DSQ JV S.à r.l.

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

R.C.S. Luxembourg B223009

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Board of Managers Report

Market Conditions

Whilst headline office rental levels remained resolutely resilient during the initial stages of the Covid-19 pandemic, a deterioration in the supply side of the market in H2 has put inevitable downward pressure on rents. This has been highly influenced by tenant-release space being released, with c. 7.5 m sq ft of sublet space being available at year end versus c. 3.2 m sq ft at the close of 2019. Across London, available second-hand space was up a staggering 83% from the end of 2019. Total City availability (including all schemes due to complete in 12 months) rose by 11% during 4 2020 and 35% over the year which, although undoubtedly meaningful, is a far less dramatic annual rise than the West End. The availability of new space was 20% up over the year. It currently stands 13% below the 10-year average, including all speculative completions in 2021. Across the City office market, available second-hand space was up a staggering 86% from the end of 2019. The pipeline for delivery of new space remains relatively low (immediate pipeline for delivery in 2020-21 amounts to 1.4% of stock) which could help to defend rents when occupier demand returns.

Office take up in the City experienced a pick-up in the final quarter of the year but accounted for just over 30% of take-up in 2019. To put leasing activity during 2020 in context, new City take up is at its lowest since the dotcom crash. As a result of inactivity and increased availability, prime rents are starting to move down with brokers finally shifting from impacts on incentives.

The investment market saw a strong end to the year with Q4 accounting for 50% of the overall annual volume of activity, with provisional data from RCA recording over 40 deals and £4.4bn. That said, full year transactions were 46% lower than in 2019. This is understandable given the London office investment market's reliance on cross-border transactions and the negative impact travel restrictions throughout the year had on that. The deals recorded in Q4 2020 do highlight the resilience of pricing for core income, in contrast to secondary assets.

Market Outlook

At the time of writing in March 2021, the UK is subject to a national lockdown. This lockdown is due to be eased meaningfully from mid-April, with the opening of shops, gyms and outdoor hospitality, and further in mid-May, when indoor hospitality can reopen. Subject to underlying infection rates, all social distancing measures are scheduled to be withdrawn from late June. The vaccine rollout has been speedy and represents a real opportunity for the UK to live without the horrific health and economic consequences of the pandemic, even if the virus is not able to be completely eradicated. In this respect, London's leasing and investment activity can expect a dire start to the year in the first quarter, with a slow build through Q2 and momentum delivering a solid H2.

Given the lockdown restrictions imposed by the UK Government, the food and beverage tenants within DSQ have only been able to trade for only short periods since March 2020. As such, no income has been received from these occupiers since Q1 2020 and the ability to recover the rent has been removed through the Coronavirus Act. Whilst that rent has not been written off and theoretically can be recovered when the moratorium on forfeiture is lifted, it is anticipated that an element of the arrears are conceded in order to avoid large scale vacancy across the estate. this is emphasised by the fact that Mac and Wild were placed in liquidation during Q4 2020. Discussions are ongoing with all food and beverage tenants in relation to rental concession to ensure that they are well-placed to rebound strongly as the economy opens up.

The UK lockdowns have also severely impacted WeWork's revenue generation in buildings 8 and 10, particularly given the Government's consistent reluctance to support a large-scale return of the workforce to offices. Due to the nature of the revenue share lease mechanism in place in these building, this has had a substantial negative effect on the income levels at the Estate over the past

12 months. This has been proactively addressed by the conversion of both of these leases into fixed rent leases payable quarterly in advance for a term of over 17 years. This effectively guarantees income over approximately one third of the asset and provides a solid platform with which to further grow income as the active asset management phased building refurbishment strategy is delivered from 2021 onwards.

We can perhaps be confident that investment appetite will return (especially with the post-Brexit trade deal agreed and given Central London's yield differential with Continental Europe). There is arguably now a window of opportunity to take advantage of a narrowing of the spread, with the potential for 25-50 bps of further compression at stake for bond-like assets. Non-core assets, however, should expect a dislocation in values, although a lack of forced selling (retail funds notwithstanding) suggests the overall yield impact will nothing like previous periods of cyclical distress. Outward yield shifts in the City are expected to be modest at c. 55 bps. Yields are anticipated to re-price in the recovery such that capital growth recovers strongly from 2022.

Leasing markets will take time to stabilise. The glut of second-hand space, in particular, is likely to produce more distress to rental values, which have been marked down relatively lightly thus far. While we still believe tenants are prepared to pay top rents for the right quality, the sheer drop in "new" take up will underpin further corrections to prime headline rents in 2021. We assume the City benchmark non-tower rent will subside to £65 psf by the end of the year, -7.3% lower than its peak of £70 psf in Q1 2020. West End villages experience more limited rental falls of ca. -5%. We forecast rental falls of between -9.5% (West End) and -12% (City) on the MSCI portfolio with a very modest rental recovery in 2022 giving way to accelerating growth from 2023.

Valuation

The DSQ valuation has reduced from £639,365,000 in December 2019 to £620,552,000 in December 2020, a decrease of 2.9%. This was influenced by the failure of The Devonshire Club who represented c. 10% of Estate income and negative valuation sentiment to the food and beverage retailers given the extent that they were adversely impacted by Coivd-19 restrictions. Devonshire Square is a core office asset and is well-placed to recover positively once market appetite returns although valuation performance will be dependant to some extent on the leasing of Building 9, the refurbishment of which is due to complete in October 2021.

Financial Performance

A vehicle level IRR of 2.4% has been recorded during the period since ownership. Whilst this is below the long-term projected IRR, it is acknowledged that the business plan is currently in a phase where income is in a ramp-up stage. IRR performance has been affected by the failure of The Devonshire Club as a significant tenant and by Covid's effect on WeWork revenue share performance. However, the increased vacancy across the Estate has facilitated the progression of value-add refurbishment and redevelopment projects which will ultimately increase the income profile of the asset in the future.

Key Initiatives

The Asset Management Team have continued to progress the business plan throughout 2020. Despite the challenges caused by Covid, a number of key initiatives have been actioned and these include:

- WeWork: Given the understandably low revenue generated via the WeWork revenue share leases in Building 8 and 10 on account of Covid-related restrictions and likelihood of this situation persisting, proactive action was taken to amend the Framework Agreement to remove WeWork's first right of offer on any vacant building across Devonshire Square. This unlocks value creation as the buildings current subject to refurbishment strategies can be let in the open market to a diversified tenant base.
- Building 9: Commenced refurbishment of c. 45,000 sq ft of space in Building 9 in order to re-let at a reversionary market rent following practical completion 2021.

- Building 7: Extended the existing tenant's tenancy through to October 2020 whilst developing a redevelopment design scope with architects, Squire & Partners, with a view to commencing the works during 2021.
- Buildings 3 & 3A: Completed letting of all three residential apartments during the year.
- Building 9a / Bengal Wing: Completed refurbishment of the vacant office suites and comprehensive refurbishment of the common parts to bring this building up to contemporary standards.
- Building 10: Completed lease renewal with Chabane Ltd t/a Kenza.
- Buildings 4 & 5: Secured vacant possession and progressed office conversion scheme design.
- Masterplanning: Squire and Partners appointed as masterplan delivery architects and have produced initial concept designs which includes greening the public realm which is consistent with the sustainability agenda at the Estate and creating meaningful public spaces to encourage the return to offices.

Covid-19

The COVID-19 virus has had a profound effect on societies, economies and markets across the world, and there remains significant uncertainty about its future impact.

The coronavirus outbreak has resulted in travel restrictions, closed international borders, enhanced health screenings at ports of entry and elsewhere, disruption of and delays in healthcare service preparation and delivery, prolonged quarantines, cancellations, supply chain disruptions, and lower consumer demand, as well as general concern and uncertainty. The impact of COVID-19 has adversely affected the economies of many nations across the entire global economy, individual issuers and capital markets, and could continue to extents that cannot necessarily be foreseen. In addition, the impact of infectious illnesses in emerging market countries may be greater due to generally less established healthcare systems. Public health crises caused by the COVID-19 outbreak may exacerbate other pre-existing political, social and economic risks in certain countries or globally. The duration of the COVID-19 outbreak and its effects cannot be determined with certainty

Some working practices were changed early in the crisis, such as no face-to-face meetings and a restriction on travel, and while at the time of writing they remain in place it is expected that they will ultimately prove temporary. Nonetheless, the increased use of 'virtual' communications since the start of 2020 is likely to have a lasting impact on behaviour across the industry.

In line with local government guidelines, certain offices have begun to return to office-based operations, with strict social distancing rules in place and team rotations.

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Management if of the opinion that it can perhaps be confident that investment appetite will return (especially with the post-Brexit trade deal agreed and given Central London's yield differential with Continental Europe). There is arguably now a window of opportunity to take advantage of a narrowing of the spread, with the potential for 25-50 bps of further compression at stake for bond-like assets. Non-core assets, however, should expect a dislocation in values, although a lack of forced selling (retail funds notwithstanding) suggests the overall yield impact will nothing like previous periods of cyclical distress. Outward yield shifts in the City are expected to be modest at c. 55 bps. Yields are anticipated to re-price in the recovery such that capital growth recovers strongly from 2022.

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Going concern

With the ongoing restrictions over COVID-19, and the emphasis on "stay at home", the main impact at DSQ has been through the ongoing closures of the F&B tenants and the lack of desk space taken up at Buildings 8 & 10. Discussions are ongoing with the tenants regarding rent concessions. F&B currently makes up around 10% of the annual income for DSQ, so the concessions granted will not have a long term impact on the income.

A more material impact was the fall in income at Buildings 8 and 10. The priority rent calculations, upon which the quarterly income was based, was driven by occupancy and so income reduced from c£2.5m for the December 2019 quarter to £0.8m for December 2020. In order to rectify this, DSQ took the decision to convert the leases for Buildings 8 & 10 to standard leases. This would remove the ability to benefit from additional overage rental income when occupancy was high but gave the assurance of a steady quarterly income of around £2.6m each quarter. The additional income will also help to alleviate the cash trap default which currently stops DSQ from receiving any of the rental income, which is forecast to happen in Q3 2021. Once the cash trap default has been lifted DSQ will be able to draw down on the capex loan facility for the ongoing capex program.

The initial termination date of the DSQ loan facility is 20th May 2021, with the option to firstly extend to 20th May 2022 and finally to 20th May 2023.

