UNITED KINGDOM

SPAIN

PORTUGAL

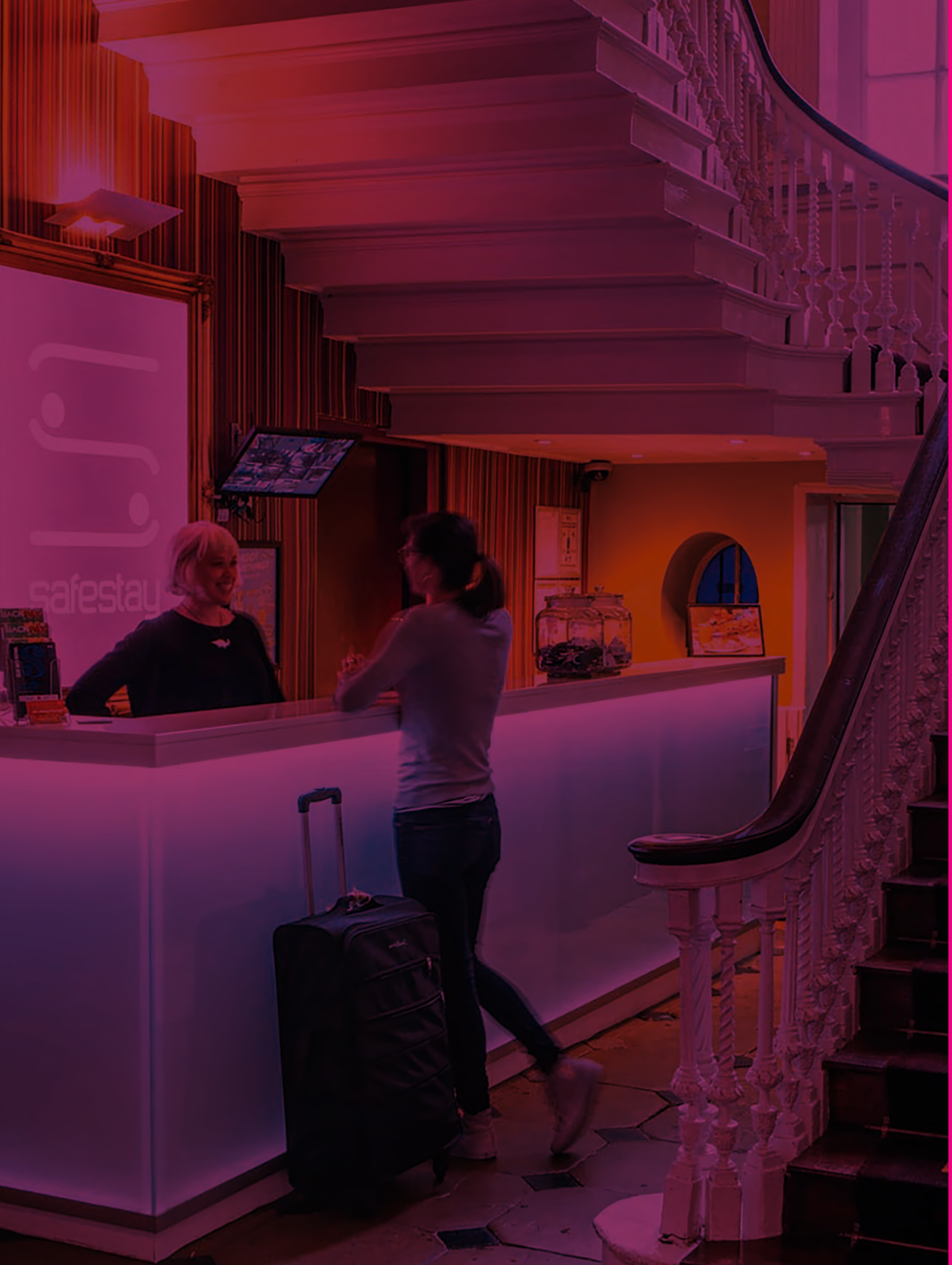
AUSTRIA

CZECH REPUBLIC

BELGIUM

safestay

Safestay plc Report and Financial Statements 2018



Our ongoing vision

A unique brand of hospitality.

A place for backpackers, weekend adventurers, families, groups & festival goers alike.

