year	-	-	(6,476)	(6,476)
Total comprehensive expense for the financial year	-	-	(6,476)	(6,476)
At 31 December 2020	454	38,000	(61,094)	(22,640)

	Share capital £ 000	Share premium £ 000	Accumulated losses £ 000	Total £ 000
At 1 January 2019	454	38,000	(17,838)	20,616
Effect of adoption of IFRS 16: Leases	-	-	(35,613)	(35,613)
At 1 January 2019	454	38,000	(53,451)	(14,997)
Loss for the financial year	-	-	(1,167)	(1,167)
Total comprehensive expense for the financial year	-	-	(1,167)	(1,167)
At 31 December 2019	454	38,000	(54,618)	(16,164)

The notes on pages 19 to 38 form an integral part of these financial statements.

Next Generation Clubs Limited

Notes to the Financial Statements for the Year ended 31 December 2020

1 General information

The Company is a private company limited by share capital incorporated and domiciled in the United Kingdom. The address of the Company's registered office is:

The Hangar
Mosquito Way
Hatfield Business Park
Hatfield
Hertfordshire
AL10 9AX

The nature of the Company's operations and its principal activities are set out in the Strategic report on page 2.

2 Accounting policies

Significant accounting policies
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

Basis of preparation
The financial statements have been prepared in accordance with Financial Reporting Standard 101, ''Reduced Disclosure Framework'' (FRS 101) and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Summary of disclosure exemptions
As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available in relation to presentation of a cash flow statement; business combinations; non-current assets held for sale; presentation of comparative information in respect of certain assets; impairment of assets and related party transactions. Where relevant, equivalent disclosures can be found in the consolidated financial statements of the Group. The Company has taken advantage of the exemption to prepare group accounts required by s401.

Details of the parent company and the availability of the consolidated financial statements are in Note 23.

2 Accounting policies (continued)

Going concern

The director notes that as at 31 December 2020, the Company is in a net liabilities position of £22.6m (2019: £16.1m), and a net current liabilities position of £25.9m (2019: £26.4m). The Company is reliant on the Group for financial support. In preparing the Group's financial statements the director has considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period to June 2023. These forecasts indicate that the Group will have sufficient cash and operate with a satisfactory level of headroom. The directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for at least 12 months and for the foreseeable future thereafter. Deuce Midco Limited has provided a letter of support to the Company and committed to ensure that all intercompany balances are repayable. Accordingly, the director continues to adopt the going concern basis in preparing the annual reports and financial statements.

Revenue recognition

The Company provides access to its land, buildings and other property, plant and equipment to its immediate parent, David Lloyd Leisure Limited for the provision of sport and leisure facilities in the United Kingdom.

Revenue is measured at the fair value of the consideration received or receivable and represents the fixed operating margin achieved under the Group's transfer pricing arrangement provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Cost of sales

Cost of sales comprises depreciation, any impairment charge where relevant, service charges and rates.

Foreign currency transactions and balances

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (the "functional currency").

Transactions in currencies other than the functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

Tax

The tax expense for the year comprises current tax and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generates taxable income.

2 Accounting policies (continued)

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

Investments
Investments in subsidiaries are held at cost less accumulated impairment losses.

Property, plant and equipment
Land and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their net book value, being the fair value at the date of acquisition less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Fixtures, fittings and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation
Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Fixtures and Fittings - between 3 and 20 years.
Leasehold improvements - over the shorter of 50 years or the remaining lease term.

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit/(loss) on disposal of Property, Plant & Equipment (PP&E) within the income statement.

Impairment of tangible assets
At each statement of financial position date, the Company reviews the carrying amounts of its tangible 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 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 cash-generating unit ("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.

Each individual club is considered to be a CGU.

2. Accounting policies (continued)

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 profit or loss.

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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Share capital
Ordinary shares are classified as equity.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Trade payables
Trade payables are amounts due to group undertakings. They are repayable on demand and accrue interest of 3.45%.

Trade and other receivables
Trade and other receivables are amounts due from group undertakings. They are repayable on demand and earn interest of 3.45%.

Financial liabilities
Classification
Financial liabilities can be classified as 'fair value through profit and loss' or held at amortised cost. All are initially recognised at fair value, and in the case of loans, net of any transaction costs. Loans are measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

Recognition and measurement
The company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Financial assets
Classification
The Company classifies its financial assets in the following measurement categories: financial assets at fair value (either through Other Comprehensive Income (OCI) or through profit or loss) and financial assets at amortised cost.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. For assets measured at fair value, gains and losses will be recorded either in profit or loss or in OCI.

