Registration number: 01516226

David Lloyd Leisure Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022

David Lloyd Leisure Limited

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Company Information

Directors	PJ Burrows R Barnes
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Registered number	01516226
Auditor	Deloitte LLP Statutory Auditor 1 New Street Square London United Kingdom EC4A 3HQ
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David Lloyd Leisure Limited

Strategic Report for the Year ended 31 December 2022

The directors present their strategic report for the year ended 31 December 2022.

Principal activity

The principal activity of David Lloyd Leisure Limited (the "Company") is the operation of health, sport and leisure clubs in the United Kingdom and Europe under the David Lloyd Clubs brand name. As at 31 December 2022, the Company operated 69 clubs (2021: 67 clubs). The Company is part of the Deuce Midco Limited group ("the Group").

Our clubs provide the perfect destinations to stay fit and healthy as a family. Helping our members to live a better life with a focus on physical and mental wellbeing and a sense of belonging is core to our ethos and member offering. Facilities include state-of-the-art gyms, heated indoor and outdoor pools, top-class racquets facilities, well-equipped group exercise studios and luxurious spas. And if you need a place to meet with friends or enjoy a bite to eat, our clubs also feature large and inviting spaces to work, relax and socialise.

Business model

Our business model focuses on operating a portfolio of strategically located clubs in suburban areas, with each site situated in close proximity to affluent population. Our clubs include heated indoor and outdoor pools, top-class racquet facilities, well-equipped group exercise studios, state-of-the-art gyms, luxurious spas, crèches, family-oriented club rooms and outdoor spaces, lounges with restaurants and bars as well as a fully complementary digital offering, thereby delivering an outstanding customer experience to our members. The range and breadth of services offered by our clubs results in longer customer dwell-time, increased secondary spending, higher market penetration and improved retention rates compared to our competitors.

Our highly differentiated offering and size give us a significant competitive advantage. New entrants face high barriers to entry and significant challenges to replicate our proposition. Few catchment areas can support more than a single club with a comparable offering to a typical David Lloyd club.

Our business model is underpinned by a large number of affluent members who are loyal and generate significant recurring subscription income. Our members value health and wellbeing and have high disposable income. More than 75% of the Group's revenues are generated through member subscriptions with most members on rolling contracts requiring them to provide 3 months' notice to leave.

Membership income, the economic engine of our business, is driven by three fundamental levers: yield, new member sales and attrition. All three levers are highly interdependent, with a change in one typically having consequential impact on the others. All three levers depend on member satisfaction, which sits at the heart of our operating model. Our continued investment into our staff and club facilities improves member satisfaction, reducing attrition, providing scope for yield enhancements, and attracting new high-quality members.

Our history

David Lloyd Clubs was founded in 1982 by former professional tennis player David Lloyd, who sought to create high-quality fitness destinations suitable for the whole family. He recognised that the UK had very few indoor sport and leisure facilities, so created a pioneering concept of combining fitness and tennis in a family-friendly environment.

The very first David Lloyd Club to open its doors was David Lloyd Heston - a club which is still open and operating today. By 1995 there were 18 clubs in the UK, at which point the business was bought by British leisure giant Whitbread. David Lloyd Leisure was purchased by private equity firm TDR in 2013, and since then our total number of clubs has increased from 90 to 130 through a combination of acquisition and new builds.

Our Vision and Values

Our vision is "My Club for My Life". Our clubs are places for me-time, together-time, work, rest and play-time under one roof, improving the lives of our members and providing a home away from home under our "My Club for My Life" ethos. However you use us, we can improve your life for all of your life and you will feel part of your Club. Nobody builds a sense of belonging like David Lloyd Clubs.

We're passionate about making our clubs a comfortable and welcoming place to come together with friends, family and fellow members to maintain physical and mental health and wellness. We seek to create an environment where all members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members' lives, throughout their lives.

Modern lives are busier than ever and finding meaningful time for those we care about the most can be difficult. Even when we do, we are still competing for full attention with the likes of social media and easy access to film and TV. At David Lloyd Clubs, we believe that we can provide the perfect place for 'We Time' - precious, quality time spent together with friends and family in a positive, active environment.

Our clubs are also a place to relax and socialise and we encourage the sense of community and belonging that being part of a club can generate. Whether that's with some quiet time in our serene spa facilities, getting to know new people by regularly attending a group exercise class, chatting to fellow members in the spa, or using our Clubrooms to meet as a group for coffee, at David Lloyd Clubs, we're much more than just a gym.

Our ability to deliver "My Club for My Life" is supported by six values:

- Passion To Serve - We all have genuine passion, enthusiasm and energy to serve our members and make a real difference. We lead the business by seeing it through our customers' eyes and actively seeking opportunities to listen and take action.
- Will To Win - We work together to deliver stunning results, and by bringing our A-game every day we find ways to make winning happen.
- Freedom To Succeed - We make the best decisions for the business close to the customer. We give each other the confidence, trust and support to succeed and fail.
- Edge - We do the right thing, not the easiest thing.
- We Play - We create a positive, energetic environment and actively seek out ways to have fun whilst working with each other and with members.
- Thank You - We recognise great performance and team members who have gone the extra mile. We thank our teams and individuals personally and we celebrate success.

Management place an emphasis on creating an environment of local autonomy, empowering local teams to make decisions for local members, which has driven both employee engagement and service quality. The Group builds value by growing member count through the delivery of service excellence, by enhancing member engagement, investing in high quality club facilities and the expansion of the club portfolio both in the UK and Europe.

Strategy and key performance indicators

The Company is part of the Deuce Midco Limited group and the Group's strategy is disclosed in the annual report of Deuce Midco Limited on pages 3 to 5. The directors monitor the performance of the clubs and business on a Group basis. Key financial and other performance indicators are disclosed within the annual report of Deuce Midco Limited on pages 4 to 5. 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.

Operational review

Our post COVID-19 recovery was excellent, driven by record-breaking New Member Sales (NMS) in 2021. This momentum continued throughout 2022 with strong NMS that remained ahead of 'normal' levels.

The Company remains highly cash generative, and we continue to invest in capex projects. We have also leveraged our opening balance sheet strength to fund accretive pipeline M&A and repay COVID deferrals.

Premiumisation

We are 'Premiumising' our offering to deliver yield and to further differentiate DL from other competitors. The Group has continued to develop its product range to deliver an overall premium health and wellness experience. DL bespoke products include Blaze, Cyclone, Rhythm, Battlebox, Spirit and Ign1te. We continue to focus on spa retreats including new offerings at Bushey, Epsom, Derby, Teesside, and Heston.

As we open these spa retreats we premiumise other club facilities. Not every club within the estate has the space to accommodate a spa retreat so we are reviewing how we premiumise these clubs. We continue to improve the overall offering from the look, feel and style perspective as part of our strategy to further differentiate from the market. For example, we believe there is opportunity to invest in facilities to expand and premiumise gyms, outdoor dining areas, co-working space, pools and locker areas.

Pipeline

The Company has developed a strong pipeline of sites that underpin our club roll-out programme for the next few years and has carried out extensive analysis to identify white space in target towns and cities, generating 46 and 550 potential opportunities in the UK and Europe respectively.

During 2022 the Company opened/acquired two clubs, being Bicester and Cricklewood and now operates 69 clubs.

On 14 January 2022 the Company signed a lease for a new premium club in north-west London. The club, named David Lloyd Cricklewood Lane reopened on 20 April 2022 and the full refurbishment was completed late Summer 2022.

David Lloyd Bicester opened on 20 September 2022 and was forward-funded by Knight Frank Investment Manager (KFIM) and is the first of a new generation of clubs incorporating more green technology and a broader range of facilities such as padel and additional space for outdoor group exercise.

On 25 February 2022 the Company exchanged contracts to build another club in Rugby. On 28 July 2022 the Group purchased the land in Rugby for £2.4m and construction has commenced. On 2 August 2023, the Company entered into an agreement for the sale and leaseback of the club.

On 11 April 2022 the Company purchased land in Shawfair, near Edinburgh for £1.8m. On 1 August 2023, the Shawfair club opened and the sale and leaseback was completed with proceeds received in July 2023.

In January 2023 the Company exchanged contracts to acquire freehold land to build a club in Bury St Edmunds and the purchase completed on 30 August 2023.

On 10 February 2023 the Company completed the acquisition of Wickwood's County Club & Spa. On 1 July 2023 the trade and assets were hived up into the Company.

On 3 August 2023, the Company exchanged contracts to purchase land in Herne Bay, Kent, subject to planning permission.

On 13 September 2023, the Company entered into an agreement to lease a club in Wandsworth, London.

Operational review (continued)

Innovation

We continually innovate to offer the best products and services for families and individuals in welcoming surroundings including state-of-the-art gyms, heated indoor and outdoor pools, top-class racquets facilities, well equipped group exercise studios, luxurious spas, kids club facilities and crèches. We now offer facilities for the increasingly popular racquet sports Padel and Pickleball and we continue to implement our signature product Battlebox across more clubs.

The Company has continued to undertake qualifying R&D activity on digital projects. The Covid-19 pandemic acted as a catalyst for some R&D projects, as the Group sought to enhance its digital capabilities and offering. During 2022 the Group built a new digital platform aimed at delivering a personalised service to our members. Our digital platform lays the foundation for digital-only members in the future, people who join might not have a David Lloyd club nearby or ex-members who have moved to a location where there's no David Lloyd club.

Environmental, Social and Governance (ESG)

Both at Group and Company level, we have been helping families lead healthy and active lives for more than 30 years. The Company recognises the importance of its role and responsibility in contributing to a healthy society and a sustainable environment.

The Company is working across our operations and with our partners and supply chain to fully integrate ESG into how we do business and we have taken some very significant steps in this area, that demonstrate our commitment to the Environmental Social and Governance (ESG) principles that increasingly underpin our entire business strategy.

The Company is pleased with the progress made in the year, having made a £20m investment in energy efficiency technology and initiatives across our clubs to reduce our carbon footprint and increase our use of renewable energy. Our member experience continues to grow, with an increased focus on wellness innovation, and our team members and members continue to have a positive impact on our local communities through our charitable giving and initiatives.

In 2021, the Deuce Midco Board established an ESG Committee to consider climate and other social and environmental risks and opportunities to improve the Group and Company's sustainability. Our ESG committee is chaired by our Executive Chairman, Glenn Earlam with additional board attendees being Russell Barnes (Chief Executive Officer) and Patrick Burrows (Chief Financial Officer).

The ESG Committee is responsible for creating the Company's ESG strategy and for governance over its ESG programme. The ESG Committee meets quarterly and provides periodic reports and updates to the Board. During 2023 the ESG Committee will focus on compliance with Task Force on Climate-related Financial Disclosures (TCFD).

In November 2022 we appointed a new Group People Director, who is creating a 2023/2024 People Strategy to ensure the Company is a great place to work for all team members and promote equality, diversity, inclusion, health and wellbeing. The gender pay gap will feed into our social targets as we align our ESG strategy and Diversity, Equity and Inclusion Strategy for the year ahead.

Our key objective remains constant; that doing the right thing by our members, our team and the communities in which we operate is integral to our future success as a sustainable business.

We are equally committed to actions and initiatives that support our other principles. This includes doing our utmost towards combating climate change by reducing our clubs' waste and using sustainable raw materials. That's why we have set ourselves the ambitious target of becoming carbon net zero by 2030 - 20 years earlier than the current UK target.

Environmental, Social and Governance (ESG) (continued)

Our 2030 Carbon Net Zero Commitment

Net Zero means that across all of our clubs, we add no more greenhouse gases than we remove. We include emissions that we are directly responsible for, and we go further than this by also including emissions that occur throughout our supply chain activity. To achieve this, we will 'electrify' as much as we possibly can through deployment of renewable technologies, and then any remaining emissions will be eliminated from our supply chain.

Why should we do this now?

Our members and our team members tell us it is very important that we make a positive contribution in this area. The science tells us that global warming must not exceed 1.5C to avoid the catastrophic impacts of climate change. To achieve this, greenhouse gas emissions must be halved by 2030, and drop to net-zero by 2050. There are a lot of activities and projects we are able to commence work on imminently, which will deliver carbon reductions. The 2030 timeframe also gives us time to work out answers to the more difficult challenges.

How we will deliver our Net Zero commitment?

We have identified five key areas that will help us to deliver this:

- Reducing our water and energy consumption.
- Generating our own renewable energy onsite.
- Reducing indirect emissions across our supply chain.
- Using sustainable modes of transport.
- Reducing plastics and waste.

What progress have we made?

So far, we have executed the following actions which have resulted in a reduction of 10,000+ tonnes CO_2e. That's over 10,200 flights to New York and back.

- Invested £20million on energy efficient technology in our clubs, including low energy LED lighting on our tennis courts, overhauling our heating and cooling systems and upgrades to our Building Management Systems.
- In 2022 we completed our first solar pV installation at Luton. This generates 25% of the club's total energy requirements.
- Switching to green energy purchasing across clubs in the UK - 100% of our grid electricity in the UK is renewably sourced.
- Reduced total waste by 7% compared to 2021 and introduced more recyclable materials in club.
- Taken control of the amount of water we use thanks to gaining a self-supply licence - the first health and fitness club in the UK to do this.

Our future plans to achieve Carbon Net Zero

We know that there is a lot more to be done, so we have put the following plans in place for the next 12 months:

- Trialling new energy efficient showers;
- PPA (solar field in Cambridgeshire) signing and the roll out of solar PV panels on the roofs of the majority of the estate;
- Installing air source pumps - to remove 70% of club carbon emissions;
- Fitting EV charging points across our clubs;
- Reducing single use items in our clubs and adding more recycling bins;
- Launching an internal campaign to reduce energy usage;
- All new clubs will be built incorporating energy efficiency and renewable technologies.

Environmental, Social and Governance (ESG) (continued)
We are currently working with external advisors to set short and long-term science-based targets. These will be submitted to the Science Based Targets Initiative for validation and approval by July 2023.