TOTAL REVENUES

£14.6m ↑ 39% from 2017 (£10.1m)

HOSTELS EBITDA

£3.4m ↑ 6.8% from 2017 (3.2m)

GROUP OCCUPANCY

75.6% ↑ 3.8% 72.8% in 2017

As a leading player in the premium hostel market, we're transforming perceptions city by city. Stylish, comfortable and safe, our offering has redefined the experience guests can expect from a hostel. In 2019 we'll continue our European expansion, bringing the unique Safestay experience to more gateway cities across the continent.

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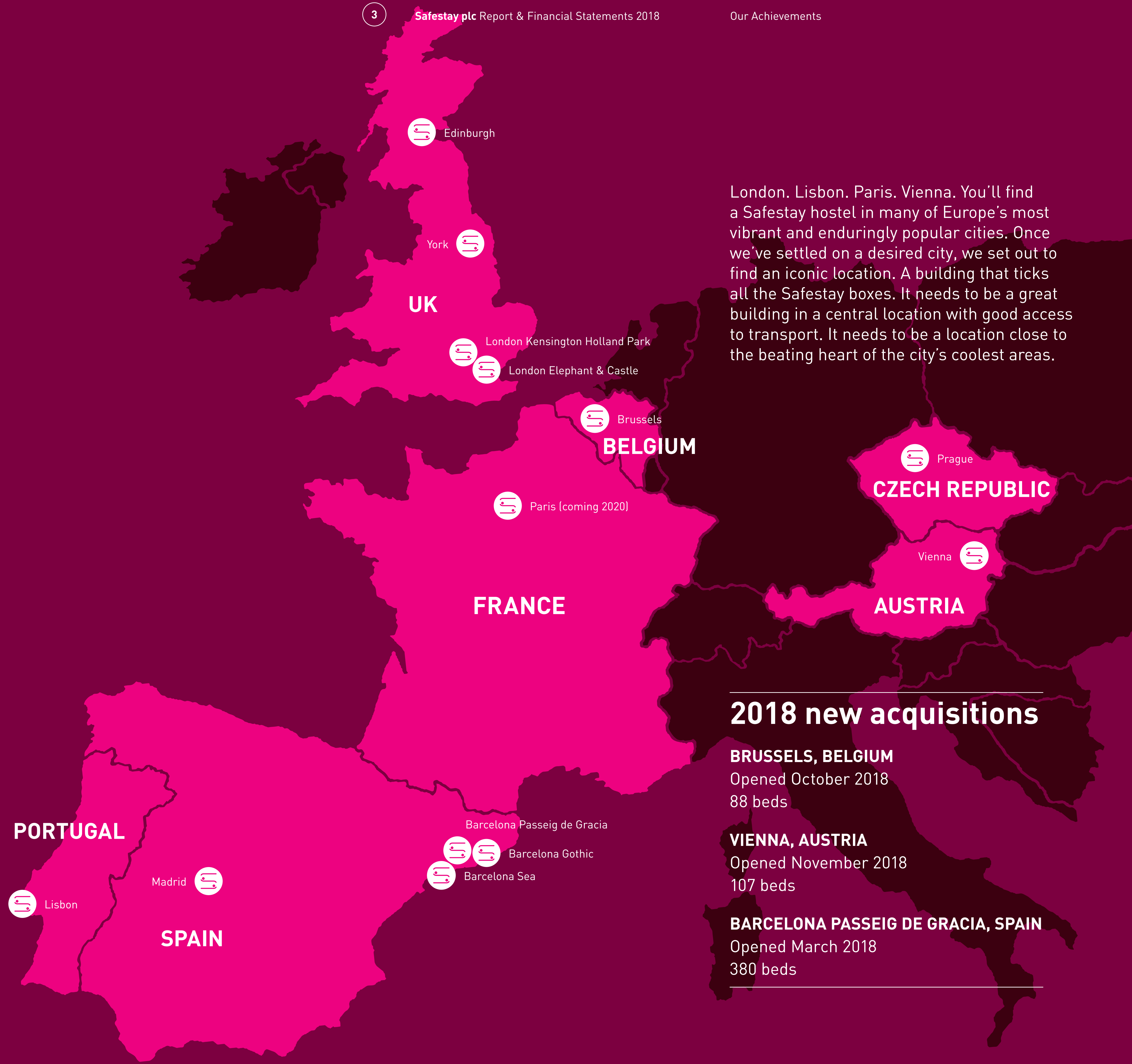
Our achievements so far

Since opening the doors of our first London hostel in **2014**, growth has been rapid and international.

