Registration number: 06590299

David Lloyd Leisure Properties No.4 Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

David Lloyd Leisure Properties No.4 Limited

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David Lloyd Leisure Properties No.4 Limited

Company Information

Directors	MA Stephens PJ Burrows
Registered office	The Hangar Mosquito Way Hatfield Business Park Hatfield Hertfordshire AL10 9AX
Registered Number	06590299
Independent auditors	Deloitte LLP Statutory Auditor 1 New Street Square London EC4A 3HQ
Bankers	Bank of Scotland London Chief Office PO BOX 54873 London SW1Y 5WX

David Lloyd Leisure Properties No.4 Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Principal activities
The principal activity of the Company is as a commercial property investment company. The directors consider the financial position at 31 December 2019 to be satisfactory.

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

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

Review of the business
The Company earns rental income from its investment property location in Cheam and revenue for the year of £1.0m (2018: £1.0m) is consistent with prior year. The Company achieved an operating profit of £1.0m (2018: £0.9m) for the financial year. The increase of £0.1m was driven by the impact of adopting IFRS 16 with last year's operating lease rent of £0.1m replaced by £0.02m of right-of-use asset depreciation.

The Company earned interest of £4.3m (2018: £4.1m) on amounts due from group undertakings and incurred interest of £3.7m (2018: £3.5m), which included interest on lease liabilities of £0.06m recognised on adoption of IFRS16 in addition to the amounts paid to group undertakings. This resulted in a profit for the financial year of £1.6m (2018: £1.3m).

The Company has net assets of £26.6m (2018: £24.9m) and net current assets of £19.2m (2018: £17.7m) at the balance sheet date. Movements in the Company's financial position reflect the adoption of IFRS 16 Leases where upon transition, a right-of-use asset and a lease liability were recognised. Their respective balances as at 31st December 2019 were £0.7m and £0.9m respectively.

Going concern

The Company's 'going concern' review is set out in detail in note 2 on pages 14 to 15. The Company acts as a commercial property investment company for the Deuce Midco Group (the "Group") and is reliant on the Group for financial support, therefore the Group has provided a letter of support. The going concern disclosure details that the Directors have concluded that the impact of COVID-19 has created unprecedented trading uncertainty. Whilst the Group has a variety of mitigating actions available to it, these could also be affected by the uncertain trading environment. This combination leads the Directors to conclude that the factors noted above constitute a material uncertainty which could cast significant doubt on the Group and therefore the Company's ability to continue as a going concern.

Notwithstanding this material uncertainty, having assessed likely downside scenarios and mitigation available, the Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis.

Principal risks and uncertainties

The risks and uncertainties of the Company remain largely unchanged from those previously reported, however the Company has identified a new risk in relation to Coronavirus (COVID-19).

Principal risks - financial

The Company is exposed to a variety of financial risks including credit risk, price risk and liquidity risk. The Board is responsible for identifying financial risks and for agreeing and reviewing policies to manage these risks. The most important components of managing financial risk are disclosed on pages 11 and 12 of the financial statements of Deuce Midco Ltd.

Principal risks - non-financial

The Company generates its rental income from another group company, David Lloyd Leisure Ltd, which is exposed to a variety of non-financial risks which may potentially materially affect the financial results of operations, including the injury of club members, compliance with legislation, cyber and asset security and information technology. The board is responsible for identifying non-financial risks and for agreeing and reviewing policies to manage these risks. The most important non-financial risks for the Company are:

Coronovirus (COVID-19)

The Company has identified a new risk in relation to novel coronavirus (COVID-19). The outbreak of COVID-19 has been declared a Public Health Emergency of International Concern by the World Health Organisation.

The Company is reliant on the Group for financial support and measures taken by UK and European governments to contain the virus have affected economic activity and the Group's business materially. All our clubs were ordered to be closed on or before 20 March 2020. Our clubs remained closed for c. four months which prevented the Group generating income and cash.