2 Accounting policies (continued)

Financial assets (continued)

Recognition and measurement

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset measured at amortised cost or fair value through OCI, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss (FVTPL) are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and fair value through profit or loss. Expected credit losses are measured through a loss allowance at an amount equal to the expected credit losses for the next 12 months or the expected credit losses over the lifetime of the asset. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Derecognition of financial assets

The Company derecognises a financial asset only 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. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Leases

The Company leases clubs of which its rental contract is made for a fixed period of 25-125 years but may have extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Company has entered into commercial property leases and other plant and equipment as a lessee. The leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Company.

2 Accounting policies (continued)

Leases (continued)

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

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the incremental borrowing rate ("IBR"). This is the rate of interest that a lessee would have to pay to borrow, over a similar term and with security funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Where lease payments have been deferred as a direct consequence of COVID-19, no allocation is made against the lease liability during the deferral period. Invoices received in relation to deferred rents are recognised as trade payables, with a corresponding deferred rent prepayment recognised in the statement of financial position.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is. depreciated over the underlying asset's useful life.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

Information about critical accounting estimates and judgements in the application of lease accounting is disclosed in note 3.

2 Accounting policies (continued)

Changes in accounting policies and disclosures
(a) New standards, amendments and interpretations

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

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

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
c) There is no substantive change to other terms and conditions of the lease. In the current financial year, the Company has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

The impact of applying this practical expedient during the year was to increase the lease liability by £6.3m for rents that have been deferred.

There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2020 that have had a material impact on the Company's financial statements. For completeness the following new standards, amendments and interpretations are newly mandatorily effective for the first time in the current period:

- COVID-19-Related Rent Concessions (Amendment to IFRS16);
- Amendments to IFRS 4, Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts';
- Amendments to IFRS 3, Definition of a Business;
- Amendments to IAS 1 and IAS 8, Definition of Material;
- Amendments to References to the Conceptual Framework in IFRS Standards

2 Accounting policies (continued)

(b) New standards, amendments and interpretations not yet adopted

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17, Insurance Contracts;
Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1, Classification of Liabilities as Current or Non-Current
Amendments to IFRS 3, Reference to the Conceptual Framework;
Amendments to IAS 16, Property, Plant and Equipment - Proceeds before Intended Use;
Amendments to IAS 37, Onerous Contracts - Cost of Fulfilling a Contract;
Annual Improvements to IFRS Standards 2018-2020 Cycle;
Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform.

None of these are expected to have a significant impact on the financial statements of the Company.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions
The Company makes estimates and assumptions concerning the future. The related accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Lease accounting
The lease payments are discounted using the lessee's incremental borrowing rate ("IBR"), being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the IBR, the Company has considered three main risk premiums (adjustments) being: reference rate, credit risk premium and asset specific adjustment.

Reference rate (risk free rate) - In assessing the relevant reference rate, we have taken into account currency, economic environment and unexpired terms of the leases. Relevant government bond yields have been used as a proxy for the risk free rate.

Credit risk premium - The Company has estimated an additional credit risk to reflect the difference in risk profile between a Government bond and another debt security with the same maturity.

Asset (lease) specific adjustment - The Company has used property yields as a proxy to differentiate between different property types and locations. The asset specific adjustment has been based on property initial yield benchmarks taking into account the expected annual rental growth rate and the expected annual building depreciation rate.

3 Critical accounting estimates and judgements (continued)

The key factors influencing the discount rate are:

- Economic environment/country
- Length of Lease
- Lessee entity
- Type of collateral
- Rent review mechanism in the lease i.e. contingent market rent reviews versus fixed increases or indexation

The Company developed a categorisation of leases and a matrix of discount rates to reflect the specific factors above. The calculated incremental borrowing rates (IBR) range between 6.19% - 9.24% (2019: 6.19% - 8.28%) translating to an average rate of 8.34% (2019: 7.8%). A 5-basis point increase/(decrease) in the rate would cause the lease liabilities to increase/(decrease) by £11.9m (2019: 5-basis point increase/(decrease) by £11.1m) and a corresponding increase/(decrease) in the right-of-use assets of £6.4m (2019: 5-basis point increase/(decrease) by £5.5m). The IBR can change due to the type of leases that are held by the Company, the economic environment, the lease terms and asset types.