We now operate **12 hostels** and are present in **7 different countries**, offering a combined total of nearly **3000 beds.**

Today Safestay hostels provide stylish and safe stopovers for millions of journeys across Europe.



London. Lisbon. Paris. Vienna. You'll find a Safestay hostel in many of Europe's most vibrant and enduringly popular cities. Once we've settled on a desired city, we set out to find an iconic location. A building that ticks all the Safestay boxes. It needs to be a great building in a central location with good access to transport. It needs to be a location close to the beating heart of the city's coolest areas.

2018 new acquisitions

BRUSSELS, BELGIUM
Opened October 2018
88 beds

VIENNA, AUSTRIA
Opened November 2018
107 beds

BARCELONA PASSEIG DE GRACIA, SPAIN
Opened March 2018
380 beds

Our mission

Style. Safety. Comfort. Cleanliness. Value for money.

Every one of these attributes has been fundamental to our success. When guests stay at a Safestay hostel they are guaranteed a safe, comfortable night's sleep in a stunning location close to the centre of a major city. Far beyond the basics, our hostels offer incredible facilities and communal spaces where guests can share travel stories and find new friends.

WHY HOSTELS?

A rapidly growing industry

A cash generative business model

The broad appeal of contemporary hostels

A flexible product – unlike traditional hotels, almost any building can be adapted to become a hostel

WHY SAFESTAY?

An experienced management team with a successful track record of building new brands

The brand has already become established and trusted

A successful history of acquiring prime sites in major European cities

The speed at which new sites are developed to maturity

The pursuit of an ambitious international roll out plan

OUR JOURNEY SINCE 2014

Since the first London hostel opened in 2014, Safestay has delivered 66% annual (CAGR) growth. The brand now operates 12 hostels and is present in 7 countries. The growth of the brand can be measured by a range of different statistics. Today the Safestay story includes:

2,890 beds in 12 hostels

Presence in 7 countries

Nearly 650,000 sleepers in 2018

25,000 followers and 750,000 impressions

250 team members

Why does this work?

Safestay is taking the hostel experience to a whole new audience.

Every location is designed to appeal to a wide range of guests, from families and school groups to backpackers and economy-minded business travellers. Clear and consistent Safestay branding across hostels is key to driving visibility of the product, customer awareness and brand recall. The consistency of the brand, and of every Safestay guest experience, fuels positive feedback and further investment.

WHAT IS NEXT?

In December 2018, £10 million in capital was successfully raised to fund expansion of the Safestay network. In 2019 Safestay is aiming to pass the one million mark for sleeps in Safestay beds. The brand will continue to add further destinations to an expanding international portfolio.
Every new location must meet stringent Safestay criteria, including:

- Popular tourist cities
- Centrally located
- With capacity for 200+ beds
- Either leasehold or freehold
- Hostel acquisition, hostel conversion or new developments

London Elephant and Castle
Opened 2014
413 total beds

London Kensington Holland Park
Opened 2015
319 total beds

York UK
Opened 2015
147 total beds

Edinburgh Scotland
Opened 2015
607 total beds

Barcelona Sea Spain
Opened 2017
96 total beds

Barcelona Gothic Spain
Opened 2017
132 total beds

Lisbon Portugal
Opened 2017
150 total beds

Madrid Spain
Opened 2017
228 total beds

Prague Czech Republic
Opened 2017
150 total beds

Barcelona Passeig de Gracia, Spain
Opened 2018
380 total beds

Brussels Belgium
Opened 2018
88 total beds

Vienna Austria
Opened 2018
107 total beds

"My stopover at **Safestay was amazing!** Super beautiful hostel and **very clean**. It is located **close to the city centre** which made my stay there easier. Moreover, the receptionist Diana was **very kind** with me, answering all my questions. **A very big applause for her way of treating the guests!**"

Madrid
January 2019

Safestay London Elephant & Castle

Safestay London Elephant & Castle is perfectly placed to visit many of London's most iconic landmarks. Once the headquarters of the Labour party, the site has found new life as a stylish Safestay hostel. Tower Bridge, Big Ben and the London Eye all lie within walking distance. When guests return from their adventures they can bond with fellow travellers over pizza and drinks in the hostel's buzzing bar, a venue for frequent music events and meetups.