Our Communities
Doing the right thing by our members, our employees, and the communities in which we operate is something we are passionate about. A crucial part of our community responsibility is our work with numerous charities. 'DL Giving', which is all about us giving back to local causes, where our clubs are based, chosen and supported by our members and our team, whether that's through fundraising or volunteering.

In 2022, we raised over £1.7 million for charities and good causes, including £1.1 million for Change Please from the coffee sold in our UK Clubs, £287k from fundraising activities in all of our Clubs and donating the equivalent of £205k to the Stroke Association in various forms including the sharing of our expertise, materials and facilities.

In March 2022 we launched our Ukraine Humanitarian Appeal, and raised money for the Disasters Emergency Committee (DEC). Across the organisation we raised £60k during the year. The Company matched the funds raised, we are therefore very proud to have donated a huge £120k to the DEC to help the people of Ukraine. These efforts have gone towards supporting some of the 13 million people displaced by the conflict, providing a range of interventions including shelter, food, and psychological support to people who have had to leave everything behind.

In April 2020 we launched a partnership with Change Please, an award-winning coffee company with a difference; a social enterprise supporting people out of homelessness through Life Changing Coffee. Members in all our UK clubs are now enjoying Change Please coffee with 100% of the profits going towards people experiencing homelessness and offers them a living wage job, housing, training and onwards employment opportunities. David Lloyd Clubs is proud to be one of the founding contributors to Change Please and we are their biggest corporate partner. We have so far raised over £2 million, helping 190 people access training, support and / or employment. Our donations have supported training programs lasting three to six months to help trainees build the skills & confidence to move into employment.

As well as serving Change Please coffee in our Clubs, David Lloyd Clubs has gifted two mobile coffee vans which have been used to sell coffee at cultural events across the UK, such as All Points East, Standon Calling and Sports Stadia such as the Kia Oval. In 2022, these dual branded vans provided work experience for an additional 18 trainees; with one van now permanently sited in Canary Wharf. We are determined to grow our support for Change Please and the incredible work they do to support people and reduce homelessness in the future.

At the same time, we are committed to enabling our Clubs to support charities and good causes that have meaning for our members and team members in their local communities and nationally. An example being our Newbury Club who undertook a 24-hour Sportathon including tennis, squash, cycling, triathlons and classes to raise £40k for the New Life special care babies unit.

Our team and members work to have a positive impact on the communities and environment in which we all want to thrive including a re-wilding that took place at our Hampton Club. We create a sense of belonging for our members which motivates them to play an active part in the community inside and outside of our clubs.

Member Wellbeing
At David Lloyd Clubs we believe that health and fitness isn't just for January. We believe that long term health, fitness and happiness comes from a sustainable, balance and long-term approach to wellness. We help our members to live a better life with a focus on physical and mental wellbeing and provide a safe environment for members to feel supported and encouraged. As the UK's fitness industry leaders, this is why we're making a pledge to highlight our commitment to only encouraging healthy habits in 2022 and beyond. We're teaming up with Actress and TV Personality, Nadia Sawalha, to launch our brand's leading Wellness Pledge to urge the fitness industry as a whole to adopt and embrace a commitment to responsible wellness.

Environmental, Social and Governance (ESG) (continued)

David Lloyd Clubs Wellness Pledge

- We will not work with influencers who promote rapid weight loss diets and/or exercise plans or any other unhealthy or potentially dangerous fitness quick fixes
- We will not promote our clubs as a short-term, rapid weight loss solution in any of our advertising or marketing materials, but rather as a place to feel happy and healthy in your body, and achieve your long-term wellness goals
- We will train all our fitness team to coach members to develop long-term healthy habits which will empower them to be mentally and physically healthy and well for life
- We will continue to provide a wide range of activities and group exercise classes that feel inclusive and encourage people of all ages and fitness levels to be active and live long-term healthier lifestyles
- We will not promote unrealistic body standards in any of our advertising and marketing materials, and will not digitally enhance any images to alter body shape

We're passionate about making our clubs a comfortable and welcoming place for everybody. In 2019 the Company committed to having one Fitness Trainer aged 55 or over in each of its clubs on average by the end of 2022. Sport England's Adult Lives Active survey and report published 29 April 2021 revealed a decline in the number of over 50's exercising as a result to the pandemic. In response and to inspire older people to exercise more the Company has renewed its pledge to employ more older fitness trainers.

Our People

Our people make us who we are. The Company aims to provide a happy, inviting and safe culture where our team members feel comfortable and are able to thrive. We're really passionate about our people and creating a great place to work.

Employee involvement

Employee engagement is measured twice a year by way of an online employee survey to ensure the Board is listening and responding to its employees' needs. Action plans are prepared by each department to improve engagement on an ongoing basis.

Celebrating success underpins our value of 'Thank You' and is something which lives and breathes in our clubs. One of the ways we celebrate success is through our Team Member of the Month scheme, which runs across all of our clubs. At the end of the year each club identifies their Team Member of the Year who is then invited to attend an all-expenses-paid trip overseas with their fellow winners. The trip saw our 2021 and 2020 team members of the year winners enjoy a luxury four-day trip to Dubai or Miami.

The leadership team continue to recognise the importance of career progression and personal development and we continue to promote internally through our 'Step up to General Manager' and 'Step to up HoD' development programmes. Our E-learning Management System allows all team members to access a range of e-learning training and development modules. The leadership team continue to invest in our highly popular company induction for all new or newly promoted managers which promotes our company Vision, Values and Strategies and is presented directly by the CEO and Directors.

Employee consultation

The Company places considerable value on communicating with its employees and has continued to keep them informed on matters affecting the performance of the Group. This is achieved through formal and informal meetings, the Group's employee app 'Kitbag'; and regular business communication from the CEO.

Environmental, Social and Governance (ESG) (continued)

Employee consultation (continued)

New employees receive an induction and any relevant job training, giving them the opportunity to learn about the Group and understand their job and what is expected of them. All employees have regular opportunities to discuss their role and responsibilities and commit to honest two-way feedback. In addition, performance is reviewed against annual objectives and personal development plans are discussed on a formal basis once a year. These form four "People Non-negotiables", which ensures that every employee has an induction, objectives, regular one-to-ones, and an end of year performance review.

Employee reward

The Company is proud to offer pay that exceeds the National Living Wage to all our UK team members, as well as ensuring our pay is competitive. From 1 April 2023, our base wage will increase to £10.52 per hour for all hourly paid employees regardless of age. We also offer benefits including Wagestream, allowing our team members the flexibility to get paid earlier than their normal monthly pay date, a contributory pension scheme and company funded Life Assurance.

All our team members receive complimentary membership at our clubs to encourage a healthy and active lifestyle, as well as significant discounts on our healthy-eating menu in our clubs, while our flexible benefits scheme allows our team to choose benefits that are important to them in a tax-efficient way. We offer a free and confidential Employee Advice Line to help our team members and their family deal with challenges that might adversely impact their health, wellbeing, or work performance.

We are conscious that many of our team members have been and continue to be impacted by the 'cost of living' crisis. To help them through this time we have made a financial hardship fund available for which team members can apply. We have also offered free meals to all employees from January to March 2023.

Every employee has personal objectives which should be aligned to the Group's strategies and key performance indicators. Individual contribution to the business is recognised through the Group's bonus scheme, which is available to all eligible salaried employees and payable upon Group and individual performance.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee health & safety

The Company is committed to taking all reasonable steps to provide a safe and healthy workplace and working environment for all team members. The assistance and training necessary for all team members to competently fulfil their duties and responsibilities is provided. The responsibility for implementing health and safety policies lies with all directors, managers, and team members.

Diversity

David Lloyd Clubs is an equal opportunities employer committed to providing equal opportunities to all employees regardless of personal status and to prohibit all forms of discrimination. Alongside a commitment to promote talent from within, recruiting people from outside the industry is important to us, as it brings fresh ideas and alternative views. This is done without regard to sex, race, disability, national origin, ethnicity, sexual orientation, age or marital status. To inspire older people to exercise more, the Group has committed to having at least one Fitness Trainer aged 55 or over on average at each of its clubs.

We want David Lloyd Clubs to be a truly inclusive and consistently great place to work, where all our values shine through every day. As we move into 2023, we have a new People Team in place with a focus on Diversity, Equity and Inclusion with the goal to build an Inclusive and Winning Culture.

Gender pay

In accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, the Group's gender pay reporting for 2022 is published on the website www.davidlloyd.co.uk. The 2022 Gender Pay Gap report is the first time since 2019 that we have not had any impact of furlough pay in the reporting.

Currently, there is a gender pay gap of 12.1% which means that the average mean pay of male team members is 12.1% higher than the average pay of female team members. This is a decline on the previous year, but last year's reporting included furlough pay.

Our focus remains the percentage of females in senior leadership positions. The pay quartile reporting shows we have 47.8% of females in the upper quartile yet we have 59% females across the UK overall. This is the area we will focus on and predominantly on the number of females we have in our General Manager and Assistant General Manager roles.

The gender pay gap will feed into our social targets as we align our ESG strategy and Diversity, Equity and Inclusion Strategy for the year ahead.

Health and safety

As well as providing a fantastic experience for our members David Lloyd is also committed to a high standard of health and safety. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing, and health and safety. The majority of clubs attain our expected standards and the minority that do not are provided with the coaching, advice and guidance to achieve the required standards. Every club has multiple audit visits and support visits every year to drive standards, foster continual improvement and embed safety culture. All UK clubs have a UK Food Standards Agency (FSA)/Food Standards Scotland (FSS) grading of good or very good (pass in Scotland) with 90 clubs achieving the highest grading.

There is increasing consumer demand to know what is in our food. We have a comprehensive allergen menu which is available on our website, on our app and at point of sale. This highlights the fourteen major allergens in all the food we serve. Our menu proposition remains committed to enabling members to make informed decisions around health and wellness as well as providing balance and choice. We offer a menu with suitable dietary needs for vegetarians, vegans and under 600 calories. We offer a selection of drinks exempt from the sugar tax levy due to being under the threshold. Calorie information is displayed on our menu and our app in line with legislation effective from 6 April 2022.

Principal risks and uncertainties

The principal risks and uncertainties recorded below are those which we consider to be material to our business model, and which could adversely affect the operations, revenue, profit, cash flow or assets of the Company.

Member Experience

The core of our strategy is to continue to deliver sustainable, profitable growth by focusing on creating a premium experience for our club members. We generate more than 75% of the Company's revenues through member subscriptions and if we are unable to attract and retain members, it could result in a reduction in members, revenue and profitability. We mitigate this risk through encouraging members to get the best from their DLC membership, continued investment in our club facilities and development of our product range to provide a premium offering to our members. We focus on both member satisfaction and feedback and monitor club usage to maximise member experience. We invest in our team members to deliver enhanced service levels to our members.

Principal risks and uncertainties (continued)

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

Climate Change

Climate change is a critical global challenge. The science tells us that global warming must not exceed 1.5C to avoid the catastrophic impacts of climate change. To achieve this, greenhouse gas emissions must be halved by 2030, and drop to Net-Zero by 2050. Climate related risks can be categorised as physical and transition.

Physical risks
Extreme weather events such as storms, floods and droughts could disrupt our supply chain, operations and demand for our products. Our product offering could be impacted as services deemed recreational rather than essential (i.e. swimming pools have to close as a result of regional drought orders). Major infrastructure damage from floods could lead to periods of club closures impacting member retention and EBITDA performance.

We are in the process of developing detailed action plans for clubs at most risk to adverse weather events. The Group intends to run an internal Task Force on Climate-related Financial Disclosures (TCFD) submission during 2023 to provide a gap analysis summary, which will help prioritise future actions. Insurance policies have been taken out to replace damaged or destroyed assets and to insure against business interruption.

Transition risks
Climate-related regulation and policies such as carbon taxation/future restrictions on gas usage could impact the club's operations. To mitigate this risk new clubs will be developed to minimise gas consumption by installing renewable generation technology. We will retrofit existing clubs with heat decarbonisation technologies. The Company also intends to reduce its dependency on procurement of energy from the wholesale markets. This will be delivered by removing gas consumption (removal of CHPs & decarbonisation/electrification of heat demand), installation of onsite generation (solar PV) and procurement of renewable electricity enhanced via one or multiple corporate Power Purchase Agreements 'PPA's).

Our members tell us it is very important that we make a positive contribution to the environment. Not listening to our members could result in higher attrition and a decline in revenue. The Company is in the process of engaging an external consultant to achieve external validation and verification of the 2030 Net Zero Carbon commitment. This will include submission of targets to be approved by the Science Based Targets Initiative (SBTi). External validation will improve internal and external stakeholder confidence in our process and data.

Regulatory Compliance
The Company is subject to regulatory and legislative requirements, including health and safety, employment law, Modern Slavery Act, Bribery Act, taxation, General Data Protection Regulation ("GDPR") planning regulations, noise abatement and advertising and marketing regulations. Failure to comply with these requirements could lead to potential reputational damage and penalties. The Board is responsible for compliance with legislation and delegates responsibilities to the senior management team. Legal advice and expert opinion are taken when necessary. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing, and health and safety. All employees receive regular training.

Principal risks and uncertainties (continued)

Cyber and data security

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

Information technology dependency

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

Financial review of the business

Across 2022 as a whole, the UK economy grew by 4.0% after 7.6% growth in 2021, as it recovered from a historic blow from the COVID-19 pandemic. UK GDP showed zero growth in Q4 2022 after a fall of 0.2% in Q3 2022 and thus narrowly avoided a recession (Source: Reuters). The main driver of the current economic downturn is the squeeze on incomes and weaker consumer spending. The increase in energy and food prices during 2022, as well as higher overall inflation, have significantly reduced households' purchasing power (Source: KPMG UK Economic Outlook December 2022). The cost of living increased sharply across the UK during 2022. The annual rate of inflation reached 11.1% in October 2022, a 41-year high, before easing in subsequent months to 6.3% in August 2023. High inflation affects the affordability of goods and services for households.