As a result, the Group's EBITDA has declined significantly in 2020 and was negative for the five months ending 31st July 2020 where most of our clubs were closed. The Group's liquidity was adversely impacted. As a precaution, the Group fully drew its £40m RCFs in March 2020.

The future impact of the COVID-19 outbreak has been considered as part of the Company's adoption of the going concern basis. The Company's 'going concern' review is set out in detail in note 2 on pages 14 to 15.

David Lloyd Leisure Properties No.4 Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

UK's decision to leave the European Union and consumer confidence
At midnight on 31 January 2020, the UK formally left the EU and the withdrawal agreement came into force. From 1 February 2020, the UK entered a transition period until 31 December 2020 to negotiate trade and other areas with the EU. Following the expiry of that transitional period in December 2020, the ability of UK firms to access the EU market and vice versa would depend upon the terms of any future trade deal between the UK and the EU.

The Board consider the Company and its subsidiaries to be resilient to economic Brexit-related uncertainty due to its affluent member base. Our members consider club membership to be a priority in their life. During a recession, consumers would be more inclined to forgo a holiday or cancel their satellite TV subscription than to cancel their club membership. The Board has assessed the potential impact that Brexit could have on the Company. The key risk identified is a temporary supply chain issue regarding the delivery of food into our clubs. Other risks identified include employee recruitment and retention, due to the number of employees from the EU working in the UK. Whilst the identified risks would be disruptive to the business we would still be able to deliver the provision of leisure facilities.

Future developments
Going forward the Company will continue to earn rental income from its remaining investment property. See note 19 for the impact of COVID-19.

Approved by the Board on 23 October 2020 and signed on its behalf by:

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PJ Burrows
Director

David Lloyd Leisure Properties No.4 Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their annual report and the audited financial statements for the year ended 31 December 2019. Matters relating to the performance of the Company, principal risks and uncertainties, and future developments are contained in the Strategic Report on page 2.

The Company is a private company limited by shares, registered in England and Wales. The address of the registered office is shown on page 1.

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

MA Stephens
PJ Burrows

None of the directors serving at the year end had an interest in the share capital of the Company.

Dividends
The directors do not recommend the payment of a final dividend (2018: £nil).

Political donations
The Company made no political donations during the financial year (2018: £nil).

Post balance sheet events
Please refer to note 21 of these financial statements for details of post balance sheet events.

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

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

Statement of Directors' Responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor are unaware. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Reappointment of independent auditor

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

Approved by the Board on 23 October 2020 and signed on its behalf by:

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PJ Burrows
Director

David Lloyd Leisure Properties No.4 Limited

Independent Auditor's Report to the members of David Lloyd Leisure Properties No. 4 Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of David Lloyd Leisure Properties No.4 Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Financial Position as at 31 December 2019;
- the Statement of Changes in Equity;
- the related notes 1 to 20;

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 2 in the financial statements, which indicates that the impact of COVID-19 has created an unprecedented trading environment. The Company is reliant on the Group for financial support. There is uncertainty over the extent and duration of future waves of COVID-19 that could lead to periods of club closure on a local or even national basis, or impact on member behaviour, resulting in revenue and EBITDA reductions. Furthermore, some of the mitigating actions identified by management could also be impacted by the uncertain trading environment caused by COVID-19.

As stated in note 2, these events or conditions, along with the other matters as set forth in note 2 to the financial statements indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the members of David Lloyd Leisure Properties No. 4 Limited (continued)

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

We have nothing to report in respect of these matters.