413 Beds

82% Occupancy

Safestay London Kensington Holland Park

Safestay London Kensington Holland Park occupies a stunning period building surrounded by private gardens within one of London's most prestigious parks. Close to Kensington High Street and Holland Park Underground stations, the hostel offers an elegant oasis of calm within easy travelling distance of the many attractions that make London enduringly popular.

319 Beds

80% Occupancy

Safestay Edinburgh

Nestled in the heart of Edinburgh's old town, a few metres from the Royal Mile, our hostel is ideally placed to make the most of Scotland's much-loved capital. From the moment they arrive, guests are immersed in an authentic Scottish experience. Whisky and traditional favourites like 'haggis and tatties' can be sampled in the many nearby restaurants and bars. Edinburgh Castle delivers panoramic views of the city. Great shopping and street performers can be found wandering around the city's cobbled streets. During the Edinburgh Festival, the hostel offers guests a perfect staging post for catching the best of the action. Throughout the festival the hostel's Bar 50 becomes a popular hot spot for students and performers.

607 Beds

73% Occupancy

Safestay York

Safestay York is housed in a beautiful Georgian townhouse in the city centre. The surrounding area is filled with historic pubs and restaurants, many in their original medieval buildings. The York Dungeon, the River Ouse and York Castle Museum all lie within walking distance. The city's most famous street, York Shambles, said to be the inspiration for Diagon Alley, also lies close by. Potter fan or not, the quintessentially English Safestay York can make anyone feel at home.

147 Beds

53% Occupancy

Safestay Lisbon

Lisbon is a city with something for everyone, and Safestay Lisbon puts you in the heart of it all. Guests can soak up the sun on the hostel's roof terrace, or soak up culture on the city's lively, historical streets. The Chiado, Bairro Alto and Restaurados neighbourhoods are all within a short walk. The ancient part of the city, Alfama, can be explored to reveal the best city views. The best of Portuguese and ethnic cuisine can be found in restaurants and bars in the local area. In a city proud of its artistic and musical heritage, the hostel's terrace rooftop bar certainly plays its part frequently playing host to live music, DJs and guest meetups.

150 Beds

80% Occupancy

Safestay Vienna

Safestay Vienna is two metro stops from the Vienna State Opera and four stops from Schönbrunn Palace. Our stylish hotel occupies a historic building in Vienna's central 5th district. The popular restaurants, food stalls and art nouveau buildings of the Naschmarkt area can be reached on foot in minutes. The immaculate palace grounds provide a great backdrop for guests as they explore a city rich in music, history and strudel.

107 Beds

52 Rooms

Safestay Prague

The doors of Safestay Prague open onto the city of a hundred spires. A short walk takes you back in time to the stunning National Theatre, the famous Charles Bridge and into the picturesque 14th century Old Town. Thirsty travellers can refresh with some of the world's best beer. The hostel boasts big, bright and airy rooms and staff conversant in English, Czech, Finnish and Russian.

150 Beds

77% Occupancy

Safestay Brussels

350 yards from Brussels' central Grand Place and an 8-minute walk from the Central Railway Station, Safestay Brussels is in a prime location for tourists and business travellers. Central shopping areas, popular restaurants and the coolest bars lie on the doorstep. The Comic-Book Museum, The Chocolate and Cocoa Museum and The Fashion and Lace Museum are found within easy reach. From famous winter markets to spring shopping trips, to one the many summer music festivals, the appeal of Safestay Brussels remains strong all year round.

88 Beds

49 Rooms

Safestay Barcelona Sea

A modern and cosmopolitan European city with over four kilometres of Mediterranean beaches, Barcelona is a city blessed. The Barcelona Sea Hostel looks directly over the beachfront. Located in a traditional fisherman's neighbourhood, Barceloneta, the hostel sits practically on the beach. Local restaurants serve delicious seafood on sunny terraces. A walk along the beachfront brings you to Port Olímpic, home to Barcelona's best bars and clubs. Close to the hostel and a favourite with party goers, Pacha hosts a variety of events throughout the week including Spanish dancing classes.