In order to extend there must be no default on the loan – debt yield must be above 8.8%, LTV must be less than 67.5%. Due to the issues with Building 8 and 10 income mentioned above, in February

2021, DSQ made a voluntary repayment of £64m against the bank loan, in order to avoid a hard breach of the debt yield. These funds were by way of additional borrowing from the equity holders.

In order to extend the loan facility in May 2021, it is anticipated a further repayment will be required, with additional funding from the equity holders. Notice was issued to Mount Street on 16th April 2021.

Financial risk management

DSQ is exposed to market risk, credit risk and liquidity risk. DSQ's senior management oversees the management of these risks. DSQ's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for DSQ. The financial risk committee provides assurance to DSQ's senior management that DSQ's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with DSQ's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is DSQ's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Managers reviews and agrees policies for managing each of these risks.

Price risk

DSQ has no significant exposure to price risk as it does not hold any equity securities or commodities. DSQ, however is exposed to price risk other than in respect of financial instruments, such as property price risk including property rentals risk.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. DSQ is exposed to credit risk from its leasing activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close market positions. Due to the dynamic nature of the underlying businesses, DSQ aims to maintain flexibility in funding by keeping sufficient committed credit lines available. One of the main liquidity risks forced by DSQ is the potential redemption of shares.

Events after the statement of financial position date

Further to the conversion of the leases for Buildings 8 and 10, voluntary loan repayments and the submission of the notice to extend the loan facility, mentioned above there are no further subsequent events to be reported after the statement of financial position date.

Audit report

To the Board of Managers of
DSQ JV S.à r.l.

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of DSQ JV S.à r.l. (the "Company") and its subsidiaries (the "Group") as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

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

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Emphasis of Matter

We draw attention to Note 29 to these consolidated financial statements, which indicates that the Company has a loan facility expiring on May 20, 2021 and consequently the current liabilities are exceeding the total current assets. It is foreseen that the Company will do a partial repayment of the loan by way of additional funding from the equity holders in order to use the option to extend the maturity date. Our opinion is not modified in respect of this matter.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information stated in the annual report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 the Board of Managers and those charged with governance for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group'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 Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit 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 the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers;

- conclude on the appropriateness of the Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Restriction on Distribution and Use

This report, including the opinion, has been prepared for and only for the Board of Managers and the Partners in accordance with the terms of our engagement letter and is not suitable for any other purpose. We do not accept any responsibility to any other party to whom it may be distributed.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 26 April 2021

Electronically signed by
Amélie Julian

Amélie Julian

Consolidated Statement of Financial Position

	Note	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
ASSETS			
Non-current assets			
Investment property	7	629,866	648,680
Other non-current financial assets	11	1,596	6,553
		631,462	**655,233**
Current assets			
Trade and other receivables	9	6,553	4,993
Deferred charges and prepayments	10	1,230	1,524
Cash and cash equivalents	12	37,446	31,635
		45,229	**38,152**
Total assets		**676,691**	**693,385**
EQUITY			
Share capital	18	1,000	1,000
Share premium	18	212,053	212,053
Retained earnings		24,920	14,293
(Loss)/Profit for the year		(30,776)	10,627
Total Equity		**207,197**	**237,973**
LIABILITIES			
Non-current liabilities			
Borrowings	14, 19	215,805	426,154
Lease liabilities	15	9,070	9,077
Derivative financial instruments	17	-	1,441
Deferred tax liabilities	26	165	1,288
Tenant deposits		111	179
		225,151	**438,139**
Current liabilities			
Borrowings	14, 19	231,183	3,446
Lease liabilities	15	244	238
Trade and other payables	16, 19	11,077	12,926
Derivative financial instruments	17	1,202	-
Income tax payable		579	605
Tenant deposits		58	58
		244,343	**17,273**
Total liabilities		**469,494**	**455,412**
Total equity and liabilities		**676,691**	**693,385**

The notes on pages 15 to 56 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Rental income	20	20,402	29,878
Service charge income	20	3,165	5,807
Other building income	20	667	87
Net (loss)/gain from fair value adjustment on investment property	24	(27,601)	9,170
Property expenses	22	(5,934)	(9,259)
Other operating expenses	21	(2,458)	(3,155)
Net changes in fair value of derivative financial instruments	17	239	(1,133)
Net operating profit		**(11,520)**	**31,395**
Finance income	23	232	444
Finance costs	23	(20,445)	(19,479)
Net financing costs		**(20,213)**	**(19,035)**
(Loss)/Profit before income tax		**(31,733)**	**12,361**
Income tax expense/(write-back)	26	957	(1,734)
(Loss)/Profit for the year		**(30,776)**	**10,627**
Other comprehensive income for the year		**-**	**-**
Total comprehensive (expense)/ income for the year		**(30,776)**	**10,627**

The notes on pages 15 to 56 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Retained earnings	Total equity
	£('000)	£('000)	£('000)	£('000)
Balance at 16 March 2018	-	-	-	-
Shares issued during the period	1,000	-	-	1,000
Contributions	-	212,053	-	212,053
Profit for the period	-	-	14,293	14,293
Balance at 31 December 2018	**1,000**	**212,053**	**14,293**	**227,346**
Shares issued during the year	-	-	-	-
Contributions	-	-	-	-
Profit for the year	-	-	10,627	10,627
Balance at 31 December 2019	**1,000**	**212,053**	**24,920**	**237,973**
Shares issued during the year	-	-	-	-
Contributions	-	-	-	-
Loss for the year	-	-	(30,776)	(30,776)
Balance at 31 December 2020	**1,000**	**212,053**	**(5,856)**	**207,197**

Statement of Equity per equity holder

	ECF Luxco3 S.à r.l	PFA Global Real Estate Low A/S	DSQ Partners Lux S.à r.l	Total
	£('000)	£('000)	£('000)	£('000)
Promote as at 31 December 2018	-	-	-	-
NAV per equity holder as at 31 December 2018	102,306	102,306	22,734	227,346
Balance at 31 December 2018	**102,306**	**102,306**	**22,734**	**227,346**
Promote as at 31 December 2019	-	-	-	-
Profit for the year per equity holder	4,782	4,782	1,063	10,627
Balance at 31 December 2019	**107,088**	**107,088**	**23,797**	**237,973**
Promote as at 31 December 2020	-	-	-	-
Loss for the year per equity holder	(13,849)	(13,849)	(3,078)	(30,776)
Balance at 31 December 2020	**93,239**	**93,239**	**20,719**	**207,197**

The notes on pages 15 to 56 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows	**Note**	**For the year ended 31 December 2020 £('000)**	**For the year ended 31 December 2019 £('000)**
Cash flows from operating activities			
(Loss)/Profit before income tax		**(31,733)**	**12,361**
Net gain/(loss) from fair value movement of investment properties	24	27,601	(9,170)
Net change in fair value adjustment on derivative financial instruments	17	(239)	1,133
Net foreign exchange (gains)/losses	23	(8)	49
Finance costs	23	17,981	18,531
Finance income	23	(224)	(442)
Tenant impairments	22	(850)	2,304
Straight–lining of lease incentives	20	712	(1,067)
Amortization of debt issue costs	23	2,464	896
Changes in working capital:			
Increase/(decrease) in trade and other receivables		4,522	(5,780)
(Decrease)/Increase in trade and other payables		(1,508)	1,239
(Decrease) in tenants' related assets and liabilities excluding tenant impairment		(36)	-
Income tax paid		(282)	(373)
Interests received on current accounts		(136)	75
Interest paid on current accounts		(9)	(9)
Net cash flow generated from operating activities		**18,255**	**19,747**
Cash flows from investing activities			
Capital expenditure on investment properties	7	(9,408)	(2,082)
Acquisition of subsidiaries, net of cash acquired	6	-	(59)
Loans interests received		-	367
Net cash flow used in investing activities		**(9,408)**	**(1,774)**
Cash flows from financing activities			
Proceeds from borrowings	14	21,930	-
Repayments of borrowings	14	(17,962)	
Loans interests paid		(6,765)	(18,131)
Lease liabilities paid		(251)	(251)
Net cash flow generated from financing activities		**(3,048)**	**(18,382)**
Net increase in cash and cash equivalents		**5,799**	**(409)**
Cash and cash equivalents at beginning of the year		31,635	32,095
Exchange gains/(losses) on cash and cash equivalents		12	(51)
Cash and cash equivalents at the end of the year		**37,446**	**31,635**

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Notes to the Consolidated Financial Statements

1. General information

DSQ JV S.à r.l. ("DSQ") a private limited liability company ("Société à responsabilité limitée") was established on 16 March 2018 for an unlimited period of time, incorporated in the Grand Duchy of Luxembourg with the RCS number B223009.

ECF Luxco 3 S.à r.l. an indirect, wholly-owned subsidiary of European Cities Partnership SCSp, PFA Global Real Estate Low A/S and DSQ Partners Lux S.à r.l, hold 45%, 45% and 10% of the ownership interests in DSQ, respectively (defined further as "equity holders").

The investment objective of DSQ is to seek stable cash-flow generally consistent with DSQ's targeted income distributions and capital appreciation for the equity holders by acquiring and actively managing a portfolio represented by freehold and leasehold properties.

The address of DSQ's registered office is 4a, rue Henri Schnadt, L-2530 Luxembourg, Grand Duchy of Luxembourg.

DSQ's financial year starts on 1 January and ends on 31 December each year.

The consolidated financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Managers on 23 April 2021.

2. Summary of significant accounting policies

(a) Basis of preparation

Statement of Compliance

DSQ's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS").

Income and cash flow statements

DSQ has elected to present a single statement of comprehensive income and present its expenses by nature.

DSQ reports cash flows from operating activities using the indirect method. Interests received, other than those on current bank accounts, are presented within investing cash flows; interests paid, other than those on current bank accounts and derivatives, are presented within financing cash flows. The acquisitions of investment properties are disclosed in cash flows from investing activities because this most reflects DSQ's business activity.

Preparation of the consolidated financial statements

The consolidated financial statements are prepared on a going concern basis, applying a historical cost convention except for the measurement of derivative financial instruments and investment properties that have been measured at fair value.

Management considered the implications of COVID-19 and the measures taken to control it when assessing DSQ's ability to continue as a going concern. Following the analysis of foreseen strategy for subscriptions, redemptions and commitments as well as cash projections there is no indication or significant doubt on DSQ's ability to continue as a going concern.