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Independent Auditor's Report to the members of David Lloyd Leisure Properties No. 4 Limited (continued)

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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

Kate Darlison

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Kate Darlison (Senior Statutory Auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor
London
United Kingdom
23 October 2020

David Lloyd Leisure Properties No.4 Limited

Income Statement for the Year Ended 31 December 2019

	Note	Year ended 31 December 2019 £ 000	4 January 2018 to 31 December 2018 £ 000
Revenue	4	1,041	1,033
Administrative expenses		(24)	(156)
Operating profit	5	1,017	877
Interest receivable and similar income	7	4,274	4,098
Interest expense	8	(3,689)	(3,501)
Profit before taxation		1,602	1,474
Tax on profit	10	(14)	(170)
Profit for the financial year		1,588	1,304

The above results were derived from continuing operations.

The Company has no other comprehensive income or expense other than the results above, and therefore no separate Statement of Comprehensive Income is presented.

David Lloyd Leisure Properties No.4 Limited

(Registration number: 06590299)
Statement of Financial Position as at 31 December 2019

	Note	31 December 2019 £ 000	31 December 2018[1] £ 000
Non-current assets			
Investment properties (right-of-use assets)	11	5,582	5,593
Right-of-use assets	12	710	-
Lease straight line asset	13	1,718	1,665
Deferred tax assets	15	301	-
		8,311	7,258
Current assets			
Trade and other receivables	14	126,691	121,721
Total assets		135,002	128,979
Creditors: Amounts falling due within one year			
Trade and other payables	16	(107,232)	(103,813)
Deferred tax liability	15	(227)	(229)
Creditors: Amounts falling due within one year		(107,459)	(104,042)
Net current assets		19,232	17,679
Total assets less current liabilities		27,543	24,937
Creditors: Amounts falling due after more than one year			
Lease liabilities	12	(902)	-
Net assets		26,641	24,937
Capital and reserves			
Called up share capital	17	-	-
Share premium account		776	776
Capital contribution reserve		90,746	90,746
Profit and loss account		(64,881)	(66,585)
Total shareholders' funds		26,641	24,937

[1] The Company has applied IFRS 16 effective 1 January 2019, using the modified retrospective approach, see note 21.

Approved by the Board on 23 October 2020 and signed on its behalf by:

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PJ Burrows

Director

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

David Lloyd Leisure Properties No.4 Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Called up share capital £ 000	Share premium account £ 000	Capital contribution reserve £ 000	Profit and loss account £ 000	Total shareholders' funds £ 000
At 31 December 2018	-	776	90,746	(66,585)	24,937
Effect of adoption of IFRS16: Leases (note 21)	-	-	-	116	116
At 1 January 2019	-	776	90,746	(66,469)	25,053
Profit for the financial year	-	-	-	1,588	1,588
At 31 December 2019	-	776	90,746	(64,881)	26,641

	Called up share capital £ 000	Share premium account £ 000	Capital contribution reserve £ 000	Profit and loss account £ 000	Total shareholders' funds £ 000
At 4 January 2018	-	776	90,746	(67,889)	23,633
Profit for the financial period	-	-	-	1,304	1,304
At 31 December 2018	-	776	90,746	(66,585)	24,937

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

1 General information

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

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

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

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

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

Summary of disclosure exemptions
As permitted by FRS101, the Company has taken advantage of the disclosure exemptions available in relation to presentation of a cash flow statement, standards not yet effective, business combinations, non-current assets held for sale, presentation of comparative information in respect of certain assets, impairment of assets and related party transactions. Where relevant, equivalent disclosures can be found in the consolidated financial statements of the Group.

Details of the parent company and the availability of the consolidated financial statements are in Note 20.

2 Accounting policies (continued)

Going concern
In preparing the financial statements the Directors are required to assess the Company's ability to adopt the going concern basis of accounting. The Company acts as a commercial property investment company, and is reliant on support from other companies within the Group. The Group has provided a letter of support, therefore in making this assessment the Directors have considered the Group's principal risks, liquidity, business model and cash flow forecast including downside scenario testing.