96 Beds

79% Occupancy

Safestay Barcelona Gothic

Safestay Barcelona Gothic is a charming hostel in the oldest part of Barcelona. The Gothic Quarter is filled with narrow medieval streets, tiny plazas, trendy bars, clubs, and tapas restaurants. The hostel is a short walk from the Gothic Cathedral and the famous Arc de Triomf which leads into the Ciutadella Park. The hostel has an expansive open lounge, perfect for breaking the ice with fellow travellers. Walking tours, bar crawls, paella nights, live music and meetups can be arranged through the hostel team who work closely with the other Safestay hostels in the city.

132 Beds

78% Occupancy

Safestay Barcelona Passeig de Gracia

With Antonio Gaudi's Casa Batlló as a neighbour, Safestay Passeig de Gràcia hostel is ideally placed for reaching many of Barcelona's famous sites. Located on one of Barcelona's most famous walking boulevards, guests are never short of something to do. Local tapas bars let guests indulge in local delicacies like patatas bravas, cured hams, cheeses and sangria. The 7th floor rooftop terrace bar is one of the best spots in the city for catching a beautiful Catalan sunset with fellow travellers. A dedicated hostel team is always on hand to organise bar crawls, day trips and tours around the city.

380 Beds

71% Occupancy

Safestay Madrid

Home to the Royal Palace, Plaza Mayor and thousands of cantinas and food markets, it's no surprise Madrid was voted the one of the best cities in Europe. Located in Madrid Centro, our hostel offers the perfect balance between trendy budget accommodation and access to the most elegant haunts in Madrid. A maze of narrow lanes filled with cantinas, beer and tapas; Barrio de la Latina is a foodie's heaven. The hostel's Sagasta 22 Terrace Bar offers views over the city's most vibrant neighbourhoods. Guests can party into the night at the Speakeasy Pub. Our super friendly team are always on hand to organise bar crawls, trips to flamenco dancing shows or daily walking tours of the Spanish capital.

228 Beds

74% Occupancy

Our digital platform

Our vision is to create an integrated user experience through search, mobile, web, social and the in-hostel experience.

2018 saw us make a significant investment in digital which included a number of exciting marketing campaigns such as the popular £1 bed sale, along with improvements to the website user experience.

As a like for like comparison on our 4 UK properties, bookings made via the website grew over 50%.

With the addition of our newly acquired European properties, our website revenue grew over 125% for transient business. Our penetration into these new markets was coupled with growth from users in Spain, Portugal and Czech Republic with 150%, 180% and 230% more sessions from users in these countries respectively.

In 2018 43% of all sessions were from our Millennial target audience of 25-34 year olds and 21% from our second most desirable audience, Generation Z 18-24 year olds. The male and female split remained consistent year on year with 60% female and 40% male users. There were also 65% more returning visitors as a result of social media competitions & marketing campaigns during key sale periods, which created spikes in traffic to bring in returning users to the site.

Year on year mobile traffic grew 95% and accounted for 50% of all traffic to the website. It's a growing source of traffic and our user experience improvements this year have been geared towards improving navigation for mobile users in particular. We are making an investment in our booking engine to ensure seamless usability across mobile and desktop, as well allowing us to be more strategic in pushing the right offers and packages that encourage more direct bookings.

Instagram has been a big success story this year, going to almost 15K engaged followers. Our plan has been to curate a feed that tells a travel story and helps to convert users as part of a multi-channel funnel during vertical searches. We ran a 3-month summer long campaign called Hostel of the Week by creating and sharing videos of the teams providing local recommendations on things to do and see in their cities.

INCREASE IN TRANSACTIONS

+93% ↑

INCREASE IN WEB SALES

+126% ↑

INCREASE IN ONLINE SESSIONS

605k ↑ 53% from 2017 (395,000)

INCREASE IN UNIQUE USERS

434k ↑ 49% from 2017 (293,000)

25k+ EMAIL NEWSLETTER SUBSCRIBERS

29k+ SOCIAL MEDIA FOLLOWERS

"As the name says, I felt **very safe and happy in this hostel.** The staff were **friendly and helpful**, they have a lovely café, the bedding was **good quality** and the hostel is very **clean and organised**."

London Kensington Holland Park
January 2019

Trustyou
5,462 verified reviews

Chairman's Statement

Another exceptional year which saw **further expansion across Europe** in line with our growth plans.