The preparation of consolidated financial instruments in conformity with IFRS requires the use of accounting estimates. It also requires the Board of Managers to exercise its judgment in the process of applying DSQ's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the year the assumptions changed. Management believes that the underlying assumptions are appropriate.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

The significant accounting policies applied by DSQ are described on the following paragraphs of this note.

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of DSQ and its wholly owned subsidiaries (together "DSQ") as at 31 December 2020. Control is achieved when DSQ is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, DSQ controls an investee if, and only if, it has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

When DSQ has less than a majority of the voting or similar rights of an investee, DSQ considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- DSQ's voting rights and potential voting rights

DSQ reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when DSQ obtains control over the subsidiary and ceases when DSQ loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of other comprehensive income from the date DSQ gains control until the date when DSQ ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions and unrealised gains and losses resulting from intra- group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not held by DSQ and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from DSQ equity holders' equity.

(i) Property acquisitions and business combinations

Where property is acquired, via corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

(ii) Property acquisitions

Where an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations.

(iii) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that are deemed to be an asset or liability are recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

For each business combination, DSQ elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions

(iv) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(v) Disposal of subsidiaries

When DSQ ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interests as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if DSQ had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Foreign currency translation

(i) Functional and presentation currency

The consolidated financial statements are presented in GBP (£) and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

The functional currency of a subsidiary is determined with reference to the currency of the primary economic environment in which the entity generates and expends cash and raises finance. The functional currency of DSQ and of DSQ's subsidiaries is the British Pound.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income of the respective entity.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented net in the consolidated statement of comprehensive income within finance costs and finance income, respectively, unless they are capitalised as explained in point m) below. All other *foreign exchange gains and losses are presented net in the consolidated statement of* comprehensive income.

(iii) Consolidation

Where the functional currency of a subsidiary is different from the functional currency of DSQ the assets and liabilities of the subsidiary are translated at the rate of exchange ruling at the balance sheet date. The statement of comprehensive income of such subsidiaries are translated at the average exchange rate for the year. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On the disposal of such a subsidiary, accumulated exchange differences are recognised in the profit or loss as a component of the gain or loss in disposal, including any tax effects.

(d) Financial instruments

(i) Classification

DSQ classifies its financial instruments in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial instruments and the contractual terms of the cash flows. For instruments measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether DSQ has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. DSQ reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

DSQ recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual rights and obligations in the contract. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that DSQ commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and DSQ has transferred substantially all the risks and rewards of ownership.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(iii) Measurement

Financial assets and liabilities are initially measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable transaction costs of acquisition or issue.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value with changes in fair value recognised in profit or loss if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself classified as held for trading or designated as at fair value through profit or loss.

(iv) Subsequent measurement

Financial assets at amortised cost

After initial measurement, financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are carried at amortised cost using the effective interest method less any allowance for impairment. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains (losses) together with foreign exchange gains and losses.

These include amounts relating to cash and cash equivalents, trade and other receivables.

Financial liabilities at amortised costs

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Please refer to Note 2.(g) for a description of the effective interest method. DSQ includes in this category borrowings, tenant deposits and trade and other payables.

Financial assets and liabilities at fair value through profit and loss

DSQ includes in this category derivatives. Please refer to note 2(e) for the related accounting policy.

(v)Impairment

DSQ's financial assets carried at amortised cost are subject to the expected credit loss model.

In order to measure the expected credit losses for financial assets, DSQ applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, the financial assets have been grouped based on the days past due.

The expected loss rates are based on the historical payment profiles and the corresponding credit losses experienced within this financial year. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the counterparty to settle the financial asset. Such forward-looking information would include:

- changes in economic, regulatory, technological and environmental factors, (such as industry outlook, GDP, employment and politics);
- external market indicators; and
- tenant base.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible.

(e) Derivative financial instruments

DSQ uses interest rate swaps and caps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value with changes in the fair value presented in the consolidated statement of comprehensive income.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

DSQ does not apply hedge accounting in accordance with IFRS 9.

(f) Current versus non-current classification

DSQ presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting year, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting year

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting year, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting year.

DSQ classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(g) Interest income/expense

Interest income and expense are recognised as income and expense within 'finance income' or 'finance expenses' in the consolidated statement of comprehensive income for all debt instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, DSQ estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

In order to measure the expected credit losses for trade and other receivables, DSQ applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on the days past due. The expected loss rates are based on the historical payment profiles and the corresponding credit losses experienced within this financial year. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

(i) Other financial assets

Financial assets other than trade receivables are recognised initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs and subsequently, at amortised cost.

DSQ recognises a loss allowance for expected credit losses on a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. Should the credit risk not increase significantly since initial recognition, DSQ shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

(j) Prepayments

Prepayments are carried at costs less any accumulated impairment losses.

(k) Offsetting of financial instruments

Financial assets and financial liabilities are off-set and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to DSQ prior to the end of the financial year which are unpaid. The amounts are unsecured and trade and other payables are presented as current liabilities unless payment is not due until twelve months after the reporting year. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Tenant deposits

Tenant deposits are initially recognised at fair value and subsequently measured at amortised cost. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term. Refer also to accounting policies on financial liabilities in this note.

(o) Other financial liabilities

Other financial liabilities not included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest-bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted as fair value is deemed same as amortised cost.

(p) Borrowings

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as a finance cost in the consolidated statement of comprehensive income over the year of the borrowings using the effective interest method.

Where borrowings are associated with specific developments, the amount capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion, i.e., when substantially all of the development work is completed. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre- payment for liquidity services and amortised over the year of the facility to which it relates.

(q) Revenue recognition

DSQ's key sources of income include:

- Rental income;
- Revenue from services to tenants including management charges and other expenses recoverable from tenants. Service charges consist of those costs of servicing and operating the properties from the tenants.

(i) Rental income

DSQ earns revenue from acting as a lessor in operating leases.

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term.

Lease incentives that are paid or payable to the lessee are deducted from lease payments. Accordingly, tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, DSQ is reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the statement of profit or loss when the right to receive them arises.

(ii) Revenue from services to tenants

For investment property held primarily to earn rental income, DSQ enters as a lessor into lease agreements that fall within the scope of IFRS 16. These agreements include certain services offered to tenants including common area maintenance services as well as other support services. The consideration charged to tenants for these services includes fees charged based on a percentage of the rental income and reimbursement of certain expenses incurred. These services are specified in the lease agreements and separately invoiced.

DSQ has determined that these services constitute distinct non-lease components (transferred separately from the right to use the underlying asset) and are within the scope of IFRS 15.

Revenue from service and property management charges is recognised in the accounting period in which control of the services are passed to the tenants, which is when the service is rendered. For certain service contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

Some property management contracts may include multiple elements of service, which are provided to tenants. DSQ assesses the whether individual elements of service in contract are separate performance obligations or not. Where the contracts include multiple performance obligations, and/or lease and non-lease components, the transaction price will be allocated to each performance obligation (lease and non-lease component) based on the stand-alone selling prices. Where these selling prices are not directly observable, they are estimated based on an expected cost-plus margin. In the case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by DSQ exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Revenue is measured at the transaction price agreed under the contract. Amounts disclosed as revenue are net of variable consideration and payments to customers, which are not for distinct services, this consideration may include discounts, trade allowances, rebates and amounts collected on behalf of third parties. For arrangements that include deferred payment terms that exceed twelve months, DSQ adjusts the transaction price for the financing component, with the impact recognized as interest income using the effective interest rate method over the period of the financing.

A receivable is recognised when services are provided as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

DSQ arranges for third parties to provide certain of these services to its tenants. DSQ concluded that it acts as a principal in relation to these services as it controls the specified services before transferring them to the customer. Therefore, DSQ records revenue on a gross basis.

DSQ may pay sales commissions in order to secure certain contracts; these sales commissions are assessed to be an incremental cost of obtaining a contract. For sales commissions paid in relation to revenue contracts, which are for a period greater than one year, the sales commissions are capitalized as another non-current asset and is amortised over the period of the revenue contract to which it relates.

(r) Expense recognition

Expenses are accounted for on an accrual basis. Expenses are charged to the consolidated statement of comprehensive income, except for those incurred in the acquisition of an investment which are capitalised as part of the cost of the investment. Expenses arising on the disposal of investments are deducted from the disposal proceeds.

(s) Provisions

A provision is recognised when, and only when, DSQ has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed on a quarterly basis and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Provisions for legal claims are recognised when:

- DSQ has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

(t) Dividend distribution

Dividend distributions to DSQ's equity holders are recognised as a liability in DSQ's consolidated financial statements in the year in which the dividends are declared and approved and derecognised once the liability has been settled.

(u) Current and deferred income taxes

DSQ may be subject to income and deferred taxes in numerous jurisdictions.

Tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income or equity in which case, the tax is also recognised in other comprehensive income or equity.

DSQ recognises liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the year in which the determination is made. Deferred tax assets and liabilities are recognised on a net basis to the extent they relate to the same fiscal unity and fall due in approximately the same year.

(i) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where DSQ operates.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income 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 income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

(v) Investment property

Investment properties comprises of completed properties that are held to earn rentals or for capital appreciation or both. Properties held under a lease are classified as investment property when it is held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions. Investment properties are measured initially at cost including transaction costs.

Before 1 January 2019, all land held under operating leases was classified and accounted for by DSQ as investment property when the rest of the definition of investment property is met. Therefore, the operating leases were accounted for as if they were a finance lease.

After 1 January 2019, investment property that is obtained through a lease is measured initially at the lease liability amount adjusted for any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred by DSQ, and when applicable, an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the year in which they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

After initial recognition, investment properties are carried at fair value.

Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, DSQ uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed on a quarterly basis and with a full annual valuation report as of the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the consolidated financial statements.

The fair value of investment properties reflects amongst other things, rental income from current leases and assumptions about rental income from future leases in the light of the current market conditions. The fair value also reflects on a similar basis, any cash outflows that could be expected in respect of the property.

The fair value of investment properties do not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the fair value of the property.

Changes in fair value are recorded in the consolidated statement of comprehensive income.

Transfers are made to or from investment properties only when there is a change in use. For a transfer from investment properties to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner- occupied property becomes an investment property, DSQ accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment properties are derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal.