Principal risk
The Group has identified a new risk in relation to novel coronavirus (COVID-19). The COVID-19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by UK and European governments to contain the virus have affected economic activity and the Group's business materially. All our clubs were ordered to be closed on or before 20 March 2020. Our clubs remained closed for c. four months which prevented the Group generating income and cash. Our European clubs re-opened in June and our English clubs re-opened on 25 July with Welsh and Scottish clubs re-opening on 10 August and 31 August, respectively.

As a result, the Group's EBITDA has declined significantly in 2020 and was negative for the five months ending 31st July 2020 where most of our clubs were closed.

At the date of issue of this report, a second wave of COVID-19 has led to increased government restrictions resulting in short-term club closures in Wales and Ireland. On 12th October 2020, the UK Government announced a new three-tier system of restrictions in England to try to stop the spread of coronavirus. Every area in England will be classified as being on medium, high or very high alert - tiers one, two and three. Significantly, gyms and leisure centres can remain open across all three tiers. So far, the impact of restrictions is not as severe as the modelled downside scenario testing.

The uncertainty is over the extent and duration of future waves of COVID-19 which could lead to periods of club closure on a local or even national lockdown basis resulting in revenue and EBITDA reductions. Furthermore, there remains uncertainty regarding the recovery of member count and yield due to the potential impact of COVID-19 on member behaviour.

Liquidity
As of 31 December 2019, the Group's financing arrangements consisted of a £947m loan (repayable December 2024) and access to £40m in revolving credit facilities ("RCFs"), consisting of two separate £20m RCFs from the Group's relationship banks. The RCFs were not drawn at the balance sheet date. The loan and other finance facilities do not have any financial covenants attached to them and thus liquidity is the significant risk.
As a precaution, in March 2020 we fully drew our £40m RCFs and these facilities were successfully extended (notwithstanding our clubs being closed) for a period of 12 months until July 2021. Given the historic support provided by the lending banks and the super-senior nature of these facilities, the Directors are confident that the facilities will be renewed again in July 2021.

As of 30 September 2020, the Group had an immediately available cash balance of £46.5m.

Business Model
The David Lloyd business model is underpinned by membership subscribers who have a high degree of loyalty. Greater than 75% of the Group's revenues are generated through member subscriptions with members on 12 month rolling contracts and requiring to provide three months' notice to leave. To retain member loyalty, the Group decided to freeze all memberships and not take any payments or fees during COVID related closures. This led to the Group having no income during the closure period.

2 Accounting policies (continued)

Going concern (continued)
Upon re-opening of clubs, the Group has resumed taking monthly subscriptions from most of its members, albeit on a moderately lower member base due to frozen members and direct debit cancellations. As a result, the Group has moved immediately to generating operating cashflows.

Cash Flow Forecasts
In making their assessment of going concern the Directors have considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period ending March 2022.

The Group's base case scenario assumes all clubs remain open and operational, and that the RCFs are renewed in July 2021. Building on record demand since re-opening, our base case assumes strong sales continue during Q3 and Q4 2020 supported by targeted marketing and sales promotions. The base case reflects high H2 attrition followed by a gradual recovery of member count and yield to pre-COVID levels by FY 22. Notwithstanding the impact of COVID closures experienced to date, the Group is expected to remain EBITDA positive for FY20.

The base case scenario shows the Group has sufficient cash throughout this period with a low point in October 2020 of c. £34.5m as the Group re-builds cash reserves.

As with most financial models, significant changes to key assumptions could have a material impact on the timing of revenue, EBITDA and cash the Group will be able to generate.

Downside Scenario Testing
The Directors have considered the impact of downside scenarios. These scenarios included further COVID disruption modelled as localised COVID lock downs and a deep economic recession with a similar impact on the business as the Financial crisis in 2008-09 as well as the loss of the RCFs, in the event they cannot be renewed in July 2021. Downside scenarios were tested individually and in aggregate. When all downside scenarios were aggregated, and if neither of the RCFs are renewed, a liquidity shortfall would arise in July 2021.