Key assumptions used for value-in-use calculations
The Company tests the carrying amounts of individual club non-current assets for impairment for those clubs that meet pre-defined impairment indicators. For the 2020 and 2019 reporting periods, the recoverable amount of the cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets and business plans approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using an estimated growth rate of 1.8% for the UK. This growth rate is consistent with forecasts specific to the industry and the country in which each CGU operates. The pre-tax discount rate of 10.5% has been determined based on the weighted average cost of capital. The impact of the impairment assessment is disclosed in note 13.

Critical judgements in applying the Company's accounting policies
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Lease accounting
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Periods covered by an option to extend the lease term are included in the lease term if the lessee is reasonably certain to exercise that option. The same rationale applies to termination options.

Significant judgement is involved in determining the period over which a lease is considered to be 'enforceable'. Where contracts have a term of greater than 10 years remaining at transition, the Company assesses there to be an unclear indication that it would in substance be deemed to be 'enforceable' beyond the original contractual term, despite the rights provided by the The Landlord and Tenant Act 1954. The lease end date has therefore been used as the end date for the lease . For leases due to expire within 10 years of transition, the likelihood of extension is being assessed up to the year end with reference to the facts available and looking at the Company's history of renewing leases beyond the contractual end date.

For the current leases held by the Company, we currently conclude the minimum lease term to be the term of the lease contract. .We assess, based on our current plans or expectations, the situation for each lease for which options to extend, terminate or purchase exist annually and judgement will be applied in the weighting of relevant factors in each case.

4 Revenue

The analysis of the Company's revenue for the year from continuing operations by class of business is as follows:

	Year ended 31 December 2020 £ 000	Restated Year ended 31 December 2019 £ 000
Provision of access to land and buildings to David Lloyd Leisure Limited	17,371	21,167

All revenue is earned in the single country of operation, the UK, and therefore no geographical split is presented.

5 (Loss)/Profit on disposal of Property Plant & Equipment

The analysis of the Company' (loss)/profit on disposal of PP&E (excluding gym equipment) for the year is as follows:

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Profit on sale and leaseback of land and buildings	-	2,864
Loss on disposal of PP&E	(38)	(18)
	(38)	2,846

The Company did not record any profit on disposal of gym equipment for the year ended 31 December 2020 (2019: £4,000).

6 Operating profit

Arrived at after charging/(crediting)

	Note	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Depreciation expense	12, 13	9,981	10,228
Amortisation expense		-	36
Operating lease expense		94	92
Rates		998	4,415
Impairment charge/(reversal) of property, plant and equipment	12	359	(993)

In accordance with IFRS 16 operating lease expense in the current year represents service charge.

7 Auditor remuneration

Auditor remuneration in respect of the Company's annual financial statements for the year ended 31 December 2020 of £48,175 (2019: £47,000) was borne by another group undertaking.

8 Interest receivable and similar income

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Interest receivable from other group companies	780	1,085

9 Interest expenses

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Interest on lease liabilities	13,231	12,481
Other interest payable	-	3
	13,231	12,484

10 Directors' remuneration

The director's remuneration for services to the Company has all been paid and is disclosed in the financial statements of David Lloyd Leisure Limited, which can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ. It is no possible to apportion the director's remuneration.

11 Income tax charge/(credit)

Tax charged in the income statement:

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Current taxation		
Total current taxation	-	-
Deferred taxation		
Origination and reversal of temporary differences	(1,891)	248
Adjustment in respect of prior periods	251	(242)
Total deferred taxation	(1,640)	6
Tax (receipt)/expense in the profit and loss account	(1,640)	6

11 Income tax charge/(credit) (continued)

UK Corporation tax is calculated at 19 per cent (2019:19%) of the estimated taxable profit for the year.

The tax credit for the year is lower (2019: lower) than the standard rate of corporation tax in the UK.

The differences are reconciled below:

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Loss before tax	(8,117)	(1,161)
Corporation tax at standard rate 19% (2019: 19%)	(1,542)	(221)
Adjustment in respect of prior periods	251	(242)
Effect of expenses not deductible in determining taxable profit (tax loss)	1,642	1,561
Change in tax rate	(1,991)	(29)
Group relief received for no payment	-	(1,063)
Total tax (credit)/charge	(1,640)	6

After the balance sheet date, the UK government have subsequently announced in the 2021 Budget that the corporation tax rate will increase to 25% in 2023 (the impact of this is disclosed in note 17).