An important driver of inflation is energy prices. From January 2022 to January 2023, domestic gas prices increased by 129% and domestic electricity prices by 67%. Gas prices increased to record levels after Russia launched its full-scale invasion of Ukraine and continued to rise during much of 2022 due to cuts in Russian supply. Electricity prices are linked to gas prices and have followed a similar trend. In response the UK Government announced a new Energy Price Guarantee (effective 1 October 2022), to cap typical household bills at £2,500 a year. This was cap was extended until June 2023.

To curb inflation, the Bank of England has been steadily increasing interest rates and the base rate now stands at 5.25% at the date of this report. This results in higher mortgage payments squeezing households further. The impact of the cost-of-living crisis is most felt by lower income households as pricing pressures are on energy, food and fuel.

Our business model is underpinned by a large number of affluent members. Given our members are typically from higher income households we have been relatively protected from the worst of the cost-of-living impact.

Revenue

On a statutory basis, the Company recorded revenue of £557.1m (2021: £341.3m) an increase of £215.8m (63%), reflecting (i) the increased number of open trading days compared to the prior period when almost all clubs were closed for most of the first 3 months of 2021; and (ii) average membership numbers were higher for the year ended 31 December 2022 compared to the prior year. We closed the period with 605k members, up 10k on December 2021.

Cost of sales

Cost of sales were £274.3m (2021: £192.6m) an increase of £81.7m (42%) reflecting the increased number of trading days. Gross profit margin increased to 51% (2021: 44%) as a result of good cost control and stock management.

Financial review of the businesss (continued)

Administrative expenses
Administrative expenses increased by £15.3m (9%) to £190.0m, primarily due to increased staff costs during the year.

Other income
Other income increased from £14.5m to £15.8m due to construction contract income of £13.7 offset by a fall in Government grants relating to COVID-19 support.

Operating profit
The Company recorded an operating profit of £90.5m (2021: operating loss of £20.1m). The result benefitted from other income of £15.8m (2021: £14.5m). This primarily related to construction contract revenue of £13.7m. A further £0.4m was recognised in relation to UK government grants, £1.1m was in relation to Irish COVID-19 interruption insurance claim proceeds, £0.6m proceeds from a VAT claim and £0.1m in relation to a research and development tax credit. In respect of the prior year other income, £11.1m was recognised in relation to the Coronavirus Job Retention Scheme and £3.2m in relation to other UK Government grants.

Impairment losses on financial assets
Impairment losses increased from £8.3m to £15.4m as a result of an increased provision for irrecoverable debts.

Loss on disposal of property; plant and equipment
Loss on disposal of property plant and equipment increased from £0.3m to £2.7m due to the disposal of assets in the normal course of business.

Net finance costs
Net interest payable for the year was £74.8m (2021: £30.7m). This resulted in an overall profit after taxation of £11.7m (2021: loss after taxation of £48.3m). This includes a tax charge of £3.9m (2021: credit of £2.5m) on the underlying profit before tax for the year.

Financial position
The Company had net assets of £439.6m (2021: £425.0m) and net current liabilities of £1,350.3m (2021: £1,213.3m) at the balance sheet date. Significant movements in the statement of financial position have been outlined below.

Intangible assets increased by £13.4m from £12.5m to £25.9m. This was driven by additions of £15.8m, mostly relating to a significant investment in developing our digital offering, offset by the annual amortisation charge of £4.0m.

Right-of-use assets have decreased by £7.1m primarily driven by the annual depreciation charge of £33.6m, disposals of £2.2m and an impairment charge of £0.2m, offset by additions of £29.5m.

Property, plant and equipment has increased by £45.1m largely driven by additions of £80.7m and offset by the annual depreciation charge of £26.0m, disposals of £4.4m, impairment charges of £1.3m and foreign exchange movements of £0.2m.

Other receivables, which is comprised by loans to group undertakings and amounts due from parent, increased by £107.4m due to ongoing financing agreement.

Trade and other receivable increased by £3.2m which was principally driven by a £5.2m contract asset receivable arising from construction contracts for leaseback.

Cash and cash equivalents has reduced by £104.1m driven by cash outflows in relation to our 2022 capex investment programme and repayment of COVID deferrals.

Trade and other payables have increased by £37.4m. This is principally driven by amounts due to group undertakings (up £62.4m), offset by a decrease in trade payables (down £20.8m) due to timing of payments.

Lease liabilities have decreased by £9.2m principally driven by lease payments of £80.1m (principal and interest), offset by interest (£45.5m) and additions (£27.7m).

Outlook

We continue to see no recessionary signs to date but remain cautious of the macroeconomic environment. We will continue to offer our members excellent value for money and focus on our pipeline of new clubs and spa retreats. Shawfair, Edinburgh club is expected to open in Summer 2023, and we have 23 spa retreats open including new offerings at Bushey, Epsom, Derby, Teesside, and Heston as at the date of signing these financial statements.

Despite the well publicised squeeze on consumer spending from cost-of-living pressures and rising inflation, we believe we are well positioned given our differentiated offering and affluent member base. There is a broad realignment towards health and well-being in a post-COVID world which is why health and wellness remains essential spend for many of our members.

Going concern

The directors note that as at 31 December 2022, the Company has net current liabilities of £1,350.3m (2021: £1,213.3m). In preparing the Group's financial statements the directors have considered the Group and Company's cash flows, liquidity, expected trading performance to December 2024 including member count and the impact of the current economic environment inflationary pressures principally around energy costs.

Based on the Group's liquidity and cash flow forecasts the directors have concluded that the Group and Company has adequate resources to continue in operational existence for at least 12 months from the signing date of the financial statements and for the foreseeable future thereafter.

Deuce Midco Limited has provided a letter of support to the Company and committed to ensure that all intercompany balances are repayable. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Tax strategy

Our tax strategy applies to all subsidiaries of the ultimate UK corporate parent Deuce Topco Limited (together "The Group") from the date of publication until superseded. It is in accordance with paragraph 19 of Schedule 19 to the Finance Act 2016 and applies to the taxes and duties set out in paragraph 15(1) of that Schedule.

Our tax strategy is underpinned by principles of full compliance, transparency and sound risk management. The Group acts lawfully and with integrity and, in our behaviour, we aspire to the highest professional and ethical standards.

Ultimate responsibility for The Group's tax strategy and compliance rests with The Board of Deuce Midco Limited (Deuce Topco Limited is a parent of Deuce Midco Limited), as delegated to the Chief Financial Officer ("CFO"). The CFO is the Board member with responsibility for tax matters and day-to-day management of the tax affairs delegated to the Head of Tax.

The Group manages tax risks and tax costs in a manner consistent with applicable regulatory requirements and with shareholders' best long-term interests, taking into account operational, economic and reputational factors. The Group seeks to reduce the level of tax risk arising from its operations as far as is reasonably practicable by ensuring that reasonable care is applied in relation to all processes which could materially affect compliance with its tax obligations.

The Group's approach to taxation is reviewed periodically in light of changes to the general business environment, our business operations, tax laws and regulations and emerging business and tax risks.

Tax strategy (continued)
The Group has established and maintains robust policies and compliance processes and controls to ensure the integrity of its tax returns and the timely and accurate payment of tax. The Group maintains documented tax policies and procedures in relation to key tax processes which are regularly reviewed.

The Group manages tax risks to ensure compliance with legal requirements in a manner which ensures payment of the right amount of tax. At all times the Group seeks to comply fully with its regulatory and other obligations and to act in a way which upholds its reputation as a responsible corporate citizen. The Group takes a balanced approach to tax risk and does not engage in arrangements that are designed solely to reduce tax liabilities.

We seek to develop and maintain professional, transparent, and constructive relationships with all tax authorities in the jurisdictions in which we operate, based upon mutual trust and respect. Where appropriate we ensure there is access to relevant information demonstrating the integrity of our tax processes, returns and payments.

Anti-bribery and anti-corruption

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

Human rights: Modern Slavery Act 2015

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

In accordance with section 54(1) of the Modern Slavery Act 2015, the Company's slavery and human trafficking statement for the financial year ended 31 December 2022 has been published on our website www.davidlloyd.co.uk.

Section 172(1) statement
Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. This statement sets out how the directors have complied throughout 2021 with the requirements of Section 172 of the Companies Act 2006.

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

The Board sits at the Deuce Midco Limited level (referred to as "the Board" throughout) and consists of six directors and one non-executive director. David Lloyd Leisure Limited is a subsidiary of Deuce Midco Limited. As is normal for large companies, the Deuce Midco Limited Board delegates authority for day-to-day management of the Company and its subsidiaries to the Executive Board and then engages management in setting, approving and overseeing execution of the business strategy and related policies. The corporate governance structure and group policies are set by the Board of Deuce Midco Limited. The Board ensure that when they are applying these group policies, they have due regard to our fiduciary duties and responsibilities.

The role of the board (continued)
The Board meets monthly and is advised of stakeholder views in several different ways, including:

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

All formal Board meetings are minuted and these minutes are formally approved at the following meeting.

a. The likely consequences of any decisions in the long-term.

The Board's decision making is focused around ensuring that the Company is sustainable in the long term. Each year, the Board considers our 3-year Business Plan, of which the Company is the largest component, which assesses the opportunities and risks for the Group over this timeframe. On an annual basis the Executive Board meets to consider the impact of broader socio-economic trends on a longer timescale.

Each year the Board considers the Group's strategy and key performance indicators and how we will achieve our goal. This is communicated and discussed with the wider transformation group at an annual conference.

Significant capex investment appraisals of potential acquisitions and disposals are reviewed and subsequently approved/declined by the Board. In making these decisions, the Board considers the financial merits of each proposal and whether it is aligned to our strategy and premium offering.

During the year, the Board approved the acquisition of Wickwood's County Club & Spa which subsequently completed in February 2023.

b. The interests of the company's employees.

The Board receives regular and timely information (at least monthly) on all key aspects of the business including the financial performance of the business, health and safety, performance against the Group's strategies and key performance indicators, as well as updates on external factors, including the cost of living crisis, the conflict in Ukraine and global supply chain issues. These external factors are discussed to ensure that the potential impact of decisions, particularly in the long-term, are understood and considered.

The Board places considerable value on communicating with its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, the Company's employee app 'Kitbag' and periodic business communications from the CEO.

Employee engagement is measured twice a year by way of an online employee survey to ensure the Board is listening and responding to its employees' needs.

The Board recognised that the 'cost of living' crisis has caused considerable financial hardship for our team members and made a hardship fund available for which team members can apply. We have also offered free meals to all employees from January to March 2023.

The Board reviews people matters with regular discussions on Health and Safety and employee engagement. Juliett Cattermole joined the Group in November 2022 as Group People Director. Juliett's focus is on Diversity, Equity and Inclusion. Read more on our engagement with employees on pages 9 to 11 of the strategic report.

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

The Board recognises the importance of our key stakeholders to the long-term sustainable success of the Group. This is reflected in the focus on building stronger relationships with members, employees, suppliers and shareholders.

Members - Our vision "My Club For My Life" seeks to create an environment where our members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members' lives, throughout their lives.

Member satisfaction sits at the heart of our operating model. We improve member satisfaction, reduce attrition, and attract new high-quality members through investment into our staff and club facilities.

Feedback from our members is monitored continuously through multiple channels. Read more on our engagement with members on page 7 of the strategic report.

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

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

Suppliers – We recognise the importance of our supply chains and invest in our relationships with them to ensure that they are treated in a fair and consistent way. Recently we have worked with our cleaning contractors to offer their employees use of our club facilities to aid recruitment, retention and engagement. During the year, the Board received updates on our payment practices and on our supply chain, where relevant, from our business line leaders.

The Board recognises the importance of its role and responsibility in contributing to a healthy society and a sustainable environment. The Board is committed to actions and initiatives that support our other Environmental, Social and Governance (ESG) principles. This includes doing our utmost towards combating climate change.

During the year, the Board has continued to develop the strategy and targets to meet our 2030 Carbon Net Zero Commitment. The Board monitors the Group's corporate responsibility, primarily through regular reports from the ESG Committee. The Board recognises that increasing energy efficiency and reducing our dependency on gas is aligned to increasing EBITDA.

Read more in the Environmental, Social and Governance (ESG) section in the Strategic report on page 6 to 9.

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

The Board takes the reputation of the Group seriously and is committed to a high standard of health and safety. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing and health and safety. The majority of clubs attain our expected standards and the minority that do not are provided with the coaching, advice and guidance to achieve the required standards.

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

All new team members are required to complete a compulsory online training module on 'Modern Slavery' to drive awareness and understanding. In accordance with section 54(1) of the Modern Slavery Act 2015, the Group's slavery and human trafficking statement for the financial year ended 31 December 2022 has been published on our website: www.davidlloyd.co.uk.

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

The Board seeks to act fairly between all members of the Group by seeking to align the interests of the majority shareholders (TDR) and minority shareholders (Management). Management shareholders as a body are provided with access to legal representation. The Board is represented by all parties and the Board culture allows for healthy and constructive debates.

Approved by the Board on 28 September 2023 and signed on its behalf by:

PJ Burrows
Director

David Lloyd Leisure Limited

Directors' Report for the Year ended 31 December 2022

The directors present their annual report and the audited financial statements for the year ended 31 December 2022.

Principal activity

The principal activity of the company is the operation of health, sport and leisure clubs in the United Kingdom and Europe under the David Lloyd Clubs brand name. 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.

Ownership

The ultimate parent of the Company is Deuce Holding S.a r.l. and the ultimate controlling party is a group of investment funds managed by TDR Capital LLP (registered in the UK). TDR Nominees Limited holds the investment on behalf of the following fund Partnerships: TDR Capital III Holding LP (74%) and TDR Capital Deuce Co-investment L.P. (26%). TDR Capital ("TDR") is a leading private equity firm with over €15 billion of assets under management. TDR typically acquire majority stakes in strong, market-leading European companies with potential for robust growth and resilience through economic cycles.