In considering the output of downside scenario testing relative to the Group's going concern position, the Directors have also considered the additional actions which may be available to mitigate the impact on liquidity. Key mitigating actions include a sale & leaseback transaction, minimising capital expenditure and further reductions in discretionary expenditure. Notwithstanding the uncertainties discussed above, the Directors consider their ability to deliver a level of mitigating actions which protect liquidity to be very high.

Should further waves of COVID-19 result in a significant period of club closure across many regions without government support (CJRS Scheme, Business Rates Relief and Tenant protection) the Group would require additional financing to meet its liabilities as they fall due and continue in operational existence for at least the next 12 months.

Conclusion
The Directors have concluded that the impact of COVID-19 has created unprecedented trading uncertainty. Whilst the Group has a variety of mitigating actions available to it, these could also be affected by the uncertain trading environment. This combination leads the Directors to conclude that there is a material uncertainty which could cast significant doubt on the Group and therefore the Company's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding this material uncertainty, having assessed likely downside scenarios and mitigation available, the Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis.

2 Accounting policies (continued)

Revenue recognition

Turnover represents rental income, net of value added tax, which is recognised over the term of the lease on a straight-line basis, allowing for inflationary increases.

Leases

The Company leases various properties. Rental contracts are typically made for fixed periods of 35 to 999 years but may have extension options.

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

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Company has entered into commercial property leases as a lessee. The classification of these leases up until the 2018 financial year were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

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

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

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

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 Accounting policies (continued)

Leases (continued)

Right-of-use assets are measured at cost comprising the following:
- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

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

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

The respective leased assets are included in the balance sheet based on their nature. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard. Information about critical accounting estimates and judgements in the application of lease accounting is disclosed in note 3.

The Company has changed its accounting policy for leases where the company is the lessee. The impact of the change is explained in note 21. Prior to this change, all leases were held as operating leases as a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Tax

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

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

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

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

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

2 Accounting policies (continued)

Investment property

The property held by the Company is occupied by other group companies, although it still meets the requirements of IAS40 to be classified as investment property as it is held to derive rental income. Property is held at cost, with the buildings element being depreciated over 50 years to a residual value of 80%. The land element is not depreciated.

In line with IFRS 16, any right-of-use assets that meet the amended definition of investment property are disclosed as an investment property on the face of the balance sheet, and separately disclosed as a right-of-use asset in the investment properties note to financial statements.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Each individual site is considered to be a cash-generating unit (CGU). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial liabilities

Classification

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

Recognition and measurement

The Company derecognises financial liabilities when, and only when, the Company$ obligations are discharged, cancelled or they expire.

2 Accounting policies (continued)

Financial assets

Classification

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

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

Recognition and measurement

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

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset measured at amortised cost or fair value through OCI, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss (FVTPL) are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment

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

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

Derecognition of financial assets

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

2 Accounting policies (continued)

Changes in accounting policies and disclosures

(a) New standards, amendments and interpretations
IFRS 16 is a new standard that is effective for the year ended 31 December 2019 and has had a material impact on the Company's financial statements, see note 21. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the Company's financial statements. For completeness the following new standards, amendments and interpretations are newly mandatorily effective for the first time in the current year:

- IFRS 16, Leases
- IFRIC 23, Uncertainty over Income Tax Treatments
- Amendments to IFRS 9, Prepayment Features with Negative Compensation
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement
- Annual Improvements to IFRS Standards 2015-2017 Cycle

(b) New standards, amendments and interpretations not yet adopted
At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:
- IFRS 17, Insurance Contracts
- Amendments to IFRS 3, Definition of a Business
- Amendments to IAS 1 and IAS 8, Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform
- Amendments to References to the Conceptual Framework in IFRS Standards

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Lease accounting
The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Company has considered three main risk premiums (adjustments) being: reference rate, credit risk premium and asset specific adjustment.