12 Property, plant and equipment

	Land and buildings £ 000	Fixtures and fittings £ 000	Work in progress £ 000	Total £ 000
Cost				
At 1 January 2020	19,274	36,033	180	55,487
Additions	79	584	1,646	2,309
Disposals	-	(126)	-	(126)
At 31 December 2020	19,353	36,491	1,826	57,670
Depreciation				
At 1 January 2020	3,381	18,468	-	21,849
Charge for the year	466	3,855	-	4,321
Impairment charge	-	359	-	359
Disposals	-	(88)	-	(88)
At 31 December 2020	3,847	22,594	-	26,441
Carrying amount				
At 31 December 2020	15,506	13,897	1,826	31,229
At 31 December 2019	15,893	17,565	180	33,638

For the purposes of property, plant and equipment impairment reviews, the Company considers each club to be an individual cash-generating unit (CGU), with each CGU reviewed annually for indicators of impairment. The Company compared the carrying value of property, plant and equipment to the estimated value in use. This was calculated based on projected cash flows to 2021, using a discount factor of 10.5% (2019: 10.50%). This has resulted in a total impairment charge of £0.4m (2019: £1.0m reversal).

13 Leases

The amounts recognised in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the Statement of Financial Position

Right-of-use assets

	Land and buildings £ 000
Cost	
At 1 January 2020	92,977
Additions	27,724
At 31 December 2020	120,701
Depreciation	
At 1 January 2020	6,310
Depreciation charge	5,660
Impairment	1,566
At 31 December 2020	13,536
Carrying amount	
At 31 December 2020	107,165
At 31 December 2019	86,667

Lease liabilities

	31 December 2020 £ 000	31 December 2019 £ 000
Current lease liabilities	5,514	6,047
Non-current lease liabilities	192,740	168,079
	198,254	174,126

As a direct result of COVID-19, the Company has renegotiated a number of its leases of land and buildings in the year. The Company has remeasured the lease liability with the revised lease payments and lease term, using a revised discount rate at the effective date of the lease modification. This has resulted in an increase in the lease liability of £27.7m, with a corresponding adjustment to the right of use asset.

13 Leases (continued)

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Depreciation charge of right-of-use assets	5,660	6,310
Interest expense (included in finance cost)	13,231	12,481
	18,891	18,791

(iii) Future minimum lease payments as as 31 December 2020 are as follows:

The total cash outflow for leases in 2020 was £11.4m (2019: £17.1m). The decrease in prior years is driven by the deferral of rents.

	31 December 2020 £ 000	31 December 2019 £ 000
Not later than one year	20,838	18,566
Later than one year and not later than five years	67,286	78,743
Later than five years	454,566	203,284
Total gross payments	542,690	300,593
Impact of finance expenses	(344,436)	(126,467)
Carrying amount of liability	198,254	174,126

14 Investments

Subsidiaries	£ 000
Cost	
At 1 January 2020 and 31 December 2020	20,964
Provision	
At 1 January 2020 and 31 December 2020	(5,981)
Carrying amount	
At 1 January 2020 and 31 December 2020	14,983

14 Investments (continued)

Investments are reviewed annually for impairment based upon their recoverable amount. No impiarment charges have been recognised during the year (2019: nil).

Details of subsidiaries as at 31 December 2020 are as follows:

Name of subsidiary	Country of incorporation	Principal activity	Holding 31 December 2020	Holding 31 December 2019
Harbour Club Limited	England and Wales	Leisure clubs	100%	100%
Sports Management (Scotland) Limited	Scotland	Dormant	100%	100%
Nextgen Limited	England and Wales	Dormant	100%	100%
Newhaven Restaurant Limited	England and Wales	Dormant	100%	100%
N.G.C. Project Management Limited	England and Wales	Dormant	100%	100%
Smilewood Limited	England and Wales	Dormant	100%	100%
Celsius Spa Limited	England and Wales	Dormant	100%	100%
Harbour Club Operations Limited	England and Wales	Dormant	100%	100%
David Lloyd Leisure Nominee No 3 Limited	England and Wales	Dormant	100%	100%
David Lloyd Leisure Nominee No 4 Limited	England and Wales	Dormant	100%	100%

The registered offices of Group companies are as follows:

Sports Management (Scotland) Limited: Newhaven Restaurant Limited: 302 St Vincent St, Glasgow, G2 5RZ
All other UK Group companies: The Hangar, Hatfield Business Park, Hatfield, Herts, AL10 9AX

15 Loans to group undertakings

	31 December 2020 £ 000	31 December 2019 £ 000
Amounts due from group undertakings	23,820	25,865
	23,820	25,865

The intercompany debtor is repayable on demand and accrues interest of 3.45% for the year ended 31 December 2020 (31 December 2019: 3.45%).