TDR had followed David Lloyd for many years, believing it to be a unique leisure concept and a premium property-backed asset. TDR saw it had strong potential to grow by investing capital across the existing estate, expanding into new geographies and significantly enhancing David Lloyd's customer proposition through a series of operational improvement initiatives. In November 2013 TDR acquired the Group from UK-based property company London & Regional and Caird Capital LLP.

TDR have since worked with management to improve all aspects of the member experience in order to cement the Group's position as a market leader in premium family leisure.

Under TDR's ownership the group re-launched it's new site development programme in the UK and built out its position in Continental Europe through the acquisition of small portfolios of clubs as well as standalone sites, bringing the total estate to 130 sites compared to 90 at acquisition.

During 2022, the Company opened two new clubs in the UK being Cricklewood Lane and Bicester. Post year-end the Company completed the acquisition of Wickwood's Country Club & Spa and opened the club in Shawfair, Edinburgh and Rugby.

Directors of the Company

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

PJ Burrows

R Barnes (appointed 29 November 2022)

DG Earlam (resigned 1 December 2022)

Directors' liabilities

The Company maintains D&O insurance for its directors and officers.

Future developments
There are no significant changes planned to the existing estate and operations of the Company. The Company's future strategy will focus on Premiumisation, Pipeline, Innovation and ESG.

The Company plans to 'premiumise' its offering by investing in spa retreats to deliver yield and to further differentiate from the market. As well as investing in spa retreats there is opportunity to invest in facilities to expand and premiumise gyms, outdoor dining areas, co-working space, pools and locker areas.

The Company continues to develop its Pipeline by securing further expansion opportunities across the UK, including acquisitions and new build sites and successfully integrate them into the David Lloyd operational and business model.

The Company continues to innovate both digitally and physically. We are building a new digital platform aimed at delivering a personalised service to our members.

Employees
Consultation with employees and consideration for disabled employees have been discussed in the Strategic Report on page 10 of these financial statements. The Strategic Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Dividends
The Company paid out no dividends during the year (2021: £nil).

Political donations

The Company made no political donations during the period (2021: £nil).

Post balance sheet events
Please refer to note 31 of these financial statements for details of post balance sheet events.

Branches outside the UK
The Company operates one branch in Milan, Italy.

Financial instruments
Information in respect of the Group's policies on financial risk management objectives including policies to manage credit risk, liquidity risk and foreign currency risk are given in note 27 to the financial statements of Deuce Midco Limited.

Prior year restatement
During the year the Financial Reporting Council (FRC) enquired about Covid-19 related rent concessions and leasehold health club intangible assets in connection with their review of the Deuce Topco Limited (a parent of the Company) 2021 Annual Report and Accounts. As a result of this enquiry, the directors reassessed the accounting treatment adopted for these transactions in the Company's accounts.

<u>Covid-19 related rent concessions</u>
We had previously recognised a deferred rent prepayment and a trade payable for rent invoices received, but not paid. Part of this related to invoices received on behalf of David Lloyd Leisure GR Limited, a group undertaking. This resulted in current assets and current liabilities being inappropriately grossed-up, as the lease liability balance already reflected the total outstanding value of lease obligations. Accordingly, a prior year adjustment has been made and is reflected in the restated 2021 balances as presented.

The effect of these prior year restatements on the 2021 financial statements is to decrease trade and other receivables by £16.6m, decrease trade and other payables by £25.3m and to increase amounts due to group undertakings by £8.7m. There is no impact on the income statement or net assets.

Prior year restatement (continued)

Leasehold health club intangible assets

The intangible asset described as "leasehold health clubs intangible" represents amounts recognised under acquisition accounting, predominantly before IFRS 16 became effective, in respect of the value of right of use assets/leasehold interests. On transition to IFRS 16 these amounts should have been derecognised with a corresponding adjustment to the right of use assets. This adjustment would better reflect the right of use assets' value and correctly reflect that there is no intangible asset separately identifiable from the right of use asset.

Accordingly, a prior year adjustment has been made and is reflected in the restated 2021 balances as presented.

The effect of the prior year restatement on the 2021 financial statements is to decrease intangible assets by £0.7m and increase right-of-use asset by £0.7m. There is no impact on net assets and no impact on the face of the income statement.

Impairment loss on trade receivables

The FRC also highlighted that the impairment loss on trade receivables should be separately disclosed on the face of the Statement of Comprehensive Income. Previously it was included within other operating expenses. This balance £15.4m (2021: £8.3m) is now shown separately with no impact on profit.

The scope of the FRC's review was to consider the Group's compliance with reporting requirements and not to verify the information provided. The review performed by the FRC is solely based on the Deuce Topco Limited (a parent of the Company) 2021 annual report and accounts and does not benefit from a detailed understanding of underlying transactions and provides no assurance that the Annual Report and Accounts are correct in all material respects.

Other presentation restatements

During the year the directors identified further presentation restatements outside the scope of the FRC's review as follows:

Staff costs

An issue was identified in the source data used to prepare the staff cost disclosure note. As a result, the prior year staff cost note had been overstated by £7.0m. Accordingly, this has been restated. There is no impact on the income statement as the error was restricted to the disclosure note.

Supplier payment policy

The Company complies with regulations made under section 3 of the Small Business, Enterprise and Employment Act 2015, these can be found at www.legislation.gov.uk. The Company typically pays all its suppliers between 30 and 45 days. The Company makes weekly payment runs to clear supplier bank accounts each Friday. The payment run parameters are set to select all undisputed invoices that are due for payment up to and including the Friday clearing date based on the supplier payment terms held within the supplier master record.

The average time taken to pay invoices for the period 1 July 2022 to 31 December 2022 was 34 days (2021: 43 days) and 35 days (2021: 58 days) for the period 1 January 2022 to 30 June 2022. The decrease in average time taken to pay invoices reflects a move towards our normal payment practices as we continue to pay our Covid-19 deferrals.

Variations to these standard payment terms are by exception only:

- F&B Partner - all undisputed invoices received in the month are paid by no later than the 16th of the following month;
- Self-employed professionals - all undisputed invoices relating to previous month's activity are paid weekly upon receipt;
- Landlords - all rental invoices are paid as contractually agreed. As a response to COVID-19, we engaged with landlords to manage rent obligations through securing rent-free periods/rent deferrals.

Statement on engagement with employees
As a UK company incorporated under the Companies Act 2006 with a monthly average number of UK-based employees that exceeds 250 we are required to explain:

i) how the directors have engaged with employees; and
ii) how the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

We have set this out in our Section 172(1) statement (see section b) on page 18 of the Strategic Report.

Statement on engagement with suppliers, customers and others in a business relationship with the Company
As a qualifying large company under the Companies Act 2006, we are required to summarise how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

We have set this out in our Section 172(1) statement (see section c) on page 18 of the Strategic Report.

Statement of corporate governance arrangements
In practice, the Board sit at the Deuce Midco Limited level. The Company is a subsidiary company of Deuce Midco Limited. These financial statements will include a statement on the corporate governance code the Group has applied, of which the Company is the largest component.

For the year ended 31 December 2022, the Company has voluntarily applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018.

The Wates Principles provide a framework for the Board to monitor corporate governance of the Group and see where governance standards can be raised to a higher level across the business.

Wates Principle 1 Purpose and leadership
We believe that a balance of exercise, nutrition, mindfulness and sociability are the keys to wellness and to sustaining a positive and healthy life. Our purpose is to provide facilities, services, equipment and social spaces which help to promote physical and mental wellbeing for our members.

Our vision "My Club For My Life" seeks to create an environment where our members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members' lives, throughout their lives.

Our culture is about making our clubs a comfortable and welcoming place to come together with friends, family and fellow members to maintain physical and mental health and wellness. The Board monitors the Group's culture through member experience and team member feedback. We focus on both member satisfaction and feedback and monitor club usage to maximise member experience. The member experience score is reported to the Board on a monthly basis. We invest in our team members to deliver enhanced service levels to our members. Employee engagement is measured and reported to the Board twice a year (only once in 2021 due to COVID-19) by way of an online employee survey to ensure the Group is listening and responding to its employees' needs.

Wates Principle 1 Purpose and leadership (continued)
The Board recognised that the 'cost of living' crisis has caused considerable financial hardship for our team members and made a hardship fund available for which team members can apply. We have also offered free meals to all team members during January to March 2023.

Our values and strategies that we have embedded to underpin them and the measures that we have used to monitor our performance against them are set out in the Strategic report on page 3. Communication of our values and strategies is achieved through formal and informal meetings, the Company's employee app 'Kitbag' and regular business communication from the CEO.

Wates Principle 2 Board composition
The Board sits at the Deuce Midco Limited level and consists of six directors and one independent non-executive director [1]. Biographies of the board members can be found in the Directors' Report of the Deuce Midco group financial statements on pages 25 to 26.

Appointments to the Board are made on merit considering the combination of skills, background, experience and knowledge required to give constructive challenge and achieve effective decision-making. We consider the size and composition of the Board to be appropriate for our business. The two non-executive Directors bring challenge, experience, and offer different perspectives.

As is normal for large companies, the Deuce Midco Limited Board delegates authority for day-to-day management of the Company and its subsidiaries to the Executive Committee.

The Executive Committee comprises the Executive Chairman, Chief Executive Officer, Chief Financial Officer, Innovation and Product Development Director, New Clubs Acquisitions Director, New Clubs Director, Group People Director, Member Experience Director, Marketing Director, Strategy Director, Operational Finance Director and Business Support Director.

Effective from 1 January 2023, the Executive Committee also comprises the UK Operations Director and the European Operations Director.

The Board has established an Audit Committee with responsibility for the appointment of auditors and review of the scope and results of the external audit.

The Board and the Executive Committee together comprise 80% men and 20% women. We acknowledge that there is a relative lack of diversity on the Board and this is not reflective of the mix in the business. Juliett Cattermole joined the Group in November 2022 as Group People Director. Juliett's focus is on Diversity, Equity and Inclusion with a goal to build an Inclusive and Winning Culture. Pages 11 and 12 of the Strategic Report of Deuce Midco Limited analyses the current gender diversity of the Group.

Directors and Executive Committee members update their knowledge of the business by frequent visits to Clubs and meetings with senior management. Both the Board and the Executive Committee meet monthly. Attendance and proceedings at meetings are recorded with action points noted and followed up.

[1] *The Group is not required to apply the UK Corporate Governance Code. Under the Code Scott Lloyd would not be considered independent.*

Wates Principle 3 Directors' responsibilities
The Board typically meets eleven times a year. The Board receives regular and timely information (at least monthly) on all key aspects of the business including the financial performance of the business, health and safety, performance against the Group's strategies and key performance indicators and capex investment appraisals and potential acquisitions.

Key financial information is collated from the Group's various accounting systems. The Group's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with accounting changes. The Group's statutory financial statements are externally audited by Deloitte LLP on an annual basis.

The Group has developed policies that provide clear lines of accountability and responsibility for effective decision making. The Board delegates authority for day-to-day management to the Executive Committee.

The independent non-executive director has no material business relationships with the Group which may influence his judgment or ability to provide independent challenge. Directors are required to declare any conflict of interest in advance of any discussion.

Wates Principle 4 Opportunity and risk
The Board seeks out opportunities while mitigating risk. The Group's key financial and non-financial risks and mitigations are described in the 'Principal risks and uncertainties' section of the Strategic Report on pages 11 to 12.

The Executive Committee (as delegated by the Board) also considers further risks as part of the day to day management of the business.

The Board considers significant capex investment projects and potential acquisitions and approves them before any bids are made or contracts exchanged.

The Board and Executive Committee have established an internal control framework designed to manage risk. The clubs are required to comply with both a compliance framework and a finance policy and procedures manual. The clubs are subject to regular health & safety and internal audits by the respective function.

The Board has established an ESG Committee to consider climate and other social and environmental risks and opportunities to improve the Group's sustainability.

Wates Principle 5 Remuneration
Remuneration of directors and senior management is reviewed and set by the shareholder directors.

The directors, senior management and operational management participate in an equity-based incentive plan which is linked to shareholder value. More detail is given in note 27 "Share based payments" of these financial statements.

We report on Gender Pay on pages 10 and 11 of the strategic report. The Board's focus is to close the gap by increasing the proportion of females in our leadership roles.

Wates Principle 6 Stakeholder relationships and engagement
The Board's principal responsibility is to promote the long-term success of the Group through creating shareholder value and contributing to a healthy society and a sustainable environment. The Board's key objective remains constant; that doing the right thing by our members, our team and the communities in which we operate is integral to our future success as a sustainable business.

The Board also considers its relationship with bondholders as an additional stakeholder. The Group has established an Investor Relations function to manage this relationship and presentations of financial results are given quarterly to the investor community.

The Section 172(1) Statement on page 18 of the Strategic Report explains how the Board engages with its employees, members and fosters effective stakeholder relationships aligned to the Group's purpose.

Group energy and carbon reporting
We have reported on all sources of GHG emissions and energy usage as required under The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended. The reported figures relate to the Group, of which the Company is the largest component.

GHG emissions and energy usage data for period 1 January 2022 to 31 December 2022			
		UK and offshore	
Energy Use	**Units**	**2022**	**2021**
Gas consumption	MWh	372,908	342,919
Purchased electricity consumption	MWh	64,809	47,962
Greenhouse Gas (GHG) Emissions			
Total gas	t/CO2e	68,071	62,809
Total fuel (gas oil)	t/CO2e	632	323
Total transport	t/CO2e	25	10
Total fugitive	t/CO2e	1,174	1,166
Total purchased electricity	t/CO2e	12,533	10,184
Greenhouse Gas (GHG) Emissions			
Direct emissions (Scope 1)	000t/CO2e	69,902	64,308
Indirect emissions from electricity (Scope 2)	000t/CO2e	12,533	10,184
Total CO2 emissions (location based)	t/CO2e	82,435	74,492
Total CO2 emissions (market based)	t/CO2e	79,571	64,308
Total Greenhouse Gas (GHG) Emissions	**Units**	**2022**	**2021**
Direct emissions (Scope 1)	000t/CO2e	70	64
Indirect emissions from electricity (Scope 2)	000t/CO2e	13	10
Total CO2 emissions (location based)	000t/CO2e	83	74
Procured renewable energy	000t/CO2e	3	10
Total C02 emissions (market based approach)	000t/CO2e	80	64
Intensity ratio	**Units**	**2022**	**2021**
Total emissions per visit	kg/CO2e	2.00	2.45

Methodology
This report covers all UK operations and the methodologies used are in accordance with the WBCSD/WRI GHG Protocol Corporate Accounting and Reporting Standard (Revised Edition), and conversions into CO2e have been calculated using the most recent government conversion factors, as described at https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2022 .