Where DSQ disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the statement of comprehensive income within net gain from fair value adjustment on investment property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to DSQ and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the cost of the replacement is included in the carrying amount of the property, and the fair value is reassessed.

(w) Leases

DSQ as the lessee

DSQ applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

The right-of-use asset is measured at its cost which includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred by DSQ; and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

DSQ measures the right-of-use assets that meet the definition of investment property using the fair value model applied to its investment property. Right of use assets linked to owner occupied buildings are measured applying the cost model relevant to that specific class of property, plant and equipment.

The lease liability is measured at the present value of the lease payments that are not paid at the date of the consolidated statement of financial position. 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 depend on an index or rate, initially measured at the applicable index or rate at the lease commencement date;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, or the penalty payable on the exercise of a termination option unless the lessee is reasonably certain not to exercise the option; and
- Any amounts expected to be payable under residual value guarantees.

In calculating the present value of lease payments, DSQ uses its incremental borrowing rate, 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 at the lease commencement date as the interest rate implicit in the lease is not readily determinable.

Subsequently, the lease liability is measured as follows:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Where DSQ is exposed to potential future increases in variable lease payments based on an index or rate, these 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.

<u>DSQ as the lessor</u>

Lease income from operating leases where DSQ is a lessor is recognised within the consolidated statement of comprehensive income on a straight-line basis over the lease term (note 2q). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet.as investment properties.

DSQ elects to recognise lease income for variable payment that depends on an index or a rate on a straight-line basis.

DSQ makes payments to agents for services in connection with negotiating lease contracts with the DSQ's lessees.The letting fees are capitalised within the carrying amount of the related investment property and are amortised over the lease term.

(x) Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefit is possible.

(y) Investment property held for sale

An investment property classified as held for sale is measured at fair value. An investment property is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the investment property is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. On re-classification, investment property that is measured at fair value continues to be so measured. The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

(z) Fair value measurements

DSQ measures certain financial instruments such as derivatives, and non-financial assets such as investment property, at fair value at the end of each reporting year. Also, fair values of financial instruments measured at amortised cost are disclosed in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

DSQ must be able to access the principal or the most advantageous market at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

DSQ uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, DSQ determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

The following table shows an analysis of the fair values of the financial assets and liabilities recognised in the statement of financial position by level of the fair value hierarchy as at reporting date:

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets	£('000)	£('000)	£('000)	**£('000)**
Trade and other receivables	-	6,553	-	**6,553**
Other non-current financial assets	-	1,596	-	**1,596**
Cash and cash equivalents	37,446	-	-	**37,446**
Liabilities				
Borrowings	-	(447,518)	-	**(447,518)**
Derivative financial instruments	-	(1,202)	-	**(1,202)**
Trade and other payables (*)	-	(7,011)	-	**(7,011)**
Tenants deposits	-	(169)	-	**(169)**
Lease liabilities	-	-	(9,314)	**(9,314)**

(*) Excluding deferred income of £4,066k.

31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets	£('000)	£('000)	£('000)	**£('000)**
Trade and other receivables	-	4,993	-	**4,993**
Other non-current financial assets	-	6,553	-	**6,553**
Cash and cash equivalents	31,635	-	-	**31,635**
Liabilities				
Borrowings	-	(432,594)	-	**(432,594)**
Derivative financial instruments	-	(1,441)	-	**(1,441)**
Trade and other payables (*)	-	(7,268)	-	**(7,268)**
Tenants deposits	-	(237)	-	**(237)**
Lease liabilities	-	-	(9,315)	**(9,315)**

(*) Excluding deferred income of £5,658k.

(aa) Fair values

Set out below is a comparison between the carrying amount and the fair value of the financial assets and liabilities held by DSQ:

	Carrying amount 31 December 2020 £('000)	**Fair value 31 December 2020 £('000)**
Assets		
Trade and other receivables	6,553	6,553
Other non-current financial assets	1,596	1,596
Cash and cash equivalents	37,446	37,446
Liabilities		
Borrowings	(447,518)	(447,518)
Derivative financial instruments	(1,202)	(1,202)
Trade and other payables (*)	(7,011)	(7,011)
Tenants deposits	(169)	(169)
Lease liabilities	(9,314)	(9,314)

(*) Excluding deferred income of £4,066k.

	Carrying amount 31 December 2019 £('000)	Fair value 31 December 2019 £('000)
Assets		
Trade and other receivables	4,993	4,993
Other non-current financial assets	237	237
Other current financial assets	6,316	6,316
Cash and cash equivalents	31,635	31,635
Liabilities		
Borrowings	(429,600)	(432,594)
Derivative financial instruments	(1,441)	(1,441)
Trade and other payables (*)	(7,268)	(7,268)
Tenants deposits	(237)	(237)
Lease liabilities	(9,315)	(9,315)

(*) Excluding deferred income of £5,658k.

The fair value of the financial assets and liabilities are included at an estimate of the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate fair values:

- Cash and cash equivalents, rent receivables, account payables, tenant deposits and other current liabilities approximate their carrying amounts due to the short-term maturities of these instruments;
- The fair value of floating rate interest bearing bank loan is approximately its carrying value as at 31 December 2020 and 31 December 2019;
- DSQ has entered into an interest rate swap/cap. The fair value of the interest rate swap/cap is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of lease liabilities is approximately its carrying value as at 31 December 2020 and 31 December 2019;
- The fair value of loans from the equity holders approximate their carrying amount as the fixed rates are reviewed annually.

3. Standards and interpretations

New and amended standards adopted by DSQ

DSQ adopted the following standards and amendments which have entered into force beginning on 1 January 2020:

A. Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The management believes this amendment had no material impact on the consolidated financial statements of DSQ.

B. Definition of Material (Amendments to IAS 1 and IAS 8)

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) contain a revised definition of 'material' which is quoted below from the final amendments: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments must be applied prospectively, the effective date to apply the new definition is 1 January 2020. The management believes this amendment had no material impact on the consolidated financial statements of DSQ.

C. Conceptual Framework for Financial Reporting (issued on 29 March 2018)

The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes the following key changes:

- increasing the prominence of stewardship in the objective of financial reporting,
- reinstating prudence as a component of neutrality,
- defining a reporting entity, which may be a legal entity, or a portion of an entity, revising the definitions of an asset and a liability,
- removing the probability threshold for recognition and adding guidance on derecognition,
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements

The management believes this amendment had no material impact on the consolidated financial statements of DSQ.

D. Amendments to IFRS 3 – Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. The management believes these amendments had no material impact on the consolidated financial statements of DSQ but may impact future periods should it enter into any acquisitions. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

E. Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The management believes this amendment had no material impact on the consolidated financial statements of DSQ.

New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of DSQ's annual report are disclosed below. These amendments and interpretations are effective starting with 1 January 2021. DSQ intends to adopt these standards, if applicable, when they become effective.

A. Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. DSQ is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

B. Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

The amendments must be applied prospectively beginning on 1 January 2022. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS Standards (March 2018).

C. Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.
In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. The amendments must be applied prospectively, early application of the amendments is still permitted and must be disclosed.

D. 2018-2020 cycle (issued in May 2020)

a) IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Board of Directors is currently assessing the impact of the above on the consolidated financial statements.

b) IFRS 9 Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

c) Illustrative Examples accompanying IFRS 16 Leases

The amendment removes the illustration 13 of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives. The Board of Directors is currently assessing the impact of the above on the consolidated financial statements.

E. Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a contract

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The Board of Directors is currently assessing the impact of the above on the consolidated financial statements.

F. Amendments to IAS 16 – Proceeds before intended use

The amendment prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The Board of Directors is currently assessing the impact of the above on the consolidated financial statements.

G. Amendments to IFRS 7, IFRS 9 and IAS 39 - Interest Rate Benchmark Reform (Phase 2)

In August 2020, the Board has published amendments to IFRS 7, IFRS 9 and IAS 39 on the Interest Rate Benchmark Reform (Phase 2) that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. The Board of Directors is currently assessing the impact of the above on the consolidated financial statements.

4. Financial risk management

DSQ is exposed to market risk, credit risk and liquidity risk. DSQ's senior management oversees the management of these risks. DSQ's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for DSQ. The financial risk committee provides assurance to DSQ's senior management that DSQ's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with DSQ's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is DSQ's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Managers reviews and agrees policies for managing each of these risks which are summarised below.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise of three types of risk: interest rate risk, currency risk and price risk. Financial assets and liabilities affected by market risk include loans, trade receivables, borrowings, deposits, and derivative financial instruments.

(i) Cash flow and fair value interest rate risk

DSQ's interest rate risk principally arises from long-term borrowings (Note 14). Borrowings issued at variable rates expose DSQ to cash flow interest rate risk. DSQ interest rate risk arises from interest bearing loans with variable rates on external borrowings and fixed rates on loans from equity holders. Fair value interest rate risk arises from DSQ's loans from equity holders.

DSQ's policy is to fix the interest rate on its variable interest borrowings. To manage this, DSQ enters into interest rate swap/cap in which DSQ agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. At 31 December 2020, after taking into account the effect of interest rate swaps, 100% of DSQ's borrowings are hedged (2019: 100%).

Trade and other receivables and trade and other payables are interest free and with a term of less than one year, so it is assumed that there is no interest rate risk associated with these financial assets and liabilities.

DSQ does not hold significant interest-bearing assets as such changes in market interest rates do not have any significant direct effect on DSQ's income.

(ii) Currency risk

Currency risk is the risk that the cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. DSQ operates in the United Kingdom and its exposure to currency risk is immaterial.

(iii) Price risk

DSQ has no significant exposure to price risk as it does not hold any equity securities or commodities. DSQ, however is exposed to price risk other than in respect of financial instruments, such as property price risk including property rentals risk. Refer to Notes 7 and 8.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. DSQ is exposed to credit risk from its leasing activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

(i) Trade receivables

DSQ currently is holding Devonshire Square Estate which has 31 tenants for which there is no credit concentration. Each tenant's credit risk is assessed on a case by case basis and is addressed by a robust policy for tenant acceptance i.e. only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The maximum exposure to credit risk as at 31 December 2020 and 31 December 2019 is the carrying value of each class of financial assets.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by country, type of asset, tenant type and rating, and coverage by credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, rent and other trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The credit insurance is considered integral part of trade receivables and considered in the calculation of impairment.