16 Deferred tax

	31 December 2020 £ 000	31 December 2019 £ 000
Deferred tax assets	18,818	17,178
	18,818	17,178

Deferred tax movement during the year:

	Tax losses £ 000	Accelerated tax depreciation £ 000	IFRS 16 : Leases £ 000	Total £ 000
At 31 December 2019	6,424	2,035	8,719	17,178
Charge to the income statement	45	253	(649)	(351)
Change in tax rate	756	204	1,031	1,991
At 31 December 2020	7,225	2,492	9,101	18,818

Deferred tax is recognised on the timing differences between amounts recognised in the financial statements and amounts recognised in the tax computations. Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so.

Deferred tax assets and liabilities have been recognised at the main rate of corporation tax in the relevant jurisdiction prevailing at the expected date of unwind with reference to enacted rates on the statement of financial position date. In the UK the long term corporation tax rate of 19% enacted as at 31 December 2020 is used. The opening balances in the UK used the corporation tax rate enacted as at 1 January 2020 of 17%. Thus, of the total movement in year, a charge of £0.3m relates to the increase in rate.

The UK government has subsequently announced in the 2021 Budget that the corporation tax rate will rise to 25% in 2023. This revised rate would increase the deferred tax assets by £5.9m.

17 Cash and cash equivalents

	31 December 2020 £ 000	31 December 2019 £ 000
Cash at bank and on hand	35	67

18 Creditors: Amounts falling due within one year

	31 December 2020 £ 000	31 December 2019 £ 000
Amounts due to group undertakings	20,436	20,436

18 Creditors: Amounts falling due within one year (continued)

The intercompany creditor is repayable on demand and accrues interest of 3.45% for the year ended 31 December 2020 (31 December 2019: 3.45%).

19 Share capital

Allotted, called up and fully paid

	31 December 2020		31 December 2019	
	No. 000	**£ 000**	**No. 000**	**£ 000**
Ordinary shares of £1 each	454	454	454	454

Each class of ordinary shares carries no right to fixed income.

20 Related party transactions

The remuneration of directors analysed under the headings required by Company Law is set out in Note 10.

Remuneration of key management personnel

The Company is taking advantage of the exemption provided in FRS101, and not disclosing remuneration for key management personnel. Details of the remuneration of the key management personnel of the Group are disclosed in the consolidated financial statements of the parent, Deuce Midco Limited, which can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

Summary of transactions with other related parties

The Company has relied on the exemptions under FRS 101 from disclosing transactions with other wholly-owned group companies on the basis that the Company is a fully owned subsidiary.

21 Contingent liabilities

As part of the overall group financing, the Company is a guarantor for the £125m Super senior revolving credit facility ("SSRCF") available to Deuce Midco Limited. At the date of signing the financial statements the amount drawn down on the SSRCF is £nil. In addition, the Company is a guarantor for the £645m and €300m Senior Secured Notes issued by Deuce Finco Plc. The Company is jointly and severally liable for these amounts should Deuce Midco Limited or Deuce Finco Plc be unable to meet its obligations.

22 Post balance sheet events

On 4 January 2021, England entered a third national lockdown and the clubs were forced to close.

On 22 February 2021, the UK Government announced the government's four-step roadmap to cautiously ease lockdown restrictions in England if there is continued progress with the Government's four test criteria. Under Step 1 of the roadmap, we opened our outdoor facilities (tennis, group exercise and swimming) from the 29 March 2021.

Our English clubs fully re-opened on 12 April 2021 under Step 2 of the English government's four step roadmap with indoor group exercise and indoor hospitality restarted on 17 May 2021 under Step 3.