Direct (Scope 1) emissions include gas and fuel consumption, business travel in company owned or controlled assets, and fugitive emissions. Indirect (Scope 2) emissions relate to our purchased electricity consumption.

2022 vs 2021 Review
GHG emissions are from operationally controlled activities using the UK government 2022 greenhouse gas reporting conversions factors. The increase in emissions from 2021 to 2022 is as a result of the Covid-19 pandemic, as our clubs were shut in 2021 until April.

Intensity ratio is based on number of member visits. Our emission value per visit was lower during 2022 as a result of increased member visits compared to 2021.

Energy efficiency action
Further to David Lloyd committing to delivering Carbon Net Zero across Scope 1, 2 & 3 emissions by 2030, over £12m of capex has been deployed during 2022 to reduce energy consumption across the estate. This includes continued investment in LED upgrades for the tennis lighting, upgrades to the clubs Building Energy Management Systems, and further investment into new motor efficient and other technologies.

David Lloyd also completed its first full solar pV renewable technology installation at the Luton club in September 2022, which now generates approximately 25% of the total electricity consumption. A project is underway to install solar pV across as many clubs as possible in the next two years.

In addition to the above, David Lloyd have set up a network of Green Champions with representation from all clubs. The Green Champions will be vital in leading a change to transform the clubs into a smarter, more successful, and more sustainable businesses.

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Statement of Directors' Responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

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

• so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
• the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Reappointment of auditor

The auditor, Deloitte LLP, has 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 28 September 2023 and signed on its behalf by:

PJ Burrows
Director

Independent Auditor's Report to the members of David Lloyd Leisure Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of David Lloyd Leisure Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 32.

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" (United Kingdom Generally Accepted Accounting Practice).

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

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

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

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

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

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

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

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

Independent Auditor's Report to the members of David Lloyd Leisure Limited

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

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

<u>Classification of maintenance or refurbishment expenditure versus capital expenditure for clubs with significant additions:</u>

The procedures performed to address the risk included the following:

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

<u>Impairment of fixed assets (Property, Plant & Equipment, Right of Use assets and goodwill)</u>

The procedures performed to address the risk included the following:

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

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

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

Independent Auditor's Report to the members of David Lloyd Leisure Limited

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

....
Darren Longley, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor
London
United Kingdom

29 September 2023

David Lloyd Leisure Limited

Income Statement for the Year ended 31 December 2022

	Note	Year ended 31 December 2022 £ 000	Restated Year ended 31 December 2021 £ 000
Revenue	5	557,092	341,330
Cost of sales		(274,307)	(192,557)
Gross profit		282,785	148,773
Administrative expenses		(190,018)	(174,710)
Other income	6	15,796	14,545
Impairment losses on financial assets		(15,387)	(8,345)
(Loss) on disposal of property, plant and equipment	7	(2,688)	(323)
Operating profit/(loss)	8	90,488	(20,060)
Finance income	10	11,384	52,335
Finance costs	11	(86,170)	(83,057)
Profit/(loss) before taxation		15,702	(50,782)
Income tax (charge)/credit	14	(3,910)	2,478
Profit/(loss) for the financial year		11,792	(48,304)

The above results were derived from continuing operations.

The comparative information has been restated to seperately disclose impairment losses on financial assets on the face of the income statement (see note 4).

The notes on pages 39 to 73 form an integral part of these financial statements.

David Lloyd Leisure Limited

Statement of Comprehensive Income for the Year ended 31 December 2022

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Profit/(loss) for the financial year	11,792	(48,304)
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on the translation of foreign branch	(44)	53
Total comprehensive income/ (expense) for the financial year	11,748	(48,251)

The notes on pages 39 to 73 form an integral part of these financial statements.

David Lloyd Leisure Limited

(Registration number: 01516226)
Statement of Financial Position as at 31 December 2022

	Note	31 December 2022 £ 000	Restated 31 December 2021 £ 000
Non-current assets			
Intangible assets	16	25,866	12,469
Right-of-use assets	17	431,771	438,863
Property, plant and equipment	18	201,045	155,988
Investments	19	88,669	88,660
Deferred tax assets	20	59,363	63,249
Other receivables	21	1,668,021	1,574,703
		2,474,735	2,333,932
Current assets			
Inventory		1,534	1,272
Trade and other receivables	22	15,601	12,417
Cash and cash equivalents	23	8,304	112,421
Corporation tax receivable		66	13
		25,505	126,123
Total assets		2,500,240	2,460,055
Current liabilities			
Trade and other payables	24	(1,342,224)	(1,304,823)
Lease liabilities	17	(33,253)	(33,954)
Provisions	25	(310)	(691)
		(1,375,787)	(1,339,468)
Net current liabilities		(1,350,282)	(1,213,345)
Total assets less current liabilities		1,124,453	1,120,587
Non-current liabilities			
Lease liabilities	17	(681,628)	(690,132)
Provisions	25	(3,183)	(5,501)
		(684,811)	(695,633)
Total liabilities		(2,060,598)	(2,035,101)
Net assets		439,642	424,954

The notes on pages 39 to 73 form an integral part of these financial statements.

(Registration number: 01516226)
Statement of Financial Position as at 31 December 2022 (continued)

	Note	31 December 2022 £ 000	Restated 31 December 2021 £ 000
Equity			
Share capital	26	147,832	147,832
Share premium		11,254	11,254
Capital redemption reserve		1,300	1,300
Capital contribution reserve		3,550	3,550
Foreign currency translation reserve		(110)	(66)
Share based payment reserve	27	11,078	8,138
Retained earnings		264,738	252,946
Total shareholders' funds		439,642	424,954

The comparative information has been restated to reflect the change in classification of the Covid-19 related rent concessions and leasehold health club intangible assets (see note 4).

Approved by the Board on 28 September 2023 and signed on its behalf by:

PJ Burrows
Director

The notes on pages 39 to 73 form an integral part of these financial statements.

David Lloyd Leisure Limited

Statement of Changes in Equity for the year to 31 December 2022

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Capital contribution reserve £ 000	Foreign currency translation reserve £ 000	Share based payment reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022	147,832	11,254	1,300	3,550	(66)	8,138	252,946	424,954
Profit for the financial year	-	-	-	-	-	-	11,792	11,792
Other comprehensive expense	-	-	-	-	(44)	-	-	(44)
Total comprehensive income for the financial year	-	-	-	-	(44)	-	11,792	11,748
Share based payment charge	-	-	-	-	-	2,940	-	2,940
At 31 December 2022	147,832	11,254	1,300	3,550	(110)	11,078	264,738	439,642

The notes on pages 39 to 73 form an integral part of these financial statements.

Statement of Changes in Equity for the year to 31 December 2021

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Capital contribution reserve £ 000	Foreign currency translation reserve £ 000	Share based payment reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	147,832	11,254	1,300	3,550	(119)	5,970	301,250	471,037
Loss for the financial year	-	-	-	-	-	-	(48,304)	(48,304)
Other comprehensive income	-	-	-	-	53	-	-	53
Total comprehensive expense for the financial year	-	-	-	-	53	-	(48,304)	(48,251)
Share based payment charge	-	-	-	-	-	2,168	-	2,168
At 31 December 2021	147,832	11,254	1,300	3,550	(66)	8,138	252,946	424,954

The notes on pages 39 to 73 form an integral part of these financial statements.

1 General information

The Company is a private company limited by share capital incorporated in United Kingdom and registered in England and Wales under the Companies Act 2006. The address of the Company's registered office is:

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

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

2 Accounting policies

Significant accounting policies

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

Basis of preparation

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

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

Summary of disclosure exemptions

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC and as permitted by FRS 101 has taken advantage of the disclosure exemptions available in relation to presentation of a cash flow statement, presentation of a third statement of financial position when a restrospective restatement is processed, 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 32.

2 Accounting policies (continued)

Going concern

The directors note that as at 31 December 2022, the Company has net current liabilities of £1,350.3m (2021: £1,213.3m). The Company is reliant on the Group for financial support. In preparing the Group's financial statements the directors have considered the Group and Company's cash flows, liquidity, expected trading performance to December 2024 including member count and the impact of the current economic environment inflationary pressures principally around energy costs. Based on the Group's liquidity and cash flow forecasts the directors have concluded that the Group and Company has adequate resources to continue in operational existence for at least 12 months from the signing date of the financial statements and for the foreseeable future thereafter. Deuce Midco Limited has provided a letter of support to the Company and committed to ensure that all intercompany balances are repayable. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Revenue recognition

Revenue is derived from the provision of sport and leisure faciliities in the United Kingdom and Europe. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Company's revenues are recognised mainly from the following goods and services:
• Membership subscriptions
• Administration and joining fees
• Sale of sports lessons including swimming, tennis and personal training
• Other product sales, including food and beverage and crèche services

Membership subscriptions
Membership subscriptions can be paid annually or monthly by direct debit. Subscriptions are recognised over the period of membership, with any subscriptions received in advance of the period in which the service is provided being recorded as a contract liability on the statement of financial position.

Administration and joining fees
Administration and joining fees are paid upfront and are non-refundable. They represent a fee for the initial set up costs of the contract and for the right to renew the membership for no additional fee when the contract expires. Revenue is recognised in line with when the performance obligations are performed which is over the average membership period, including any period of renewal. Cash received relating to future periods of membership are recognised as contract liabilities in the statement of financial position.

The average membership periods over which revenue is recognised are:

Standard membership 24 months
Flexible membership 1 month
Annual membership 24 months

Product sales
Revenue from food and beverage sales, and other merchandise is recognised at the point of sale.

2 Accounting policies (continued)

Revenue recognition (continued)

Other revenue

Other revenue comprises income from personal training, tennis, swimming classes and franchise rent income. Revenue is recognised over the period that classes are provided, and any upfront payment is recognised as a contract liability on the statement of financial position. Franchise rent income is recognised over the lease term.

Sports lessons are predominantly paid for monthly by direct debit. Cash received is recognised over the period that lessons are provided, and any upfront payment is recognised as a contract liability on the statement of financial position.

Personal training is paid for monthly by direct debit, through the purchase of vouchers online or in club as well as via the app which allows weekly recurring payments. Sessions can be purchased in packs of one, four or eight. Revenue is recognised as and when personal training sessions are delivered (or vouchers have expired). Vouchers normally have an expiry date of between one and three months depending on quantity purchases, from the date of purchase. Cash received in relation to future periods is recognised as a contract liability on the statement of financial position.

Principal vs Agent Considerations

Further to the services described above, the Company also earns revenue from other UK group undertakings who provide sport and leisure facilities in the United Kingdom. The other UK group undertakings' services comprise membership subscriptions, retail sales and other revenue, primarily relating to the provision of personal training, tennis and swimming classes. In accordance with IFRS 15 'Revenue from contracts with customers', the directors have assessed the terms of contractual arrangements and customer relationships to determine whether the Company has promised to provide the specified goods and services itself (as a principal) or to arrange for those specified goods and services to be provided by another party (as an agent). The directors have concluded that the Company acts as a principal in respect of the services provided by the other UK group undertakings. The income from these transactions is recognised gross within revenue. The equal and opposite cost of these transactions being the fee paid to the other UK group undertakings are recognised within cost of sales and have a nil gross profit impact.

Other income / Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses related to the costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Construction contracts for leaseback

The Company enters into certain arrangements in which it constructs a new club, transfers title to a third party, and leases the club back from the third party for a period of time. Such arrangements are accounted for by applying the sale and leaseback principles within IFRS 16, with the lease term and portion of asset transferred being determined in accordance with IFRS 16. The portion of the expenditure that relates to the right of use of asset retained is capitalised, while the remaining expenditure (relating to the portion of asset transferred) is recognised as an expense in profit or loss.

Correspondingly, amounts received from the third party that relate to the portion of the asset transferred are recognised as income in profit or loss, and the balance is recognised as a liability, which will be settled through subsequent lease payments.

2 Accounting policies (continued)

Construction contracts for leaseback (continued)

When land is transferred at the start of such an arrangement, revenue relating to the portion of land that has been transferred is recognised when control has been transferred to the customer, which is typically upon legal title being passed to them. Subsequently, the customer typically obtains control over the properties as they are constructed, and the Company has an enforceable right to payment for work performed, such that the associated revenue is recognised over time. Accordingly, in relation to the portion of the properties that are transferred over time, revenue and costs are recognised with reference to the stage of completion of the contract activity at the balance sheet date based on the proportion of construction cost incurred in relation to total forecast construction costs.

This revenue is classified within 'other income' so as not to distort the Company's revenue which is derived from the provision of sport and leisure facilities. Costs are recognised within 'Administrative expenses'.

Foreign currency transactions and balances

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

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

The results of overseas operations are translated into pounds sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

The average conversion rate during the period was £1: €1.17 (2021: £1: €1.16), and at the statement of financial position date was £1: €1.13 (2021: £1: €1.19).

Tax

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

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

2 Accounting policies (continued)

Tax (continued)

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. For each same taxing authority, the maximum deferred tax asset that can be recognised is equal to the deferred tax liability. There is no restriction if there is a net deferred tax liability.

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.