Larry Lipman, Chairman

"2018 was a positive year for the business and I am confident that 2019 will deliver continued growth. The portfolio is maturing and shows the benefits of the Group gaining from economies of scale, geographic spread and group wide automation. This, together with continuing global demand for the modern hostel experience means we are well placed to sell an increasing number of bed nights in 2019 and add further destination cities to our portfolio."

Introduction

I am very pleased to present the results for the year to 31 December 2018 which show the Group performing strongly, recording a 39% increase in revenues alongside occupancy improving across the portfolio to 75.6%.

Since establishing its first hostel, Safestay has expanded rapidly achieving a 66% CAGR (Compounded Average Annual Growth Rate) in revenues over the last 4 years. Initially focused in the UK with hostels in London, York and Edinburgh, Safestay moved into mainland Europe in 2017 with new hostels in Madrid, Prague, Lisbon and Barcelona. In 2018, 3 new properties were opened in the popular cities of Brussels, Barcelona and Vienna. Today, the Company operates 2,890 beds in 12 hostels spread across 6 countries, with a flagship hostel under construction in the centre of Paris due to open in 2020.

Perceptions of the hostel market have changed substantially over the last 5 years and Safestay's contemporary properties have played a part in this cultural shift. Offering a stylish, comfortable and safe stay to a broad profile of guests within beautiful buildings that are centrally located in popular cities but still with an average bed rate of just £20. This has proven to be a successful formula for Safestay and along with other modern hostel operators has led to the concept of a premium hostel becoming more widely recognised which in turn is increasing the global customer base as awareness spreads.

2018 was a good year, the Group grew significantly whilst strengthening central platforms, systems and operational profitability. This, together with the successful £10.36 million fund raising completed in December 2018, ensures the Group is well place to both to continue to make selective acquisitions as well as drive operational improvements.

Financial Results

Revenue

Group revenue for the financial year ended 31 December 2018 increased by 39% to £14.6 million (2017: £10.5 million). £6.2 million came from non-UK properties representing 43% of total revenues, up from 19% in 2017, reflecting the successful expansion of the Group and the ability to diversify into new markets.

Food & beverage sales in 2018 were £1.7 million (2017: £1.4 million). In the UK, this segment grew by 7% in a challenging environment. With the opening of the Rooftop bar in Madrid in July 2018 and the renovation of the restaurant in London Elephant & Castle completed in February 2019, we expect this trend to continue in the current year.

Adjusted EBITDA

Adjusted EBITDA provides a key measure of progress made. Adjusted EBITDA for the year to December 2018 was £3.4 million (2017: £3.2 million).

	2018 £'000	2017 £'000
Operating Profit	1,044	971
Add back:		
Depreciation	1,421	1,538
Amortisation	181	161
Gains / Losses on disposal fixed assets	74	—
Exceptional expenses	662	495
Share based payment expense	34	34
Adjusted EBITDA	3,416	3,199

The exceptional expenses totalled £0.66 million and included costs in relation to acquisitions made in 2018 as well as costs in relation to projects which did not materialise.

Finance Costs

Finance costs in 2018 were £1.6 million (2017: £1.8 million). There has not been significant change since 2017 when the Group refinanced its borrowings with a 5-year £18.4 million secured bank facility with HSBC.

The properties in Edinburgh and London Elephant & Castle were also refinanced in 2017 and have been accounted for as finance leases. Our lease at London Kensington Holland Park is also being accounted for as a finance lease rather than an operating lease, under IAS17 (to be superseded by IFRS16 from 1 January 2019).

Earnings per Share

Basic loss per share for the year ended 31 December 2018 was 2.56p (2017: loss 2.55p) based on the weighted number of shares, 35,387,458 (2017: 34,219,134) in issue during the year.

The total number of shares in issue as at 31 December 2018 was 64,679,014 following the 30,459,880 share issue completed on 17 December 2018

Cash flow, capital expenditure and debt

Net cash generated from operations was £1.8 million (2017: £1.9 million). The increase in cash from the hostels was partly offset with the increases in the central costs, in line with the growth of the business. The Group had cash balances of £9.9 million at 31 December 2018 (2017: £4.5 million).