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

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

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

The key factors influencing the discount rate in the lease sample are:
• Economic environment/country
• Length of Lease
• Lessee entity
• Type of collateral
• Rent review mechanism in the lease i.e. contingent market rent reviews versus fixed increases or indexation

The Company developed a categorisation of leases and a matrix of discount rates to reflect the specific factors above. The calculated incremental borrowing rates range between 6.33% - 6.95% translating to an average rate of 6.77%. A 5-basis point increase/(decrease) in the rate would cause the lease liabilities to increase/(decrease) by £0.07m and a corresponding increase/(decrease) in the right-of-use assets of £0.05m.

Critical judgements in applying the entity's accounting policies

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

Significant judgement is involved in determining the period over which a lease is considered to be 'enforceable'. Where contracts have a term of greater than 10 years remaining at transition, the Company assesses there to be an unclear indication that it would in substance be deemed to be 'enforceable' beyond the original contractual term, despite the rights provided by the The Landlord and Tenant Act 1954. The lease end date has therefore been used as the end date for the lease.

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

4 Revenue

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

	Year ended 31 December 2019 £ 000	4 January 2018 to 31 December 2018 £ 000
Rental income from investment property	988	966
Lease straight line income	53	67
	1,041	1,033

All revenue is earned in the single country of operation and therefore no geographical split is presented. All revenue is derived from within the Deuce Midco Group, of which the Company is a part.

5 Operating profit

Arrived at after charging/(crediting)

		Year ended 31 December 2019 £ 000	4 January 2018 to 31 December 2018 £ 000
Depreciation expense	11, 12	29	11
Operating lease expense - property		19	140
Service charge credit		(28)	-
Monitoring fees		4	5

The Company initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach operating lease expense is replaced with the depreciation of right-of-use assets and interest on lease liabilities, see note 21.

In accordance with IFRS 16, the operating lease expense in the current year represents turnover rent.

6 Auditor's remuneration

Auditor's remuneration in respect of the Company's annual financial statements for the year ended 31 December 2019 of £4,000 (2018: £4,000) was borne by another group undertaking.

7 Interest receivable and similar income

	Year ended 31 December 2019 £ 000	4 January 2018 to 31 December 2018 £ 000
Interest receivable from other group companies	4,274	4,098

8 Interest expense

	Year ended 31 December 2019 £ 000	4 January 2018 to 31 December 2018 £ 000
Interest payable to other group companies	3,626	3,501
Interest on tax liabilities	3	-
Interest on lease liabilities	60	-
	3,689	3,501

The Company initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach and interest has been recognised in relation to lease liabilities during the year.

9 Directors' remuneration

The directors' remuneration for services to the Company has all been paid and is disclosed in the financial statements of David Lloyd Leisure Limited, which can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ. It is not possible to apportion the director's remuneration.

10 Tax on profit

Tax charged in the income statement

	Year ended 31 December 2019 £ 000	4 January 2018 to 31 December 2018 £ 000
Current taxation		
Prior year adjustment	-	143
Total current income tax	-	143
Deferred taxation		
Current year charge	14	27
Tax charge in the income statement	14	170

UK Corporation tax is calculated at 19 per cent (prior period 19 per cent) of the estimated taxable profit for the year. The Finance Bill 2016 included provisions to reduce the main rate of corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the cut in the rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As this has not been enacted by the balance sheet date, balances as at 31 December 2019 continue to be measured at 17%. The impact the amended tax rate would cause has been disclosed in note 15.

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018: lower than the standard rate of corporation tax in the UK) of 19% (2018: 19%).