Property, plant and equipment

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

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

Assets under construction represent costs incurred in respect of the development of new clubs. No depreciation is charged until the new club is brought into operation.

Costs incurred prior to the date of opening a club which are not directly associated with its acquisition, construction, refurbishment or fitting out are charged to the profit and loss account as incurred.

Work in progress represents costs incurred in refurbishment of existing clubs. No depreciation is charged until the refurbishment is completed.

Depreciation

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

Freehold land, Assets under construction and work in progress are not depreciated.
Freehold Buildings - 50 years
Fixtures, Fittings and Equipment - between 3 and 23 years

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

The useful lives of property, plant and equipment are reviewed at each year end. Any change to previous estimates are accounted for prospectively as a change in estimate in accordance with IAS 8.

2 Accounting policies (continued)

Goodwill

Business combinations are accounted for using the acquisition method or using merger accounting where it is a common control transaction and the relative rights remained the same before and after the combination. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred and included in operating expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the fair value of acquired assets and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to groups of cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill has been recognised in relation to individual club acquisitions or acquisitions of a group of clubs. For these acquisitions the relevant club or group of clubs is considered to be the CGU.

Intangible assets

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques. They are amortised over their useful lives from the date of acquisition.

Software is capitalised at cost, and amortised over its useful life of 18 months to 3 years.

Costs arising from the Company's development of software and applications for providing services to members are capitalised once the project has progressed beyond a conceptual, preliminary stage of application development.

Development costs are capitalised when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the development of the software and bring it into use;
- There is an ability to use or sell the software;
- It can be demonstrated that the the software will generate probably future economic benefits;
- Adequate technical, financial and other resources are available to complete the development of the software is available;
- The expenditure can be recognised reliably.

Costs that qualify for capitalisation include both internal and external costs but are limited to those that are directly attributable to the specific project.

Internally-generated intangible assets are amortised over their useful lives - usually 3 years.

2 Accounting policies (continued)

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. As such the Company does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefit.

Fees for use of the application software are recognised as an operating expense over the term of the service contract. Configuration costs, data conversion and migration costs, testing costs and training costs are recognised as an operating expense as the service is received.

Impairment of tangible and intangible assets

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

Each individual club is considered to be a CGU.

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

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

Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. In order for an impairment reversal to be recognised the recoverable amount of the tangible and intangible asset needs to be supported for a minimum of three consecutive years. Upon this criteria being met the impairment reversal would be recognised in the income statement. Impairment losses recognised for goodwill are not reversed.

Investments

Investments in subsidiaries are held at cost less accumulated impairment loss. Investments are reviewed for impairment based upon their recoverable amount.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2 Accounting policies (continued)

Cash and cash equivalents

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

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade receivables

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The amortisation of the discount is recognised as interest expense.

Employee benefits

Pension obligations

The Company operates various defined contribution pension plans. The Company pays contributions to privately administered pension insurance plans on a mandatory, contracted or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense. The assets of the scheme are invested and managed independently of the finances of the Company.

Senior management incentive plan

The Company recognises a liability and an expense for participants of the Senior Management Incentive Plan which is payable upon sale of the business if certain conditions are met by amortising the present value of the estimated payment over the expected service period. This liability is recorded within provisions.

2 Accounting policies (continued)

Employee benefits (continued)

Share based payments

Applicable employees (including senior executives) of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for the right to purchase equity instruments in the parent company (equity-settled transactions).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The fair value at start date of equity-settled transactions is recognised, together with a corresponding increase in the share-based payment reserve in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Ordinary shares are classified as equity.

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's 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 profit or loss. Expected credit losses are measured through a loss allowance at an amount equal to the expected credit losses for the next 12 months or the expected credit losses over the lifetime of the asset. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

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

2 Accounting policies (continued)

Leases

The Company leases various clubs and equipment. Rental contracts are typically made for fixed periods of 12 months to 25 years but may have extension options.

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

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

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

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

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

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

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

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Where lease payments have been deferred as a direct consequence of COVID-19, no allocation is made against the lease liability during the deferral period.

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.

Where the Company enters into a sale and leaseback transaction, a lease liability and corresponding right of use asset is recognised for the lease of land and buildings at the date the asset is available for use. The right-of-use asset recognised is calculated as a proportion of the carrying value of the asset held immediately prior to the sale. A portion of the gain or loss on sale is recognised to the extent that it relates to the rights transferred to the buyer.

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

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

Changes in accounting policies and disclosures

(a) New standards, amendments and interpretations
There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have had a material impact on the Group's financial statements. For completeness the following new standards, amendments and interpretations are newly mandatorily effective for the first time in the current period:

- Amendments to IFRS 3, References to the Conceptual framework;
- Amendments to IAS 16, Proceeds before intended use;
- Amendments to IAS 37, Onerous contracts - cost of fulfilling a contract;
- Annual improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41).

2 Accounting policies (continued)

Changes in accounting policies and disclosures (continued)

(b) New standards, amendments and interpretations not yet adopted
At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IFRS 17, Insurance Contracts including the Extension of the Temporary Exemption from Applying IRFS 9 (Amendments to IFRS 4);
- Amendments to IFRS 17, Initial application of IFRS 17 and IFRS 9 - Comparative information;
- Amendments to IAS 1, Classification of Liabilities as Current or Non-Current;
- Amendments to IAS 1, Non-current liabilities with Covenants;
- Amendments to IAS 1 and IFRS Practice statement 2 - Disclosure of Accounting Policies;
- Amendments to IAS 8 - Definition of Accounting Estimates;
- Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- Amendments to IFRS 16 - Lease liability in a sale and leaseback.

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

3 Critical accounting estimates and judgements

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

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

Key assumptions used for value-in-use calculations
The Company tests the carrying amounts of individual club non-current assets for impairment for those clubs that meet pre-defined impairment indicators. For the 2022 and 2021 reporting periods, the recoverable amount of the cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets and business plans approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using an estimated growth rate of 1.9% for the UK and Italy. This growth rate is consistent with forecasts specific to the industry and the country in which each CGU operates. The pre-tax discount rates of 11.30% for the UK and 14.50% for Italy have been determined using the Capital Asset Pricing Model ("CAPM"). The impact of the impairment assessment is disclosed in note 15.

Revision of useful lives of property, plant & equipment
During the year the estimated useful lives of certain items of property, plant and equipment were reviewed and revised. The net effect of the changes in the current financial year was an increase in depreciation expense of £1.7m. Assuming that the assets are held until the end of their estimated useful lives, depreciation in the financial year ending 31 December 2023 in relation to these assets will be increased by £0.1m.

3 Critical accounting estimates and judgements (continued)

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

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

Significant judgement is involved in determining the period over which a lease is considered to be 'enforceable'. Where contracts have a term of greater than 10 years remaining at transition, the Company assesses there to be an unclear indication that it would in substance be deemed to be 'enforceable' beyond the original contractual term, despite the rights provided by The Landlord and Tenant Act 1954. The lease end date has therefore been used as the end date for the lease. For leases due to expire within 10 years of transition, the likelihood of extension is being assessed up to the year end with reference to the facts available and looking at the Company's history of renewing leases beyond the contractual end date. See note 17 for future minimum lease payments in respect of leases with a term of less than 10 years remaining.

For the current leases held by the Company, we currently conclude the minimum lease term to be the term of the lease contract, including any reversionary leases. 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.

Key assumptions used for assessing goodwill for impairment
Goodwill is tested for impairment on an annual basis. The Company is considered to be the smallest relevant group of CGUs for goodwill impairment testing, as this is the level at which goodwill is monitored internally. Goodwill has also been recognised in relation to individual club acquisitions. For these acquisitions the relevant club is considered to be the CGU for goodwill impairment testing. The Company has determined the recoverable amount by estimating the value in use of the cash-generating units within the Company. The calculation of value in use requires estimation of future cashflows and a discount rate to determine the present value. Sensitivity to changes in this assumption are disclosed in note 15.

4 Prior year restatements

During the year the FRC enquired about Covid-19 related rent concessions and leasehold health club intangible assets in connection with their review of the Deuce Topco Limited (a parent of the Company) 2021 Annual Report and Accounts. As a result of this enquiry, the directors reassessed the accounting treatment adopted for these transactions in The Company's accounts.

Covid-19 related rent concessions
We had previously recognised a deferred rent prepayment and a trade payable for rent invoices received, but not paid. Part of this related to invoices received on behalf of David Lloyd Leisure GR Limited, a group undertaking. This resulted in current assets and current liabilities being inappropriately grossed-up, as the lease liability balance already reflected the total outstanding value of lease obligations.

4 Prior year restatements (continued)

Covid-19 related rent concessions (continued)
Accordingly, a prior year adjustment has been made and is reflected in the restated 2021 balances as presented.

The effect of these prior year restatements on the 2021 financial statements is to decrease trade and other receivables by £16.6m, decrease trade and other payables by £25.3m and to increase amounts due to group undertakings by £8.7m. There is no impact on the income statement or net assets.

Leasehold health club intangible assets
The intangible asset described as "leasehold health clubs intangible" represents amounts recognised under acquisition accounting, predominantly before IFRS 16 became effective, in respect of the value of right-of-use assets/leasehold interests. On transition to IFRS 16 these amounts should have been derecognised with a corresponding adjustment to the right-of-use assets. This adjustment would better reflect the right of use assets' value and correctly reflect that there is no intangible asset separately identifiable from the right of use asset. Accordingly, a prior year adjustment has been made and is reflected in the restated 2021 balances as presented.

The effect of the prior year restatement on the 2021 financial statements is to decrease intangible assets by £0.7m and increase right-of-use asset by £0.7m. There is no impact on net assets and no impact on the face of the income statement.

Impairment loss on trade receivables
The FRC also highlighted that the impairment loss on trade receivables should be separately disclosed on the face of the Statement of Comprehensive Income. Previously it was included within other operating expenses. This balance £15.4m (2021: £8.3m) is now shown separately with no impact on profit.

The scope of the FRC's review was to consider the Group's compliance with reporting requirements and not to verify the information provided. The review performed by the FRC is solely based on the Deuce Topco Limited 2021 annual report and accounts and does not benefit from a detailed understanding of underlying transactions and provides no assurance that the Annual Report and Accounts are correct in all material respects.

Other presentation restatements
During the year the directors identified further presentation restatements outside the scope of the FRC's review as follows:

Staff costs
An issue was identified in the source data used to prepare the staff cost disclosure note. As a result, the prior year staff cost note had been overstated by £7.0m. Accordingly, this has been restated. There is no impact on the income statement as the error was restricted to the disclosure note.

5 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 2022 £ 000	Year ended 31 December 2021 £ 000
Membership subscriptions	447,760	268,423
Retail	59,380	39,518
Other revenue	49,952	33,389
	557,092	341,330

5 Revenue (continued)

Other revenue primarily relates to provision of personal training, tennis and swimming classes.

The analysis of the Company's revenue for the year by geographic location is as follows:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
UK	554,337	339,610
Europe	2,755	1,720
	557,092	341,330

6 Other income

The analysis of the Company's other income for the year is as follows:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Government grant income	353	14,363
Research and development tax credit	76	182
Construction contract income	13,687	-
VAT reclaim	550	-
Insurance proceeds	1,130	-
	15,796	14,545

The Company's other income includes revenue from construction contracts that are recognised over time by reference to the stage of completion of the contract with the customer.

The Company entered into a forward funding agreement with Knight Frank Investment Management (KFIM) to construct a new club in Bicester. The Company sub-contracted the build of the club to Buckingham Group Contracting Ltd. KFIM re-imbursed the Company for the build costs incurred each month throughout the build. An agreement to lease the land and buildings had been entered into with KFIM for a period of 30 years. The effective date of this agreement was the practical completion date being 23 December 2022.

On 11 April 2022, the Company purchased land in Shawfair, near Edinburgh for £1.8m. Subsequently, on 22 July 2022 the Company sold the land and entered into a funding agreement to construct a new club on the site. At the same time an agreement for lease was entered into for a period of 30 years. The effective date of this agreement is the practical completion date which is expected to be July 2023.

The construction of the clubs meets the definition of a sale under IFRS 15, with the Company recognising right-of-use assets arising from the leasebacks as the proportion relating to the right of use retained. The overall gain the Company has recognised is limited to the proportion of the total gain that relates to the rights transferred to the buyer.

During the year, £0.4m was recognised in relation to UK and European government grants, £1.1m was in relation to Irish COVID-19 interruption insurance claim proceeds and £0.6m proceeds from a VAT claim. Government grant income of £14.4m was recognised in the year ended 31 December 2021 of which £11.1m was recognised in relation to the Coronavirus Job Retention Scheme and £3.2m in relation to other UK Government grants.

7 Loss on disposal of property, plant and equipment

The analysis of the Company's loss on disposal of property, plant and equipment (excluding gym equipment) for the year is as follows:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Loss on disposal of land	(351)	(323)
Profit on sale and leaseback of UK land and buildings	40	-
Loss on disposal of other PP&E	(2,377)	-
	(2,688)	(323)

The Company recorded a loss on disposal of gym equipment of £0.2m (2021: profit of £0.1m) for the year ended 31 December 2022 which is recognised within administrative expenses.

On 11 April 2022 the Company purchased land in Shawfair, Edinburgh for £1.8m. On 22 July 2022, the Company sold the land and recognised a loss of £0.4m in relation to professional fees incurred on the transaction.

Loss on disposal of other PP&E (excluding gym equipment) of £2.4m (2021: £nil) relates to disposals of assets in the normal course of business.

8 Operating profit or loss

Stated after charging/(crediting):

		Year ended 31 December 2022 £ 000	Restated Year ended 31 December 2021 £ 000
Depreciation and amortisation expense	16, 17, 18	66,551	60,525
IFRS 16 operating lease expense		1,958	1,749
Royalty (receivable) / payable		(40,232)	5,319
Staff costs	12	141,799	125,634
Expected credit loss		15,387	8,345
Impairment of right-of-use assets	17	213	-
Impairment of property, plant & equipment	18	1,266	-
Legal claim provision	25	(2,000)	-

The cost of inventories recognised as an expense and included in cost of sales amounted to £12.2m (2021: £8.0m). This includes inventory write-downs of £0.7m (2021: £1.0m).