At 31 December 2020 and 31 December 2019, the management assessed that none of the DSQ's rent and other trade receivables are covered by credit insurance. DSQ evaluates the concentration of risk with respect to rent and other trade receivables as low, as its tenants are located in several jurisdictions and type of asset (retail, logistics, offices) and operate in largely independent markets.

31 December 2020	**<30 days £'000**	**30-60 days £'000**	**60-90 days £'000**	**90-180 days £'000**	**Total £'000**
Expected loss rate	-	-	(8%)	76%	
Trade debtors	3,188	8	74	2,576	5,846
Impairment provision	-	-	(6)	2,014	2,008

31 December 2019	**<30 days £'000**	**30-60 days £'000**	**60-90 days £'000**	**90-180 days £'000**	**Total £'000**
Expected loss rate	54.6%	49.3%	-	54.1%	
Trade debtors	991	2,989	8	973	4,961
Impairment provision	541	1,473	-	526	2,540

(ii) Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by DSQ's treasury department in accordance with DSQ's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed on an annual basis and may be updated throughout the year subject to approval of Nuveen treasury team. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

DSQ's maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2020 and 31 December 2019 is their carrying amount. The financial institutions used by DSQ were rated Aa3 by Moody's as at 31 December 2020 (31 December 2019: Aa3)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close market positions. Due to the dynamic nature of the underlying businesses, DSQ aims to maintain flexibility in funding by keeping sufficient committed credit lines available.

One of the main liquidity risks forced by DSQ is the potential redemption of shares.

At 31 December 2020, the loan facility was classified as a current liability given the initial termination date of 20 May 2021. This has led to a negative working capital situation, which has been rectified as notice was served to Mount Street on 16 April 2021 that the loan will be extended to 20 May 2022. Please refer to the note 29 for more details.

The table below provides liquidity analysis on all relevant liabilities as at 31 December 2020 and 31 December 2019 respectively, the majority of financial assets are due within one year. The amounts disclosed in the table below are the contracted undiscounted cash flows.

31 December 2020:

	Notes	Total	No later than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Later than 5 years
		£('000)	£('000)	£('000)	£('000)	£('000)
Liabilities						
Borrowings (*)	14	**447,127**	22,931	208,391	-	215,805
Interest payable on borrowings		**105,062**	931	14,807	56,046	33,278
Derivative financial instruments – liabilities	17	**1,202**	-	1,202	-	-
Tenant deposits		**169**	-	58	22	89
Trade and other payables (**)	16	**7,011**	3,921	3,090	-	-
Lease liabilities	15	**9,314**	61	183	915	8,155

(*) Excluding unamortized debt issue costs of £529k already settled but included in the carrying value of borrowings

(**) Excluding deferred income of £4,066k already settled

31 December 2019:

	Notes	Total	No later than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Later than 5 years
		£('000)	£('000)	£('000)	£('000)	£('000)
Liabilities						
Borrowings (*)	14	**429,148**	-	-	235,272	193,876

Interest payable on borrowings		**104,178**	7,639	12,578	46,921	37,040
Derivative financial instruments – liabilities	17	**1,441**	-	-	1,441	-
Tenant deposits		**237**	-	-	-	237
Trade and other payables (**)	16	**7,268**	3,574	3,694	-	-
Lease liabilities	15	**9,315**	60	178	891	8,186

(*) Excluding unamortized debt issue costs of £2,994k already settled but included in the carrying value of borrowings

(**) Excluding deferred income of £5,658k already settled

(d) Capital risk management

Capital consists of shares attributable to the equity holders of DSQ. The primary objective of DSQ's capital risk management is to ensure that it maintains healthy capital ratios in order to support its business and maximise equity holders' return. DSQ manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, DSQ may adjust the distribution payment to equity holders, return capital to equity holders or issue new shares. DSQ monitors capital using a gearing ratio, which is the amount of borrowings divided by DSQ's real estate value. DSQ's policy is to keep the gearing ratio below the limit of 40%. As at 31 December 2020 the gearing ratio is 22.5% (38.8% as at 31 December 2019), calculated by taking net bank debt over DSQ's latest bank valuation.

DSQ is subject to covenants in regards to its borrowings, which are detailed in Note 14.

(e) United Kingdom's (UK) departure from the European Union (EU) ("Brexit")

The UK voted in a referendum on 23 June 2016 to leave the EU, the process known as Brexit.

The UK left the European Union ('EU') on 31 January 2020. A transitional period, during which the UK is no longer a member of the EU but is still subject to EU rules and remains a member of the Customs Union, concluded on 31 December 2020. In the closing days of the transition, the UK and EU finally agreed Brexit terms; although the UK's final future trading relationship with the EU is far from concluded, in what is likely to be a long and rather drawn out affair.

Nuveen Real Estate's preparation for Brexit ensured that it was appropriately positioned to deal with the significant regulatory change resulting from the UK's departure from the EU. These Brexit plans were delivered in 2019 and are operating as intended. During 2019, Nuveen created two new Luxembourg domiciled entities. These new entities enabled the Group to manage Alternative Investment funds and provide European Markets in Financial Instruments Directive (MiFID) services through its newly established branches.

During 2020, Nuveen have monitored Brexit developments and have determined that the steps taken in 2019 are still appropriate to help mitigate the impact of Brexit on Funds managed by Nuveen. The updated operating model will continue to be monitored and fine-tuned, much like the agreed Brexit terms.

All of DSQ investments are located in the UK, and they may, as a result, be affected by Brexit, either near or longer term. As the dust still settles on trading deal, the impact of Brexit on the Fund is difficult to quantify, and most likely dwarfed by the economic impact of the global pandemic. As the property market navigates a post Brexit / Covid recovery, there may be detrimental implications on the value of certain Fund investments, or its ability to enter into transactions or to value or realise such investments.

This may be due to, among other things: (i) increased uncertainty and volatility in financial markets; (ii) fluctuations in the market value of sterling and of UK assets; (iii) fluctuations in exchange rates between sterling and other currencies; (iv) increased illiquidity of investments located or listed within the UK; and/or (v) the willingness of financial counterparties to enter into transactions, or the price at which they are prepared to transact in relation to the Fund's investments, currency and other risks.

Inevitably, one can expect potential ongoing revisions to the terms agreed in the departure of the

UK from the European Union, and as such, the Fund may also be impacted by changes in law and tax treatment resulting from the agreement, particularly as regards to any UK situated investments held by the Fund. In addition, UK domiciled investors in the Fund may be impacted by changes in law, particularly as regards UK taxation of their investment in the Funds, resulting from the evolution of the UK's departure from the EU.

(f) COVID-19

The COVID-19 virus has had a profound effect on societies, economies and markets across the world, and there remains significant uncertainty about its future impact.

The coronavirus outbreak has resulted in travel restrictions, closed international borders, enhanced health screenings at ports of entry and elsewhere, disruption of and delays in healthcare service preparation and delivery, prolonged quarantines, cancellations, supply chain disruptions, and lower consumer demand, as well as general concern and uncertainty. The impact of COVID-19 has adversely affected the economies of many nations across the entire global economy, individual issuers and capital markets, and could continue to extents that cannot necessarily be foreseen. In addition, the impact of infectious illnesses in emerging market countries may be greater due to generally less established healthcare systems. Public health crises caused by the COVID-19 outbreak may exacerbate other pre-existing political, social and economic risks in certain countries or globally. The duration of the COVID-19 outbreak and its effects cannot be determined with certainty

Some working practices were changed early in the crisis, such as no face-to-face meetings and a restriction on travel, and while at the time of writing they remain in place it is expected that they will ultimately prove temporary. Nonetheless, the increased use of 'virtual' communications since the start of 2020 is likely to have a lasting impact on behaviour across the industry.

In line with local government guidelines, certain offices have begun to return to office-based operations, with strict social distancing rules in place and team rotations.

At the time of writing in March 2021, the UK is subject to a national lockdown. This lockdown is due to be eased meaningfully from mid-April, with the opening of shops, gyms and outdoor hospitality, and further in mid-May, when indoor hospitality can reopen. Subject to underlying infection rates, all social distancing measures are scheduled to be withdrawn from late June. The vaccine rollout has been speedy and represents a real opportunity for the UK to live without the horrific health and economic consequences of the pandemic, even if the virus is not able to be completely eradicated. In this respect, London's leasing and investment activity can expect a dire start to the year in the first quarter, with a slow build through Q2 and momentum delivering a solid H2.

Given the lockdown restrictions imposed by the UK Government, the food and beverage tenants within DSQ have only been able to trade for only short periods since March 2020. As such, no income has been received from these occupiers since Q1 2020 and the ability to recover the rent has been removed through the Coronavirus Act. Whilst that rent has not been written off and theoretically can be recovered when the moratorium on forfeiture is lifted, it is anticipated that an element of the arrears are conceded in order to avoid large scale vacancy across the estate. this is emphasised by the fact that Mac and Wild were placed in liquidation during Q4 2020. Discussions are ongoing with all food and beverage tenants in relation to rental concession to ensure that they are well-placed to rebound strongly as the economy opens up.

The UK lockdowns have also severely impacted WeWork's revenue generation in buildings 8 and 10, particularly given the Government's consistent reluctance to support a large-scale return of the workforce to offices. Due to the nature of the revenue share lease mechanism in place in these building, this has had a substantial negative effect on the income levels at the Estate over the past 12 months. This has been proactively addressed by the conversion of both of these leases into fixed rent leases payable quarterly in advance for a term of over 17 years. This effectively guarantees income over approximately one third of the asset and provides a solid platform with which to further grow income as the active asset management phased building refurbishment strategy is delivered from 2021 onwards.

Management if of the opinion that it can perhaps be confident that investment appetite will return (especially with the post-Brexit trade deal agreed and given Central London's yield differential with Continental Europe). There is arguably now a window of opportunity to take advantage of a narrowing of the spread, with the potential for 25-50 bps of further compression at stake for bond-like assets. Non-core assets, however, should expect a dislocation in values, although a lack of forced selling (retail funds notwithstanding) suggests the overall yield impact will nothing like previous periods of cyclical distress. Outward yield shifts in the City are expected to be modest at c. 55 bps. Yields are anticipated to re-price in the recovery such that capital growth recovers strongly from 2022.