The cash was used in 2018 to make acquisitions and grow the European network. £2.2 million was invested in the acquisition of a third property in Barcelona (380 beds on Passeig de Gracia) in March. Of the consideration payable, £0.62 million was paid immediately on acquisition with the balance due in 4 annual instalments from 2019. In October, the Group purchased an existing company in Belgium for £1.2m to take over a hotel operating under leasehold in the tourist quarter in Brussels. The take over an existing hotel in Vienna under a new leasehold did not involve any consideration.

In the UK, the Group undertook the extension of the London Elephant & Castle property adding a further 73 beds. The project completed in January 2019 for a total cost of £2.4 million. In line with the property refinancing agreement, on completion Safestay received £1.18 million back from the landlord which helped finance the extension with the balance being financed from internal cash resources.

The Group also invested £0.1m in adding a rooftop bar and terrace to the Madrid hostel which completed in July 2018.

From the beginning of 2019, 4% of revenue generated from the hostel operation will be set aside to invest in a continual programme of renovation and upkeep across the portfolio. This will ensure the brand is maintained as a premium product in line with our guests expectations of a Safestay hostel.

In addition, the successful placing and open offer competed in December 2018 increased our cash balance by £9.7 million (net of £0.65 million of fees). This gives us the capital to implement our roll-out plans and continue to grow our network though existing and new leaseholds as well as acquisitions.

Chairman's Statement continued

Outstanding bank loans was £18.1 million (2017: £18.2 million). This includes a £18.2 million loan with HSBC (2017: £18.4 million), as well as £0.2 million local loans in Belgium and Spain (2017: £0.1 million), minus the £0.3 million amortised loan fees (2017: £0.3 million). The finance lease obligations amount to £21.2 million (2017: £21.2 million). This results in a £39.3 million debt at 31 December 2018 (2017: £39.4 million). The gearing ratio (inclusive of obligations under finance lease) has reduced from 207% in 2017 to 141% in 2018. The company is fully compliant with the HSBC debt covenants as at 31 December 2018: The historic (376%) and projected (450%) interest cover as well as the historic (287%) and projected (280%) service cover are all significantly in excess of the minimum covenant ratios (150%).

Net asset value per share decreased to 43p (2017: 55p) as a result of the successful share issue completed on 17 December 2018 at a price of 34p per share.

Operational Review

In 2018, our primary focus was to increase our operational profitability whilst also seeking to improve the quality of the Safestay proposition.

It was pleasing therefore to achieve operational efficiencies, particularly on the payroll costs, that led to an improvement in EBITDA margins in the UK to 47.4% (2017 44.4%) adding a further £0.2 million to net profit.

2018 was the first full year of trading for 5 European properties purchased in 2017 in Spain, Portugal and the Czech Republic. It was extremely satisfactory to see that these hostels all achieved occupancy levels in excess of 70% in 2018, with an average occupancy of 76.8% (versus 70.6% in 2017 achieved over the last 6 months of the year).

In total, the mainland European business generated £6.2m revenue in 2018, £4.2m more than in 2017. The EBITDA margin in these hostels which are all operated under leasehold has also increased up from 19.1% to 20.1% with room to improve further as the sites mature and benefit from further economies of scale.

The new sites in Brussels and Vienna added in 2018 are currently operating as hotels and will be converted to hostels in 2019.

The operating performance achieved to date in Europe confirms our belief in the scalability of the business outside the UK which has increased our confidence in achieving our portfolio growth targets.

Revenue management in 2018 was also a core focus. We are targeting generating a revenue split of 40% from a broad range of group bookings, 20% from direct bookings into our website and 40% through Online Travel Agencies ('OTAs'). To achieve this will be a shift away from OTAs to the more higher margin direct and group bookings.

To support these objectives the website was refreshed in Q4 2018 along with a fully revamped booking experience for our guests which is expected to increase traffic, conversion and ultimately grow contribution from direct booking channels.

In parallel, we have built an in-house revenue management expertise to better control and yield the average bed rates in all properties. The roll out of one property management system (Cloudbeds) in all properties give this data consistency and integrity which is the foundation for an efficient yield and distribution management.

We have also reinforced our central group sales team to grow and support more efficiently this segment of business and deliver the more customised service and product needed.