In accordance with IFRS 16 operating lease expense in the current year represents turnover certificate rent, service charge and service charge insurance.

9 Auditor remuneration

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Audit of the financial statements	613	425
Other fees to auditor		
The audit of other group companies where the fee is borne by the Company	227	286
Audit related assurance services	10	10
	237	296
	850	721

10 Finance income

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Intercompany interest receivable	6,995	52,303
Other interest receivable	754	32
Foreign exchange gains	3,635	-
	11,384	52,335

11 Finance cost

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Intercompany interest payable	40,032	35,581
Interest on lease liabilities	45,679	45,436
Unwinding of discount on provisions	30	21
Foreign exchange losses	-	2,000
Other interest payable	429	19
	86,170	83,057

12 Staff costs

The aggregate payroll costs (including directors) were as follows:

	Year ended 31 December 2022 £ 000	Restated Year ended 31 December 2021 £ 000
Wages and salaries	127,195	114,023
Social security costs	9,413	7,480
Pension costs, defined contribution scheme	2,251	1,963
Long-term incentive plan charges	2,940	2,168
	141,799	125,634

Prior year staff costs have been restated to correct an issue identified with the source data (note 4).

The average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

	Year ended 31 December 2022 No.	Restated Year ended 31 December 2021 No.
Club Support	314	285
Clubs	4,971	4,471
	5,285	4,756

Remuneration of key management personnel

The Company has applied the exemption provided in FRS 101, 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 accounts of the parent, Deuce Midco Limited, which can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

13 Directors' remuneration

The directors' remuneration for the year was as follows:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Aggregate remuneration	766	703

In respect of the highest paid director:

Aggregate remuneration	482	441

14 Income tax

Tax charge/(credit) in the income statement

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Current taxation		
Current taxation	24	-
Deferred taxation		
Arising from origination and reversal of temporary differences	6,785	16,425
Adjustment in respect of prior periods	(2,899)	288
Arising from changes in tax rates and laws	-	(19,191)
Deferred taxation	3,886	(2,478)
Total tax in the income statement	3,910	(2,478)

UK corporation tax is calculated at 19% (2021: 19%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Deferred tax assets and liabilities have been recognised at the main rate of corporation tax in the relevant jurisdiction prevailing at the expected date of unwind with reference to enacted rates on the balance sheet date. In the UK the long term corporation tax rate of 25% enacted as at 31 December 2022 is used.

The tax credit for the year is lower (2020: lower) than the standard rate of corporation tax. the differences are outlined below:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Profit/(loss) before tax	15,702	(50,782)
Corporation tax at standard rate of 19% (2021: 19%)	5,648	(9,648)
Effect of different tax rates	1,629	(2,658)
Effect of non deductible expenses	1,519	1,229
Effect of interest restriction not recognised in full	-	27,502
Group relief claimed for no consideration	(1,987)	-
Adjustment in respect of prior periods	(2,899)	288
Deferred tax credit relating to changes in tax rates or laws	-	(19,191)
Total tax charge/(credit)	3,910	(2,478)

15 Impairment testing

Goodwill and brands with indefinite lives are subject to an annual impairment test. Goodwill and brands are allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill has also been recognised in relation to individual club acquisitions or acquisitions of a group of clubs. For these acquisitions the relevant club or group of clubs is considered to be the CGU. Club impairments of property, plant and equipment and right-of-use assets are charged to individual clubs as these are considered to be separate CGUs at which the Company monitors performance.

Key assumptions used in value in use calculations
The recoverable amount of property, plant and equipment and right-of-use assets is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management. The pre-tax discount rate applied to cash flow projections is 11.30% for the UK and 14.50% for Italy (2021: 10.50% for the UK and 12.00% for Italy) and cash flows beyond the five-year period are extrapolated using a 1.9% growth rate for the UK and Italy (2021: 1.9% for the UK and 1.40% for Italy).

Discount rate - the discount rate has been determined using the Capital Asset Pricing Model ("CAPM").

Sensitivity to changes in assumptions for goodwill, property, plant and equipment and right-of-use assets
Any change to the above key assumptions could have a material impact on the recoverable amount; which is then compared to the carrying value of the cash generating unit to determine if there is an impairment. The Company has determined the recoverable amount by estimating the value in use of the cash-generating units within the Company. The calculation of value in use requires estimation of future cashflows and a discount rate to determine the present value. The impairment calculation is most sensitive to changes in assumptions used for pre-tax discount rate.

If the pre-tax discount rates applied to cash flow projections was to increase by 2% (200 basis points), a reasonably possible change in assumption considered by the directors, the Company would not need to recognise any imparment against goodwill, property, plant and equipment and right-of-use assets.

16 Intangible assets

	Goodwill £ 000	Software & other internally generated intangibles £ 000	Total £ 000
Cost or valuation			
At 1 January 2022 (restated)	8,228	18,612	26,840
Additions	-	15,836	15,836
Disposals	-	(442)	(442)
Transfer from property, plant and equipment	-	4,552	4,552
At 31 December 2022	8,228	38,558	46,786
Amortisation			
At 1 January 2022 (restated)	-	14,371	14,371
Amortisation charge	-	6,649	6,649
Amortisation eliminated on disposals	-	(441)	(441)
Transfer from property, plant and equipment	-	341	341
At 31 December 2022	-	20,920	20,920
Carrying amount			
At 31 December 2022	8,228	17,638	25,866
At 31 December 2021	8,228	4,241	12,469

Goodwill is not amortised but tested annually for impairment. No impairment has been recognised for the year ended 31 December 2022 (2021: £nil).

Prior year balances have been restated to reflect the reclassification of leasehold healthclub intangible assets to right of use assets (see note 4).

17 Leases

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

(i) Amounts recognised in the Statement of Financial Position

Right-of-use assets

	Land and buildings £ 000	Assets under construction £ 000	Equipment £ 000	Total £ 000
Cost				
At 1 January 2022 (restated)	542,671	-	2,756	545,427
Additions	25,699	3,495	280	29,474
Disposals	(2,459)	-	(381)	(2,840)
Transfers	961	(961)	-	-
At 31 December 2022	566,872	2,534	2,655	572,061
Depreciation				
At 1 January 2022	104,413	-	2,151	106,564
Depreciation charge for the year	33,382	-	552	33,934
Disposals	(67)	-	(354)	(421)
Impairments	213	-	-	213
At 31 December 2022 (restated)	137,941	-	2,349	140,290
Carrying amount				
At 31 December 2022	428,931	2,534	306	431,771
At 31 December 2021	438,258	-	605	438,863

Lease liabilities

	31 December 2022 £ 000	31 December 2021 £ 000
Current lease liabilities	(33,253)	(33,954)
Non-current lease liabilities	(681,628)	(690,132)
	(714,881)	(724,086)

The Company entered into new leases for clubs in Cricklewood and Bicester during the financial year. Lease liabilities of £19.5m were recognised for these leases with a corresponding right of use asset of £16.2m. Lease modifications relating to lease extensions for clubs in Hampton, Beckenham and Port Solent resulted in lease liabilities and a corresponding right of use asset being recognised of £6.8m. Other additions in the financial year relate to remeasurements as a result of rent reviews of £2.7m and a further £3.5m of right-of-use asset additions have been recognised in respect of assets under construction.

17 Leases (continued)

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	Year ended 31 December 2022	(Restated) Year ended 31 December 2021
Depreciation expense on right-of-use assets	**£ 000**	**£ 000**
Land and buildings	33,382	33,137
Equipment	551	512
	33,933	33,649
Interest expense on lease liabilities	45,679	45,436
Impairment charge	213	-

(iii) Future minimum lease payments as at 31 December 2022 are as follows:

The total cash outflow for leases in 2022 was £80.1m (2021: £73.6m). This included £4.7m of repayments of deferrals agreed with landlords as a result of COVID-19.

	31 December 2022 £ 000	31 December 2021 £ 000
Not later than one year	77,876	78,492
Later than one year and not late than five years	327,762	312,546
Later than five years and not later than ten years	443,320	422,331
Later than ten years and not later than twenty five years	259,093	297,133
Later than twenty five years and not later than fifty years	71,031	50,853
Later than fifty years	47,656	48,533
Total gross payments	1,226,738	1,209,888
Impact of finance expenses	(511,857)	(485,802)
Carrying amount of liability	714,881	724,086

The Company has entered into a number of concession agreements. Lease income from these arrangements recognised in the year ended 31 December 2022 was £1.8m (2021: £1.4m).

18 Property, plant and equipment

	Land and buildings £ 000	Fixtures and fittings £ 000	Assets under construction £ 000	Work in progress £ 000	Total £ 000
Cost					
At 1 January 2022	93,346	333,222	-	11,352	437,920
Additions	13,967	42,147	7,906	16,685	80,705
Transfers	3,951	7,316	-	(11,267)	-
Transfer to intangibles	-	(4,552)	-	-	(4,552)
Disposals	(4,978)	(8,542)	-	-	(13,520)
Foreign exchange movements	237	84	-	53	374
At 31 December 2022	106,523	369,675	7,906	16,823	500,927
Depreciation					
At 1 January 2022	25,424	256,508	-	-	281,932
Charge for the year	3,528	22,440	-	-	25,968
Impairment charge	1,190	76	-	-	1,266
Transfer to intangibles	(341)	-	-	-	(341)
Disposals	(1,529)	(7,538)	-	-	(9,067)
Foreign exchange movements	44	80	-	-	124
At 31 December 2022	28,316	271,566	-	-	299,882
Carrying amount					
At 31 December 2022	78,207	98,109	7,906	16,823	201,045
At 31 December 2021	67,922	76,714	-	11,352	155,988

For the purposes of property, plant and equipment impairment reviews, the Company considers each club to be an individual cash-generating unit (CGU), with each CGU reviewed annually for indicators of impairment. The Company compared the carrying value of property, plant and equipment to the estimated value in use. The calculations use cash flow projections based on financial budgets and business plans approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 1.9% for the UK and Italy. These growth rates are consistent with forecasts specific to the industry and the country in which each CGU operates. The pre-tax discount rates of 11.30% for the UK and 14.50% for Italy have been determined using the Capital Asset Pricing Model ("CAPM").

On 25 February 2022, the Company exchanged contracts to build a club in Rugby. On 28 July 2022, the Group purchased the land in Rugby for £2.4m and construction has commenced. Construction costs of £5.4m and the cost of land are included within assets under construction.

On 11 April 2022, the Company purchased land in Shawfair, near Edinburgh for £1.8m. Subsequently, on 22 July 2022 the Group sold the land and entered into a funding agreement to construct a new club on the site.

19 Investments

Subsidiaries	£ 000
Cost	
At 1 January 2022	103,503
Additions	9
At 31 December 2022	103,512
Impairment	
At 1 January 2022 and 31 December 2022	14,843
Carrying amount	
At 31 December 2022	88,669
At 31 December 2021	88,660

During the year the Company incorporated a new subsidiary, David Lloyd Clubs Italia SRL, for an initial investment of £9,000.

Investments are reviewed annually for impairment based upon their recoverable amount. No impairment charges have been recognised during the year (2021: £nil).

Details of the subsidiaries, associated undertakings and significant holdings as at 31 December 2022 are as follows:

Subsidiary	Country of incorporation	Principal activity	Holding	
			31 December 2022	31 December 2021
Next Generation Clubs Limited*	England and Wales	Leisure clubs	100%	100%
Harbour Club Limited	England and Wales	Leisure clubs	100%	100%
David Lloyd Clubs Limited	England and Wales	Leisure clubs	100%	100%
David Lloyd Clubs Holdings Limited*	England and Wales	Holding company	100%	100%
David Lloyd Leisure Farnham Limited*	England and Wales	Leisure clubs	100%	100%
David Lloyd Leisure GR Limited*	England and Wales	Property company	100%	100%
Next Generation Amida Beckenham Limited*	England and Wales	Dormant	100%	100%
Next Generation Amida Hampton Limited*	England and Wales	Dormant	100%	100%
Burton Waters (H L & R) Limited*	England and Wales	Dormant	100%	100%
Core Exercise Clinics Limited*	England and Wales	Dormant	100%	100%

19 Investments (continued)

Castledene Leisure Limited*	England and Wales	Dormant	100%	100%
Next Generation Amida Services Limited*	England and Wales	Dormant	100%	100%
Gatehouse Nursery Holdings Limited*	England and Wales	Dormant	100%	100%
Next Generation Amida Fleet Limited*	England and Wales	Dormant	100%	100%
Sports Management (Scotland) Limited	Scotland	Dormant	100%	100%
Grasspost Limited*	England and Wales	Dormant	100%	100%
Design Collective Limited*	England and Wales	Dormant	100%	100%
Markson Tennis and Leisure Centres Limited*	England and Wales	Dormant	100%	100%
Tennis Club Management Limited*	England and Wales	Dormant	100%	100%
Farnridge Limited	England and Wales	Dormant	100%	100%
David Lloyd Sports Centres Limited*	England and Wales	Dormant	100%	100%
Brooklands Healthtrack Limited	England and Wales	Dormant	100%	100%
Cheshire Oaks Racquets and Healthtrack Limited	England and Wales	Dormant	100%	100%
Ealing Racquets and Healthtrack Limited	England and Wales	Dormant	100%	100%
Manchester Racquets and Healthtrack Limited	England and Wales	Dormant	100%	100%
Nottingham Racquets and Healthtrack Limited	England and Wales	Dormant	100%	100%
Solihull Racquets & Healthtrack Limited	England and Wales	Dormant	100%	100%
David Lloyd Leisure Nurseries Limited*	England and Wales	Dormant	100%	100%
David Lloyd Leisure Nominee No 1 Limited*	England and Wales	Dormant	100%	100%
David Lloyd Leisure Nominee No 2 Limited*	England and Wales	Dormant	100%	100%
David Lloyd Leisure Nominee No 3 Limited	England and Wales	Dormant	100%	100%
David Lloyd Leisure Nominee No 4 Limited	England and Wales	Dormant	100%	100%
Racquets and Healthtrack Group Limited*	England and Wales	Dormant	100%	100%