Leasing markets will take time to stabilise. The glut of second-hand space, in particular, is likely to produce more distress to rental values, which have been marked down relatively lightly thus far. While we still believe tenants are prepared to pay top rents for the right quality, the sheer drop in "new" take up will underpin further corrections to prime headline rents in 2021. We assume the City benchmark non-tower rent will subside to £65 psf by the end of the year, -7.3% lower than its peak of £70 psf in Q1 2020. West End villages experience more limited rental falls of ca. -5%. We forecast *rental falls of between -9.5% (West End) and -12% (City) on the MSCI portfolio with a very modest* rental recovery in 2022 giving way to accelerating growth from 2023.

5. Significant accounting estimates and judgements in applying accounting policies

DSQ makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. 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. 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 discussed below.

(a) Estimates

Investment in properties

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and principles of IFRS 13. The fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date but is not intended to represent the liquidation value of the property, which would be dependent upon the price negotiated at the time of sale less any associated selling costs. The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in Note 8.

(b) Judgements

Significant judgment is required to determine if an acquisition of shares of a company holding real estate assets qualifies as a business combination. DSQ makes this determination based on whether they have acquired an 'integrated set of activities and assets' as defined in IFRS 3, by relevance to the acquisition of supporting infrastructure, employees, service provider agreements and major input and output processes, as well as the number and nature of active lease agreements.

(i) Business combinations vs asset acquisitions

DSQ considered that the acquisition of Devonshire Square, Courtyard and Shield House constituted asset acquisitions rather than businesses as defined in IFRS 3, "Business combinations". As such, the acquisition was not accounted for as business combinations and as neither accounting profit nor taxable profit were affected at the time of the transactions, the initial recognition exemption in IAS 12, 'Income taxes' applies, and DSQ does not recognise deferred tax that would otherwise have arisen on temporary differences associated with the acquired assets and liabilities at initial recognition.

6. Asset acquisition

During the period ended 2018, DSQ acquired the Devonshire Square estate, an office and retail investment property located in the UK, which composed of the properties of CG Cutlers Gardens LP, CG Shield House LP and CG Courtyard (Jersey) Limited through a share deal for a net consideration of £113,807,436 and related acquisition costs paid of £5,449,855.

During the year ended 31 December 2019, additional acquisition costs of £59,472 in relation to the acquisition of Devonshire Square estate have been paid. No additional asset acquisition has been performed during the year ended 31 December 2020.

7. Investment property

	Note	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Fair value at the beginning of the year / period		**648,680**	**625,095**
Capital expenditure		9,073	3,777
Lease inducements		426	577
Acquisition costs		-	(384)
Right of use asset – Land		-	9,316
Net gain/(loss) from fair value adjustment on investment property (excluding straight-lining of lease incentives)	24	(28,312)	10,300
Value change on right-of-use asset	24	(1)	(1)
Fair value at the end of the year / period		**629,866**	**648,680**

During the year ended 31 December 2019, acquisition cost accruals in amount of £383,617 have been reversed. There have been no further changes to acquisition costs during the year ended 31 December 2020.

During the year ended 31 December 2020, capital expenditure amounting to £9,073,417 (2019: £3,776,980) has been incurred out of which £1,361,395 (2019: £1,695,681) remains unpaid at year end.

Upon application of IFRS 16 as of 1 January 2019 following the modified retrospective approach, the operating lease on land of CG Cutlers Gardens LP (UK) has been recognised as a right-of-use asset in the amount of £9,315,606 and a lease liability of £9,315,606. Right-of-use asset is measured at fair value, represented by the present value of future lease payments. Change in the fair value is recorded through profit or loss. As of 31 December 2020, net unrealised loss of £790 (2019: £769) has been recorded on the right-of-use assets.

8. Fair value measurement - investment properties

Investment properties are classified as Level 3 in terms of the fair value hierarchy.

Valuation process

Appointment of the independent valuer

Cushman & Wakefield has been appointed as the Independent Valuer responsible for review of valuation of DSQ's assets.

Valuations are prepared by the independent valuer on a quarterly basis, with a full annual valuation report provided as at 31 December each year.

The investment properties were valued as at 31 December 2020 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

Review of the valuation

DSQ's finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes. Discussions of valuation processes and results are held between the CFO, the Audit Committee, the valuation team and the independent valuers at least once every quarter, in line with DSQ's quarterly reporting dates.

The valuers have not applied a material market uncertainty clause to the valuation at 31 December 2020.

Highest and best use

For investment properties measured at fair value, the current use of the property is considered the highest and best use. The best evidence of fair value are current prices in an active market for similar lease and other contracts. In the absence of such information, management determines the most reliable estimate of fair value within a range of reasonable fair value estimates. In making its judgement, the management considers information from a variety of sources including:

(i) Current prices in an active market for properties of similar nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;

(iii) Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and, when possible, by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

DSQ's investment properties were valued at the reporting date via an income capitalisation approach. In valuing the Properties via an income capitalisation method, the gross day one current income is calculated and the estimated operating costs are deducted. This net day one income is then capitalised at a determined yield. The determined yield has been benchmarked against comparable market transactions and then adjusted in consideration of the specific investment profile of the asset. The capitalisation rate assumed takes into consideration a range of factors including assumptions on the strength of the asset's location, future letting voids and rental growth, and security of the tenant's covenant strength and therefore the income stream of the investment. A Gross Market Value is arrived at by the combination of the above two interests, from which appropriate property transaction costs are deducted as determined by local market practice, to arrive at a Net Market Value.

The principal assumptions underlying management's estimation of fair value are those related to the:

- expected future market rentals, determined on the basis of current market rentals for similar properties in the same location and condition;
- receipt of contractual rentals, based on the terms of any existing lease;
- void periods, based on the current and expected future market conditions after expiry of any current lease;
- maintenance requirements and; including necessary cash outflows that could be expected to maintain functionality of the property for its expected useful life;
- capitalisation rates; based on actual location, size and quality of the properties and taking into account market data at the valuation date;

- terminal value, taking into account assumptions regarding maintenance costs, vacancy rents and market rents.

Below is the sensitive on management's estimates on the office property located in London, United Kingdom.

Sensitivity on management's estimates as at 31 December 2020 (£'000)

Investment property fair value	Estimate	Valuation method	Impact lower	Impact higher
629,866	ERV variation -/+ 5%	Income Capitalization method	593,600	650,970
	Capitalisation rate variation +/-10bps		605,879	635,886

Sensitivity on management's estimates as at 31 December 2019 (£'000)

Investment property fair value	*Estimate*	*Valuation method*	*Impact lower*	*Impact higher*
639,365	ERV variation -/+ 5%	Income Capitalization method	616,773	664,367
	Capitalisation rate variation +/-10bps		625,700	654,536

The asset has been pledged in relation to the external borrowing, please refer to Note 28.

9. Trade and other receivables

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Tenant trade debtors	5,846	4,961
Other trade debtors	646	9
Trade receivables	**6,492**	**4,970**
VAT receivable	61	23
Other receivables	**61**	**23**
Total trade and other receivables	**6,553**	**4,993**

The estimated fair value of trade and other receivables is the discounted amounts of the estimated future cash flows expected to be received and is similar to their carrying amounts. Expected cash flows are discounted at current market rates to determine fair values.

As at 31 December 2020, £2,007,826 (2019: £2,540,673) was impaired due to tenant defaults mainly related to Devonshire Club, of which £849,654 has been additionally impaired during the year (2019: 2,304,454) and £316,807 has been written-off from prior year impairment (2019: none). Movements in the provision for impairment of receivables were, as follows:

	2020 £('000)	2019 £('000)
Value at the beginning of the year	**2,541**	**237**
Charge/(reversal) for the year	(850)	2,304
Utilized	317	-
Value at the end of the year	**2,008**	**2,541**

The analysis of trade and other trade receivables, for the same year that were past due but not impaired is set out below:

31 December 2020	Total £'000	<30 days £'000	30-60 days £'000	60-90 days £'000	90-120 days £'000	>120 days £'000
Trade debtors	**5,846**	3,188	8	74	1,154	1,422
Other trade debtors	**646**	646	-	-	-	-

31 December 2019	Total £'000	<30 days £'000	30-60 days £'000	60-90 days £'000	90-120 days £'000	>120 days £'000
Trade debtors	**4,961**	991	2,989	8	5	968
Other trade debtors	**9**	-	-	-	-	9

Trade debtors are non-interest bearing and are generally on terms of 30 to 90 days. Trade debtors over 120 days as at 31 December 2019 relate mainly to plant preventive maintenance (PPM).

10. Deferred charges and prepayments

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Deferred charges	952	1,482
Prepayments	278	42
Total	**1,230**	**1,524**

11. Other non-current financial assets

As at 31 December 2019, other non-current financial assets were mainly represented by cash collected from tenants in amount of £6,316,314 trapped in a debt service account controlled by Bank of America Merrill Lynch and its agent Mount Street, following the breach of one financial covenant resulting in a cash trap event (refer to Note 14). During the year-ended 31 December 2020, the cumulative cash collected from tenants in amount of £11,528,546 trapped in the debt service account were used to settle partially the principal and interest related to the loan obtained from Bank of America Merrill Lynch (refer to Note 14).

As at 31 December 2020, other non-current financial assets are mainly composed of tenants' cash deposits.

12. Cash and cash equivalents

The components of the cash and cash equivalents are as follows:

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Cash at bank	37,446	31,635
Total	**37,446**	**31,635**

Cash and cash equivalents are composed of cash at bank, which bears market interests rate. Cash and cash equivalents as disclosed in the statements of financial position equal the cash and cash equivalents presented in the statement of cash flows.

The fair value of cash and cash equivalents equals their carrying amount.

13. Changes in liabilities arising from financing activities

The below table shows the changes in liabilities arising from financing activities during the year:

	As at 31 December 2019 £('000)	Changes from financing cash flows £('000)	Changes in fair values £('000)	Lease liabilities £('000)	Other £('000)	As at 31 December 2020 £('000)
Non-current borrowings	**(426,154)**		-		210,349	**(215,805)**
Lease liabilities	**(9,315)**	251	-	(250)	-	**(9,314)**
Non-current derivative financial instruments	**(1,441)**	-	239	-	-	**(1,202)**
Current borrowings	**(3,446)**	2,797	-	-	(230,534)	**(231,183)**
Total	**(440,356)**	**3,048**	**239**	**(250)**	**(20,185)**	**(457,504)**

Others are mainly related to transfer from non-current to current as well as accrued interests and amortisation of debt issue costs.