In the Government's Budget statement of 3 March 2021, it was announced that Business Rates relief for Retail, Hospitality & Leisure extended until 30 June 2021 and then up to 2/3 discount until 31 March 2022 (up to a maximum of £2 million). The announcement also included the extension of the Coronavirus Job Retention Scheme in its current form to 30 September 2021, with employers contributing 10% of reference pay from July and 20% of reference pay from August.

On 18 June 2021, a newly incorporated company, Deuce FinCo plc (an associated undertaking of the Company) issued £645m and €300m of Senior Secured Notes with a maturity date of 15 June 2027. Interest is charged on the £645m Senior Secure Notes at a fixed rate of 5.5%. Interest is charged on the €300m Senior Secure Notes at 4.75% plus three-month EURIBOR.

On the same date, Deuce Holdco Limited (a parent of the Company) issued £250m of PIK debt with a maturity date of 18 June 2028. Interest is charged at 10% and rolls-up into the principal every 6 months. As part of the transaction, £100m of cash equity was contributed into Deuce Holdco Limited (via Deuce Topco Limited) by TDR Capital.

The Deuce Midco Limited Group (to which the Company belongs) also has access to a £125m super senior revolving credit facility ("SSRCF") which has a maturity date of 18 December 2026.

The proceeds will be used to repay existing indebtedness, for general corporate purposes including working capital requirements, capital expenditures and strategic acquisitions, and to pay fees and expenses incurred in connection with this transaction.

In March 2021, the UK Government announced an increase in the corporation tax rate from 19% to 25% from April 2023. The increased rate has not been substantively enacted as at the date the accounts have been signed. The impact of the increased rate would be to increase deferred tax assets by £5.9m.

23 Parent and ultimate parent undertaking

The Company's immediate parent undertaking is David Lloyd Leisure Limited, a company incorporated in the United Kingdom and registered in England and Wales. The ultimate parent of the Company is Deuce Holding S.à.r.l. and the ultimate controlling party is a group of investment funds managed by TDR Capital LLP (registered office: 20 Bentinck Street, London, W1U 2EU).

23 Parent and ultimate parent undertaking (continued)

Deuce Midco Limited is the smallest and Deuce Topco Limited the largest group undertaking for which group financial statements are prepared and of which the Company is a member. The financial statements of Deuce Midco Limited and Deuce Topco Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

24 Prior year restatement

During the year the directors assessed the classification of intercompany balances as current or non-current. Although the intercompany balances are repayable on demand, the likelihood of repayment within the next 12 months is remote. Following this reassessment, the Directors have concluded that the loans to group undertakings should be reclassed to non-current assetss. As a result, a prior year adjustment has been made and is reflected in the restated 2019 balances as presented. The effect of the prior year restatement is to decrease trade and other receivables by £25.9m and increase loans to group undertakings by £25.9m. The net impact on the income statement and statement of financial position is £nil. The restatement has been made to ensure comparability between the periods.

In the current year we reassessed the relationship between Next Generation Clubs Limited and its parent company, David Lloyd Leisure Limited. It was concluded that David Lloyd Leisure Limited is the principal in terms of the sales made to external customers, as it has primary responsibility for providing services across the David Lloyd clubs, even when the associated PPE does not sit directly in the legal entity of David Lloyd Leisure Limited. Therefore, the revenues that were previously recognised directly in Next Generation Clubs Limited are now recognised in David Lloyd Leisure Limited, together with associated costs where the contractual obligation is arising in David Lloyd Leisure Limited. In Next Generation Clubs Limited's accounts the net income from providing the parent company, David Lloyd Leisure Limited, with rolling access to the PPE is now reflected. Depreciation is recognised in cost of sales. The prior year revenue, cost of sales and administrative expenses balances have been restated to reflect this conclusion. There is a nil impact on operating profit.

	As reported 31 December 2019 £ 000	Adjustment 31 December 2019 £ 000	Restated 31 December 2019 £ 000
Revenue	75,074	(53,907)	21,167
Cost of sales	(18,872)	5,097	(13,775)
Gross profit	56,202	(48,810)	7,392
Administrative expenses	(48,810)	48,810	-
Profit on disposal of property, plant and equipment	2,846	-	2,846
Operating profit	10,238	-	10,238
Interest receivable and similar income	1,085	-	1,085
Interest expense and similar charges	(12,484)	-	(12,484)
Loss before tax	(1,161)	-	(1,161)
Income tax charge	(6)	-	(6)
Loss for the financial year	(1,167)	-	(1,167)