19 Investments (continued)

Odyssey Glory Mill Limited*	England and Wales	Dormant	100%	100%
Newhaven Restaurant Limited	England and Wales	Dormant	100%	100%
N.G.C. Project Management Limited	England and Wales	Dormant	100%	100%
Smilewood Limited	England and Wales	Dormant	100%	100%
Celsius Spa Limited	England and Wales	Dormant	100%	100%
Harbour Club Operations Limited	England and Wales	Dormant	100%	100%
David Lloyd Leisure JV Holdings*	England and Wales	Dormant	100%	100%
David Lloyd Riverview Property Ireland Limited	Ireland	Dormant	100%	100%
David Lloyd Riverview Holdings Ireland Limited*	Ireland	Dormant	100%	100%
David Lloyd Riverview Limited	Ireland	Dormant	100%	100%
David Lloyd Talwalkers Club Private	India	Leisure clubs	50%	50%
David Lloyd Riverview Operations Ireland Limited	Ireland	Leisure clubs	100%	100%
David Lloyd Leisure Health & Fitness BV	Netherlands	Leisure clubs	100%	100%
David Lloyd Leisure Property BV	Netherlands	Property company	100%	100%
David Lloyd Leisure Property Holdings BV	Netherlands	Holding company	100%	100%
David Lloyd Leisure Nederland BV*	Netherlands	Holding company	100%	100%
David Lloyd Leisure Ter Elst BVBA	Belgium	Leisure clubs	50%	50%
David Lloyd Leisure Operations SPRL*	Belgium	Leisure clubs	50%	50%
David Lloyd Clubs France SAS*	France	Leisure clubs	100%	100%
LK International SARL	France	Restaurant	100%	100%
David Lloyd Clubs Deutschland GmbH*	Germany	Leisure clubs	100%	100%
David Lloyd Clubs Italia SRL*	Italy	Leisure Clubs	100%	0%

* indicates direct investment of the Company

19 Investments (continued)

The registered offices of Group companies are as follows:

Sports Management (Scotland) Limited & Newhaven Restaurant Limited: 302 St Vincent St, Glasgow, G2 5RZ
All other UK Group companies: The Hangar, Hatfield Business Park, Hatfield, Herts, AL10 9AX
All companies incorporated in Holland: Peter zuidlaan 30 5502NH, Veldhoven, Netherlands
All companies incorporated in Ireland: Beech Hill, Clonskeagh, Dublin 4, 662822
All companies incorporated in France: 740 Route des Plantets, 74140 Veigy-Foncenex, France
David Lloyd Leisure Operations SPRL: 41 Drève de Lorraine, 1180 Uccle, Belgium
David Lloyd Leisure Ter Elst BVBA: Kattenbroek 3, 2650 Edegem, Belgium
David Lloyd Clubs Deutschland GmbH: c/o NHS GmbH WPG, Am Wehrhahn 100, 40211 Düsseldorf
DLL Talwalkars Club Private Limited: 801-813, Mahalaxmi Chambers, 22, Bhulabhai Desai Road, Mumbai - 400026
David Lloyd Clubs Italia SRL: Stradello S. Marone, 50, 41100 Modena MO, Italy

During the year, the Company received no dividends from group undertakings (2021: £nil)

20 Deferred tax

	31 December 2022 £ 000	31 December 2021 £ 000
Deferred tax assets	59,363	63,249
	59,363	63,249

Deferred tax movement during the year:

	Accelerated tax depreciation £ 000	Corporate interest restrictions £ 000	IFRS 16: Leases £ 000	Other provisions £ 000	Total £ 000
At 1 January 2022	32,980	-	30,005	264	63,249
Credit/(charge) to income statement	(5,236)	2,653	(1,329)	26	(3,886)
At 31 December 2022	27,744	2,653	28,676	290	59,363

In addition to the recognised deferred tax assets, the company has unrecognised deferred tax assets of £20.9m (2021: £27.5m) in respect of losses carried forward where it is not sufficiently probable they will be utilised against future profits.

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

Deferred tax assets and liabilities have been recognised at the main rate of corporation tax in the relevant jurisdiction prevailing at the expected date of unwind with reference to enacted rates on the balance sheet date. In the UK the long term corporation tax rate of 25% enacted as at 31 December 2022 is used.

21 Other receivables

	31 December 2022 £ 000	31 December 2021 £ 000
Loans to group undertakings	711,191	650,230
Amounts due from parent	956,830	924,473
	1,668,021	1,574,703

Loans to group undertakings and amounts due from parent are repayable on demand and earn interest of 3.45% for the year ended 31 December 2022 (2021: 3.45%). They are included within the non-current other receivables as there is no current intention for them to be repaid despite them being due within one year.

22 Trade and other receivables

	31 December 2022 £ 000	Restated 31 December 2021 £ 000
Trade receivables	3,392	6,479
Contract assets	5,899	1,681
Prepayments	5,053	3,759
Other receivables	1,257	498
Total current trade and other receivables	15,601	12,417

Prepayments have been restated in the prior year to reclassify deferred rent prepayments of £16.6m to trade payables (note 4).

Contract assets includes a £5.2m receivable arising from construction contracts for leaseback.

23 Cash and cash equivalents

	31 December 2022 £ 000	31 December 2021 £ 000
Cash at bank and on hand	8,304	112,421

24 Trade and other payables

	31 December 2022 £ 000	Restated 31 December 2021 £ 000
Trade payables	17,691	29,802
Accrued expenses	38,120	37,109
Amounts due to group undertakings	1,242,870	1,194,443
Social security and other taxes	13,016	11,441
Other payables	1,465	1,576
Contract liabilities	29,062	30,452
	1,342,224	1,304,823

Amounts due to group undertakings are repayable on demand and accrued interest of 3.45% for the year ended 31 December 2022 (2021: 3.45%).

Trade and other payables have been restated in the prior year to reclassify deferred rent prepayments of £16.6m and amounts due to group undertakings of £8.7m, resulting in a decrease in trade and other payables of £25.3m (note 4).

25 Provisions

	Legal claims £ 000	Senior management incentive plan £ 000	Other provisions £ 000	Total £ 000
At 1 January 2022	5,000	58	1,134	6,192
New provision created	-	125	-	125
(Decrease) in existing provisions	(2,000)	-	-	(2,000)
Reversal of provision	-	-	(854)	(854)
Unwinding of discount	-	-	30	30
At 31 December 2022	3,000	183	310	3,493

	31 December 2022 £ 000	31 December 2021 £ 000
Current provisions	310	691
Non-current provisions	3,183	5,501
Total provisions	3,493	6,192

25 Provisions (continued)

a) Legal claims
Following on from an incident at our Leeds club on the 21 April 2018, a £2.55m fine was imposed in addition to £0.26m legal costs to conclude the court case. The settlement of the court case is an adjusting post balance sheet event and the provision has been remeasured accordingly.

b) Senior Management Incentive Plan
The Senior Management Incentive Plan "SMIP" is an incentive plan for senior managers. Participants do not receive equity shares but rather an invitation to share in a bonus pool upon exit. The bonus on exit is calculated on the same basis as the amount receivable in respect of an E share, except it will be paid net of employment taxes.

c) Other provisions
Other provisions relate to estimated dilapidation costs for the Solihull and Maidstone clubs. Release of provisions during the year primarily relate to a reassessment of the Solihull and Maidstone dilapidations.

26 Share capital

Allotted, called up and fully paid

	31 December 2022		31 December 2021	
	No. 000	**£ 000**	**No. 000**	**£ 000**
Ordinary A shares of £0.25 each	523,977	130,994	523,977	130,994
Deferred shares of £0.25 each	67,352	16,838	67,352	16,838
	591,329	147,832	591,329	147,832

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

Share premium
Share premium represents the premium arising on issue of ordinary shares.

Capital contribution reserve
The capital contribution reserve represents the sale of shares from David Lloyd Group Employee Share Trust in 2018.

Foreign currency translation reserve
Foreign exchange differences arising on translating the net assets of foreign operations.

Share based payment reserve
The share based payment reserve represents the credit to equity for equity-settled share based payments.

Retained earnings
Retain earnings represent cumulative profits recognised up to the balance sheet date.

27 Share-based payments

Scheme details and movements

Under the Management Incentive Plan ("MIP") senior executives of the Group are entitled to purchase B, C, D and E ordinary shares. The B, C, D and E ordinary shareholders are entitled to participate in proceeds on a sale of the Group in accordance with the Articles of Deuce Holdco Limited. Members of the plan must remain employees of the Group in order to retain their full entitlement to participate in proceeds. There are no other vesting conditions. The intrinsic value (being the difference between the cash paid and the fair value) at the date of grant is recognised as an equity-settled share-based payment and spread on a straight-line basis over the vesting period. The vesting period expires in the event of an exit.

On 19 July 2022, Deuce Holdco Limited (a parent of the Company) issued 655,135 ordinary shares with a nominal value of £0.01, consisting of B4B, C2B, C4B, D2 and E2 shares. Subsequently, on 15 November 2022 and 6 December 2022, 239,833 and 67,859 C2B shares with a nominal value of £0.01 were issued. The shares were issued for total consideration of £4.8m which remains unpaid as at 31 December 2022. The share issues are treated as a modification of the existing scheme and an additional share based payment charge of £1.5m has been recognised in the year ended 31 December 2022.

The fair value of shares issued during the year was calculated using an option pricing model. The key valuation assumptions used were:

Risk free rate 2.2%
Estimated time to liquidity event 1.5 years

The following table shows the shares granted and outstanding at the beginning and end of the year:

	31 December 2022		31 December 2021	
One	Weighted average exercise price	No. of shares	Weighted average exercise price	No. of shares
Outstanding at start of year	£7.68	1,150,989	£7.75	1,184,439
Granted during the year	£5.02	962,827	-	-
Forfeited during the year	£10.00	(4,850)	£10.00	(33,450)
Outstanding at end of year	£6.46	2,108,966	£7.68	1,150,989
Exercisable at the end of the year		2,108,966		1,150,989

The shares can only be exercised in the event of an exit. The fair value of the shares outstanding at the end of the year ranges between £0.90 to £33.58 per share.

On 30 April 2022, Deuce Holdco Limited bought back and cancelled 4,850 E shares with a nominal value of £1 each, for consideration of £0.05m. The consideration was equal to the outstanding balance of the limited recourse loan used to fund the purchase of these shares, plus accrued interest. The cancellation of shares has been recognised as a credit to the capital redemption reserve of Deuce Holdco Limited.

The expense recognised in employee expenses during the year is £2.9m (2021: £2.2m). This has increased on prior year due to the additional shares issued during the financial year.

28 Commitments

Capital commitments

The Company had committed to providing spa retreats at existing sites in Bushey and Heston. At the statement of financial position date, the amount contracted for but not provided in the financial statements was £1.1m (2021: £nil).

In 2021, the Company had committed to providing a padel court at an existing site in Raynes Park and a resort concept at Hampton and one new site in Cricklewood. The total amount contracted but not provided in the financial statements as at 31 December 2021 was £1.6m. These projects have subsequently been completed and the costs are shown within additions in the PP&E note.

The Company has committed to building new clubs in Rugby and Shawfair. At the statement of financial position date, the amount contracted for but not provided in the financial statements was £13.5m (2021: £nil).

29 Related party transactions

The remuneration of directors, analysed under the headings required by company law, is set out in note 13.

Details of the exemption taken from disclosing the remuneration of key management personnel is detailed in note 12.

Summary of transactions with other related parties

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

30 Contingent liabilities

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

During the year there was a tragic fatal accident at the David Lloyd Luton Club. Presently it is too early to conclude whether there is an obligation that will require an outflow of resources embodying economic benefits.

31 Post balance sheet events

On 10 February 2023, the Company purchased the entire issued share capital of Country Clubs (UK) Limited and Country Clubs and Leisure Limited for cash consideration of £6.0m, which operates a club named Wickwoods Country Club in West Sussex. The direct costs of acquisition which will be charged to the income statement are £0.6m. The identification of the fair value of assets and liabilities on acquisition is ongoing. On 1 July 2023 the trade and assets were hived up to the Company.

The Company closed the Blaze Studio in Birmingham and its Maidstone club on 1 April 2023 and 31 May 2023 respectively. All related assets were fully impaired as at 31 December 2022.

On 26 May 2023, the Company exchanged contracts to purchase land in Nantwich, Cheshire subject to planning permission.

On 31 May 2023, the Company entered into an agreement to lease land in Chalfont St Peter, Buckinghamshire subject to planning permission.

Following on from an incident at our Leeds club on the 21 April 2018, a £2.55m fine was imposed in addition to £0.26m legal costs to conclude the court case. The settlement of the court case is an adjusting post balance sheet event and the provision has been remeasured accordingly.

On 1 August 2023, the Shawfair club openend and the sale and leaseback was completed with proceeds received in July 2023.

On 2 August 2023, the Company entered into an agreement for the sale and leaseback of the Rugby club.

On 3 August 2023, the Company exchanged contracts to purchase land in Herne Bay, Kent, subject to planning permisson.

On 30 August 2023 the Company completed the purchase of land in Bury St Edmunds, Suffolk.

On 13 September 2023, the Company entered into an agreement to lease a club in Wandsworth, London.

32 Parent and ultimate parent undertaking

The Company's immediate parent undertaking is David Lloyd Leisure Group Limited, a company incorporated in the United Kingdom and registered in England and Wales.

The ultimate parent of the Company is Deuce Holding S.à.r.l. and the ultimate controlling party is a group of investment funds managed by TDR Capital LLP (registered in the UK).

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