14. Borrowings

Borrowings comprise mortgage loan obtained from the bank against security provided on real estate properties and also loans provided by its equity holders.

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Borrowings maturing within 1 year	231,713	3,446
Borrowings maturing after more than 1 year	215,805	429,147
Total borrowings	**447,518**	**432,593**
Unamortised debt issue costs	(529)	(2,993)
Net book value of borrowings	**446,988**	**429,600**

Borrowings maturing within 1 year represents interest payable at year end as well as principal maturing within 1 year. Interest payable is normally settled quarterly throughout the financial year.

As of 31 December 2020, DSQ has the following external borrowings:

Bank	Facility amount £ ('000)	Drawn amount £ ('000)	Maturity	Effective interest rate
Bank of America Merrill Lynch	235,272	217,310	20/05/2021	3.20%

An amount of £390,972 remain as unpaid interests as at 31 December 2020.

As of 31 December 2019, DSQ has the following external borrowings:

Bank	Facility amount £ ('000)	Drawn amount £ ('000)	Maturity	Effective interest rate
Bank of America Merrill Lynch	235,272	235,272	20/05/2021	3.26%

The above loan has been secured in full by DSQ. The security in given in the form of mortgages over the respective properties on which they are secured. The asset has been pledged in relation to the external borrowing, please refer to Note 28.

Management believes that the fair value of the above loan is approximately its carrying value at the date of the consolidated statement of financial position.

In addition, the loan is subject to the following Financial Covenants:

- Debt Yield: at all times on or prior to the Interest Payment date falling in May 2019, Debt Yield should be at least 6.5% and at all times after this date, at least 8.8%. As of 31 December 2020, DSQ's Debt Yield Ratio is 9.0% (2019. 10.3%).
- Loan to Value (LTV): at any time the LTV should not exceed 67.5%. As of 31 December 2020, DSQ's LTV Ratio is 22.5% (2019: 38.8%).
- Cash Trap Event: at any Test Date, (i) the Debt Yield is less than 6.75% up to interest payment falling due in May 2019, and thereafter, 10.70% and (ii) the LTV is greater than 57.50%. As of 31 December 2020, the debt yield was 8.8% (2019: 10.3%) and consequently, the cash trap event remained. As the cash collected from tenants was now used to repay debt each quarter there was no trapped cash held at 31 December 2020 (2019: £6,316,314)

As of 31 December 2020, DSQ has the following borrowings from its equity holders:

Equity holder	Facility amount £('000)	Drawn amount £ ('000)	Maturity	Interest rate
ECF Luxco 3 S.à r.l.	97,112	97,112	13/04/2028	5.80%
PFA Global Real Estate Low A/S	97,112	97,112	13/04/2028	5.80%
DSQ Partners Lux S.à r.l.	21,581	21,581	13/04/2028	5.80%
	215,805	***215,805***		

An amount of £14,011,552 remain as unpaid interests as at 31 December 2020.

As of 31 December 2019, DSQ has the following borrowings from its equity holders:

Equity holder	Facility amount £('000)	Drawn amount £ ('000)	Maturity	Interest rate
ECF Luxco 3 S.à r.l.	87,244	87,244	13/04/2028	5.814%
PFA Global Real Estate Low A/S	87,244	87,244	13/04/2028	5.814%
DSQ Partners Lux S.à r.l.	19,388	19,388	13/04/2028	5.814%
	193,876	**193,876**		

15. Lease liabilities

The below table shows the lease liabilities of the year:

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Non-current lease liabilities	9,070	9,077
Current lease liabilities	244	238
Total	**9,314**	**9,315**

16. Trade and other payables

The components of trade and other payables are disclosed below:

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Trade creditors	2,653	739
Accruals	2,869	4,390
Payables to related party	792	1,192
Trade payables	**6,314**	**6,321**
Deferred income	4,066	5,658
VAT and other taxes payable	697	947
Other payables	**4,763**	**6,605**
Total trade and other payables	**11,077**	**12,926**

Accruals consist mainly of service charges payable that are recoverable from the tenants. Trade payables and other payables are non-interest bearing and are normally settled on 60-120-day terms. For explanations on DSQ's liquidity risk management processes, refer to Note 4.

17. Derivatives financial instruments

The Company Cutlers Gardens LP has entered into an interest rate swap/cap agreement with Bank of America Merrill Lynch in the notional amount of £235,272,000. The interest rate swap derivative is used to hedge the exposure to the variable interest rate payments on the variable rate secured loans.

The loans and interest rate swap have the same critical terms and are fully effective. Cash flows are expected to occur between 4 May 2018 and 20 May 2021 and will be recognised through profit or loss at that time. The aggregate fair value of the interest rate swap at the end of the reporting year was a liability of £1,202,112 (2019: £1,440,728).

The valuation techniques applied to fair value the derivatives include the swap models, using present value calculations. The model incorporates various inputs including the credit quality of counterparties and forward rates, thereby eliminating both counterparty and DSQ's own non-performance risk.

The movement for derivatives for the years ended 31 December 2020 and 2019 is as follows:

	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Fair value at the beginning of the year	**(1,441)**	**(308)**
Disposals during the year	-	-
Net changes in fair value of financial instruments	239	(1,133)
Fair value at the end of the year	**(1,202)**	**(1,441)**

18. Share capital and premium

As at 31 December 2020 the subscribed and fully paid up capital amounting to £1,000,000 (2019: £1,000,000) is represented by:

- 99,999 Class A shares having a par value of £1.00 each.
- 100,000 Class B shares having a par value of £1.00 each.

- 100,000 Class C shares having a par value of £1.00 each.
- 100,000 Class D shares having a par value of £1.00 each.
- 100,000 Class E shares having a par value of £1.00 each.
- 100,000 Class F shares having a par value of £1.00 each.
- 100,000 Class G shares having a par value of £1.00 each.
- 100,000 Class H shares having a par value of £1.00 each.
- 100,000 Class I shares having a par value of £1.00 each.
- 100,000 Class J shares having a par value of £1.00 each.
- 1 promote Class of share without nominal value.

The joint venture agreement sets out the conditions for any issue, amalgamation, conversion, purchase, redemption or change of any share capital by DSQ or any other DSQ's subsidiary or any option over any such shares to any person other than another DSQ's subsidiary through an unanimous reserved matters condition, requiring unanimous consent from all equity holders.

On 12 April 2018 the equity holders of the entity proceeded to additional capital contributions. No additional capital contributions have been made from that date. The position as at balance sheet date is as follows:

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
ECF Luxco 3 S.à r.l.	96,279	96,279
PFA Global Real Estate Low A/S	94,724	94,724
DSQ Partners Lux S.à r.l.	21,050	21,050
Total	**212,053**	**212,053**

In addition, the joint venture agreement includes a promote clause in relation to available cash remaining for distribution. Distributions rules with regards to this available cash are set out as follow:

- 100% to equity holders until such distributions reached an IRR Hurdle of 8%;
- 80% to the equity holders and 20% as promote to equity holder DSQ Partners Lux S.à r.l., until such distributions reached an IRR Hurdle of 12%;
- 70% to the equity holders and 30% as promote to equity holder DSQ Partners Lux S.à r.l., until such distributions reached an IRR Hurdle of 18%;
- 60% to the equity holders and 40% as promote to equity holder DSQ Partners Lux S.à r.l. hereafter.

As at 31 December 2020 and 31 December 2019, the Board of Managers assessed the impact of potential liabilities arising from the promote clause and arrived to the conclusion that the equity holder DSQ Partners Lux S.à r.l. is not entitled to any promote fees.

19. Related parties transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

Related parties in the balance sheet:

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Management fees payables	300	700
Borrowings	215,805	193,876
Interest payable on borrowings	14,011	2,818
Trade creditors and suppliers	492	492
Total	**230,608**	**197,886**

Related parties in the comprehensive income statement:

	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Asset management and administration fees	955	955
Interest expense	11,194	11,550
Total	**12,149**	**12,505**

The loans received from the equity holders, amounting to £215,804,951 (2019:£193,875,969) were granted to finance the acquisition of the investment property and to fund the business plan. The loans are unsecured and repayable in full on 13 April 2028. Interest is charged at 5.774% (2019: 5.814%) (refer to Note 14).

Asset management fees charged by Nuveen Real Estate Management Limited and WW Devonshire Limited for the year is £800,000 (2019: £800,000), of which £300,000 remains outstanding as at 31 December 2020 (2019: £700,000).

In addition, refer to Note 18 for description of the promote fee attributable to DSQ Partners Lux S.à r.l..

20. Rental and service charges income

	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Rental income (excluding straight-lining of lease incentives)	21,114	28,724
Other building income	667	87
Straight-lining of lease incentives	(712)	1,067
Rental income	**21,069**	**29,878**
Service charge income	3,165	5,807
Total rental and service charge income	**24,234**	**35,685**

21. Other operating expenses

	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Audit costs	78	82
Asset management fees	800	800
Letting fees	-	77
Legal costs	315	-
Valuation fees	91	91
Administration costs	155	155
Accounting and consolidation costs	425	527
Tax compliance and consulting costs	154	18
Other professional service expenses	96	422
Non-recoverable VAT	230	203
Other operating expenses	113	780
Total	**2,458**	**3,155**

Asset management fees are expenses charged by related parties (please refer to Note 19).