The tax charge for the year can be reconciled to the profit before tax in the income statement as follows:

	Year ended 31 December 2019 £ 000	4 January 2018 to 31 December 2018 £ 000
Profit before tax	1,602	1,474
Corporation tax at standard rate	304	280
Effect of reduction in tax rate	-	(9)
Group relief claimed for no payment	-	(117)
Utilisation of unrecognised losses	(289)	(129)
Effect of change in corporation tax rate	(1)	143
Effect of expense not deductible in determining taxable profit	-	2
Total tax charge	14	170

11 Investment properties (right-of-use assets)

	Right-of-use assets £ 000
Cost	
At 1 January 2019	5,652
At 31 December 2019	5,652
Accumulated depreciation	
At 1 January 2019	59
Charge for the year	11
At 31 December 2019	70
Carrying amount	
At 31 December 2019	5,582
At 31 December 2018	5,593

The Company has applied IFRS 16 effective 1 January 2019 using the modified retrospective approach, see note 21. Investment property is categorised as a right of use asset under IFRS16.

12 Leases

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

(i) Amounts recognised in the Statement of Financial Position

	Land and buildings £ 000
Right-of-use assets	
Cost	
At 31 December 2018	-
Effect of transition of IFRS16: Leases	728
At 1 January 2019	728
At 31 December 2019	728
Depreciation	
Charge for the year	18
At 31 December 2019	18
Carrying amount	
At 31 December 2019	710
At 31 December 2018	-

12 Leases (continued)

Lease liabilities

	31 December 2019 £ 000	1 January 2019 £ 000
Current lease liabilities	-	(11)
Non-current lease liabilities	(902)	(918)
	(902)	(929)

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	Year ended 31 December 2019 £ 000	4 January 2018 to 31 December 2018 £ 000
Depreciation charge of right-of-use assets	(18)	-
Interest expense (included in finance cost)	(60)	-
	(78)	-

(iii) Future minimum lease payments as as 31 December 2019 are as follows:

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Thus, the comparative future minimum lease payments presented are based on IAS 17 while the current year are based on IFRS 16.

The total cash outflow for leases in 2019 was £0.07m (2018: £nil).

	Year ended 31 December 2019 £ 000	4 January 2018 to 31 December 2018 £ 000
Not later than one year	71	-
Later than one year and not later than five years	283	-
Later than five years	4,278	-
Total gross payments	4,632	-
Impact of finance expenses	(3,730)	-
Carrying amount of liability	902	-

13 Lease straight-line asset

	31 December 2019 £ 000	31 December 2018 £ 000
At start of year	1,665	1,598
Credit to income statement	53	67
At end of year	1,718	1,665

The lease straight-line asset relates to future uplifts of 2.5% per annum that will be applied to rental income in line with the lease agreement.

14 Trade and other receivables

	31 December 2019 £ 000	31 December 2018 £ 000
Loans to group undertakings	126,686	121,639
Accrued income	5	-
Prepayments	-	82
	126,691	121,721

The intercompany debtor is repayable on demand and earns interest on an arm's length basis of 3.45% for the year ended 31 December 2019 (2018: 3.45%).

15 Deferred tax

	31 December 2019 £ 000	31 December 2018 £ 000
Deferred tax asset	301	-
Deferred tax liability	(227)	(229)
	74	(229)

15 Deferred tax (continued)

Deferred tax movement during the year:

	IFRS16: Leases £ 000
Deferred tax assets	
At 31 December 2018	-
Effect of adoption of IFRS16: Leases (note 21)	317
At 1 January 2019	(317)
Charge to the income statement	16
At 31 December 2019	301

	Accelerated tax depreciation £ 000
Deferred tax liabilities	
At 31 December 2018	(229)
Credit to the income statement	(2)
At 31 December 2019	(227)

Deferred tax is recognised on the timing differences between amounts recognised in the financial statements and amounts recognised in the tax computations. Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. There is a deferred tax liability as at 31 December 2018 which relates to future depreciation charges that will not result in tax relief.

Deferred tax assets have been recognised at the main rate of corporation tax in the relevant jurisdiction prevailing at the expected date of unwind on the statement of financial position date. In the UK the long term corporation tax rate of 17% enacted as at 31 December 2019 is used however the UK government has subsequently announced in the 2020 Budget that the corporation tax rate will remain at 19%. This revised rate would increase the net deferred tax assets by £0.01m.

There is an unrecognised deferred tax asset of £3.0m (2018: £3.2m) relating to fixtures, property and future corporation tax losses. This is unrecognised due to the lack of certainty around recoverability within the group at such time as it may be realised.

16 Trade and other payables falling due within one year

	31 December 2019 £ 000	31 December 2018 £ 000
Accruals and deferred income	19	81
Amounts due to group undertakings	107,213	103,587
Social security and other taxes	-	143
	107,232	103,811

The intercompany creditor is repayable on demand and accrues interest on an arm's length basis of 3.45% for the year ended 31 December 2019 (2018: 3.45%).

17 Called up share capital

	31 December 2019 £	31 December 2018 £
10,000 (2018: 10,000) Ordinary shares of £0.0001 each	1	1

18 Related party transactions

The remuneration of directors, analysed under the headings required by company law, is set out in Note 9.

The Company is taking advantage of the exemption provided in FRS101, and not disclosing remuneration for key management personnel. Details of the remuneration of the key management personnel of the Group are disclosed in the consolidated financial statements of Deuce Midco Limited.

The Company has relied on the exemptions under FRS101 from disclosing transactions with other wholly-owned group companies on the basis that the Company is a fully owned subsidiary.

19 Post balance sheet events

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by the UK government to contain the virus have affected economic activity and the Group's business materially. All our clubs were ordered to be closed on or before 20 March 2020. Our clubs remained closed for c. four months which prevented the Group from generating income and cash.

As a result, the Group's EBITDA has declined significantly in 2020 and was negative for the five months ending 31st July 2020 where most of our clubs were closed. The Group's liquidity was adversely impacted. As a precaution, the Group fully drew its £40m RCFs in March 2020.

The future impact of the COVID-19 outbreak has been considered as part of the Company's adoption of the going concern basis. The Company's 'going concern' review is set out in detail in note 2 on pages 14 to 15. The Company considers COVID-19 to be a non-adjusting post balance sheet event as of 31 December 2019.

20 Parent and ultimate parent undertaking

At the statement of financial position date, the Company's immediate parent undertaking is Deuce Acquisitions Limited, a company incorporated in the United Kingdom and registered in England and Wales. The ultimate parent undertaking of the Company is Deuce Holding S.à r.l and the ultimate controlling party is a group of investment funds managed by TDR Capital LLP (registered in the UK).

Deuce Midco Limited is the smallest and Deuce Topco Limited the largest group undertaking for which group financial statements are prepared and of which the Company is a member. The registered office of Deuce Midco Limited and Deuce Topco Limited is The Hangar, Mosquito Way, Hatfield Business Park, AL10 9AX.The financial statements of Deuce Midco Limited and Deuce Topco Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

21 Effect of adoption of IFRS16 leases

The Company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard.

The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed on pages 16 to 17. On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.77%.

Practical expedients applied
In applying IFRS16 for the first time, the Company has used the following practical expedients permitted by the standard:

• Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
• Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
• Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
• Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Measurement of lease liabilities

	£ 000
Operating lease committments at 31 December 2018	4,764
Discounted using the lessee's incremental borrowing rate at the date of initial application	(3,835)
Lease liabilities recognised at 1 January 2019	929

21 Effect of adoption of IFRS16 leases (continued)

Measurement of right of use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

	31 December 2018 £'000	IFRS16 adjustments £'000	1 January 2019 £'000
Investment properties (right-of-use assets)	-	-	-
Right-of-use assets	-	728	728
Deferred tax assets	-	317	317
Net impact on total assets	-	1,045	1,045
Lease liabilities	-	(929)	(929)
Net impact on total liabilities	-	(929)	(929)
Retained earnings		116	