The following amounts were paid to DSQ's audit firm in relation to audit and non-audit services:

	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Audit services paid	86	85
Tax advisory fees paid	-	7
Total	**86**	**92**

22. Property expenses

The main components of the property expenses are as follows:

	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Utility expenses	494	1,234
Maintenance repairs expenses	982	1,935
Insurance	97	-
Security and health and safety costs	554	1,208
Staff costs	299	458
Property management fees	604	614
Property taxes	90	186
Other expenses	45	172
Property expenses from services to tenants	**3,165**	**5,807**
Leasehold costs	100	112
Service charges void costs	3,211	946
Letting costs	86	77
Other expenses	182	13
Tenant receivables impairment	(850)	2,304
Other property operating expenses	**2,729**	**3,452**
Total property expenses	**5,934**	**9,259**

23. Finance income and costs

Finance income and costs are as follows:

	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Interest income	224	442
Net realised foreign exchange gains	6	-
Net unrealized foreign exchange gains	2	2
Finance income	**232**	**444**
Interest expense	4,836	6,001
Interest expense – related parties	11,194	11,550
Interest expense – derivative financial instruments	1,690	719
Amortisation of debt issue costs	2,464	896
Net realized foreign exchange losses	-	51
Other finance costs	11	11
Interest expense – leases	250	250
Finance costs	**20,445**	**19,478**

24. Net gain/(loss) from fair value movements of investment property

	Note	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Fair value gains on investment properties	7	796	10,300
Fair value losses on investment properties	7	(29,108)	(1)
Value change on right-of-use asset	7	(1)	(1)
Straight-lining of tenant inducements	7	-	(61)
Straight-lining of lease incentives		712	(1,067)
Total		**(27,601)**	**9,170**

25. Operating leases

DSQ leases investment properties under operating leases. The terms of the leases are in line with normal practices in each market. Leases are reviewed or subject to automatic inflationary increases as appropriate. Operating expenses where applicable, are recharged to tenants either by way of direct charge or monthly service charges. The future aggregate minimum rentals receivable from non-cancellable operating leases are shown below. For the purposes of this schedule it is conservatively assumed that a lease expires on the date of the first break option.

	As at 31 December 2020		As at 31 December 2019	
	£('000)	%	£('000)	%
No later than 1 year	20,739	9%	25,143	8%
Later than 1 year and no later than 2 years	19,982	9%	22,902	7%
Later than 2 years and no later than 3 years	18,262	8%	21,390	7%
Later than 3 years and no later than 4 years	15,967	7%	20,023	6%
Later than 4 years and no later than 5 years	15,406	7%	18,225	6%
Later than 5 years	136,579	60%	201,931	65%
Total	**226,935**	**100%**	**309,614**	**100%**

Lease terms:

DSQ has the following top 10 tenants:

Name of tenant	Annual rental income as at 31 December 2020 £('000)
WeWork	9,440
University of Coventry	2,105
Equinix	1,853
Squire Patton Boggs	1,656
WSP Management Services Limited	1,199
Blue Arrow Ltd	836
Droga5	802
Natilik Ltd	642
Six Financial Information UK Limited	473
Entuity Limited	394
Total	**19,400**

26. Taxation

DSQ is liable for income tax under Luxembourg law. No Luxembourg tax is payable on the realised capital appreciation of the assets of DSQ. DSQ's subsidiaries are taxable, amortise and depreciate their historical property cost according to applicable tax regulations. Such amortisation and depreciation are not reflected in these accounts, except to the extent that current taxable income has been reduced.

	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Current income tax expense	(166)	(446)
Deferred income tax expense	1,123	(1,288)
Total	**957**	**(1,734)**

The income tax rates as at 31 December 2020 are stated below:

Country	Rate
Luxembourg	24.94%
United Kingdom	19%
Jersey	0%

Income tax reconciliation:

	For the year ended 31 December 2020 £('000)	For the year ended 31 December 2019 £('000)
Net profit before income tax	**(31,733)**	**12,361**
At Luxembourg statutory rate of 24.94%	*7,914*	*(3,083)*
Effect of different tax rates in other countries	(1,863)	764
Non-deductible expenses	(50)	(5)
Tax-exempt income	638	1,287
Unrecognized deferred tax asset	(4,259)	-
Unrecognised current year losses carried forward	(1,553)	(610)
Taxes on other basis than profit	(20)	(131)
Utilization of previously unrecognised losses carried forward	150	44
Total income tax expense reported in the consolidated statement comprehensive income	**957**	**(1,734)**
Effective tax rate	*3.02%*	*14.03%*

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Deferred income tax liabilities	**(165)**	**(1,562)**
Revaluation to fair value of investment properties	(165)	(1,562)
Deferred income tax assets	**-**	**274**
Other temporary differences	-	274
Net deferred income tax liabilities	**(165)**	**(1,288)**

Cumulative tax losses:

Cumulative tax losses as at 31 December 2020 available to offset future taxable profit are amounting to £44,554,984 (2019: £38,757,504).

The losses carried forward in the United Kingdom and Luxembourg are available for offsetting against future taxable profits of the companies in which the losses arose indefinitely. Management estimates that DSQ will not be able to recover these unrecognized deferred tax assets in the foreseeable future.

Factors affecting current and future tax charges:

From 6 April 2019, DSQ is subject to tax in respect of capital gains arising on sale of either student accommodation or commercial property in the UK at the UK corporation tax rate of 19%. The cost of the properties has been rebased for tax purposes to the value on the date on which the changes came into effect. As such, net deferred taxes in the amount of £1,561,800 have been recognised in respect of the change in fair value gains investment properties, calculated based of the fair values as at 6 April 2019, 31 December 2019 and at 31 December 2020.

27. INREV NAV calculation and information

The Board of Managers has assessed all adjustments required by INREV Guidelines. The adjustments presented below are the ones applicable to DSQ.

INREV Net Asset Value	**As at 31 December 2020 £('000)**	**As at 31 December 2019 £('000)**
Net Asset Value per IFRS financial statements	207,197	237,973
NAV after reclassification of equity-like interests and dividends not yet distributed	**207,197**	**237,973**
Fair value assets and liabilities		
Acquisition expenses	2,420	3,496
Effects of the expected manner of settlement of sales/vehicle unwinding	-	-
Other adjustments	-	-
INREV NAV	**209,617**	**241,469**

Acquisition expenses

DSQ acquisition expenses are expensed immediately in the consolidated statement of comprehensive income under IFRS. In INREV, such costs should be capitalised and amortised over the first five years of the term of the investment in order to better reflect the duration of the economic benefits of the investment.

The adjustment represents the impact on the IFRS NAV of the capitalisation and amortisation of acquisition expenses over the first five years.

	As at 31 December 2020 £('000)	**As at 31 December 2019 £('000)**
Balance at the beginning of the year	**3,496**	**4,956**
Additions	-	(384)
Amortisation	(1,076)	(1,076)
Balance at the end of the year	**2,420**	**3,496**

28. Contingencies and commitments

DSQ has pledged the following assets as part of its third-party external financing strategy:

	As at 31 December 2020 £('000)	As at 31 December 2019 £('000)
Shares	295,561	295,561
Property	650,552	648,680

29. Going concern

With the ongoing restrictions over COVID-19, and the emphasis on "stay at home", the main impact at DSQ has been through the ongoing closures of the F&B tenants and the lack of desk space taken up at Buildings 8 & 10. Discussions are ongoing with the tenants regarding rent concessions. F&B currently makes up around 10% of the annual income for DSQ, so the concessions granted will not have a long term impact on the income.

A more material impact was the fall in income at Buildings 8 and 10. The priority rent calculations, upon which the quarterly income was based, was driven by occupancy and so income reduced from c£2.5m for the December 2019 quarter to £0.8m for December 2020. In order to rectify this, DSQ took the decision to convert the leases for Buildings 8 & 10 to standard leases in early 2021. This would remove the ability to benefit from additional overage rental income when occupancy was high but gave the assurance of a steady quarterly income of around £2.6m each quarter. The additional income will also help to alleviate the cash trap default which currently stops DSQ from receiving any of the rental income, which is forecast to happen in Q3 2021. Once the cash trap default has been lifted DSQ will be able to draw down on the capex loan facility for the ongoing capex program.

The initial termination date of the DSQ loan facility is 20th May 2021, with the option to firstly extend to 20th May 2022 and finally to 20th May 2023.

In order to extend there must be no default on the loan – debt yield must be above 8.8%, LTV must be less than 67.5%. Due to the issues with Building 8 and 10 income mentioned above, in February 2021, DSQ made a voluntary repayment of £64m against the bank loan, in order to avoid a hard breach of the debt yield. These funds were by way of additional borrowing from the equity holders.

In order to extend the loan facility in May 2021, it is anticipated a further repayment will be required, with additional funding from the equity holders. Notice was issued to Mount Street on 16th April 2021.

30. Events after the statement of financial position date

Further to the conversion of the leases for Buildings 8 and 10, voluntary loan repayments and the submission of the notice to extend the loan facility, mentioned above there are no further subsequent events to be reported after the statement of financial position date.

31. List of consolidated entities

Name	% Holding	Scope of consolidation	Country of incorporation
DSQ JV Co S.à r.l.	100	Fully consolidated	Luxembourg
DSQ Bidco S.à r.l.	100	Fully consolidated	Luxembourg
Rhino 1 S.à r.l.	100	Fully consolidated	Luxembourg
Rhino 2 S.à r.l.	100	Fully consolidated	Luxembourg
CG Cutlers Gardens No.1 (UK) Limited	100	Fully consolidated	United Kingdom
CG Shield House No.1 (UK) Limited	100	Fully consolidated	United Kingdom

CG Cutlers Gardens No.2 (UK) Limited	100	Fully consolidated	United Kingdom
CG Shield House No.2 (UK) Limited	100	Fully consolidated	United Kingdom
CG Cutlers Gardens LP	100	Fully consolidated	United Kingdom
CG Shield House LP	100	Fully consolidated	United Kingdom
Cutlers Gardens Estates Limited (Scotland)	100	Fully consolidated	United Kingdom
CG Courtyard (Jersey) Limited	100	Fully consolidated	United Kingdom
CG Cutlers Gardens (Jersey) Limited	100	Fully consolidated	United Kingdom
CG Cutlers Gardens (Jersey) 2 Limited	100	Fully consolidated	United Kingdom
CG Shield House (Jersey) Limited	100	Fully consolidated	United Kingdom
CG Shield House (Jersey) 2 Limited	100	Fully consolidated	United Kingdom

Provided that the entities are listed in the consolidated financial statements of their parent company, the directors have taken advantage of the exemption from the requirement to have the financial statements for the year ended 31 December 2020. They confirm that for the year ended 31 December 2020 the subsidiaries were entitled to the exemption relating to audit of the accounts under section 479A of The Companies Act 2006.

Subsidiaries which have been given a parent company guarantee and are exempt from audit under section 479A are:

Company name	Company Number
Cutler Gardens Estates Limited	SC076761
CG Cutler Gardens (UK) No.1 Limited	04131332
CG Cutler Gardens (UK) No.2 Limited	04131250
CG Shield House (UK) No.1 Limited	04131311
CG Shield House (UK) No.2 Limited	04131241