The Board

Following the expansion of the board in 2017 with the appointment of two new non-executive directors, Michael Hirst in May 2017 and Anson Chan in December 2017, a new appointment was made in August 2018. Hervé Deligny joined the board as CFO. Hervé Deligny has spent 20 years in the hospitality industry, with Accorhotels and onefinestay. He brings a wealth of knowledge in the operational finance and property investment area and has been instrumental to the successful acquisition and fund raising in December 2018. Paul Cummins was appointed alternate director for the non-executive director Anson Chan.

Outlook

In a challenging market, our forward bookings are strong and we are on track to achieve our forecast this year.

The modern hostel sector is a fast-growing market and we believe Safestay is well placed within it. The brand is gaining a good reputation for offering safe, stylish accommodation in well located attractive buildings. In 2019, we will distribute over one million bed nights, move into net profitability and become self-funding as the Group benefits from the growing economies and group wide automation.

Larry Lipman
Chairman
9 April 2019

Financial Highlights

- 39% increase in total revenues to £14.6 million (2017: £10.5 million)
- 8% increase in like-for-like sales in mainland Europe with group like-for-like sales up 1% to £11.1 million (2017: £11.0 million) as UK down by 1% due to the addition of 73 additional beds in London Elephant & Castle
- 43% or £6.2 million of net revenue now coming from mainland Europe versus 19% in 2017
- Occupancy grew to 76% (2017: 73%)
- Adjusted EBITDA of £3.4m (2017: £3.2 million)
- Loss before tax reduced to £0.60 million (2017: £0.86 million)
- Loss per share 2.56p (2017: 2.55p)
- Completed successful £10.36 million capital raise in December 2018 to fund future expansion

Operational Highlights

- Added 575 beds with 3 new properties in the key gateway cities of Barcelona, Brussels and Vienna
- Significant improvements in operating margins led to profit before tax from UK hostels increasing by 14% to £1.76 million (2017: £1.55 million)
- Hostel EBITDAR margins have increased by 7% to 48% (2017 44.8%)
- Guest recommendation rate increased to 81% (2017 80%)
- Enhanced website and booking engine implemented in Q4 2018
- Unified property management system (Cloudbeds) now operating in all hostels
- Madrid rooftop bar opened in July 2018

Post-Year End

Completed 73-bed extension to London Elephant & Castle on 20 January 2019, triggering a £1.18 million final payment to Safestay under the sale and lease back transaction

Officers and Professional Advisors

Directors

Larry Lipman
Chairman

Nuno Sacramento
Chief Operating Officer

Hervé Deligny
Chief Financial Officer & Company Secretary

Stephen Moss CBE
Non-Executive Director

Michael Hirst OBE
Non-Executive Director

Anson Chan
Non-Executive Director

Paul Cummins
Alternate Non-Executive Director

Registered Office

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London N2 0FW

Company Number

8866498

Nominated Adviser and Broker

Canaccord Genuity Limited
88 Wood Street
London EC2V 7QR

Corporate Solicitor

Dechert LLP
160 Queen Victoria Street
London EC4V 4QQ

Auditor

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

Registrar

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Bankers

HSBC Bank plc
69 Pall Mall
St James's
London SW1Y 5EY

Strategic Report

Principal activity

The principal activity of the Group comprises the operation and development of high-quality traveller accommodation under the Safestay brand in properties that are either owned or occupied on long leasehold.

The Business Model

The Safestay business model is to develop and operate a brand of contemporary hostels in the UK and key strategic cities in Europe. The Safestay brand is positioned at the premium end of the hostel spectrum with appeal to a broad range of guests. Core elements of the model are:

— Development
Identifying potential properties in target cities, acquiring the properties and their contemporary, stylish refurbishment to fit with the brand

— Operational
Deploying a strong hostel expertise and cost control to achieve best in class operating margins

— Brand
Building the Safestay brand value

— Scale
Building the platform to efficiently add further hostels to the Group

— People
Investing in the right people where automation cannot be adopted

— Guest experience
Providing a comfortable, safe and enjoyable stay in our hostels for a reasonable price with a focus on customer satisfaction, a strong community experience and repeat stays

Review of business and future prospects

Key Metrics

	2018	2017
Occupancy	75.6%	72.8%
Average Bed Rate	£20.3	£21.4
Room Revenues (£'000)	12,171	8,461
Total Revenues (£'000)	14,620	10,547
Net cash generated from operations (£'000)	1,832	1,863
Net assets per share	43p	55p

The 2017 Room revenue was restated to reallocate the rental income in Edinburgh from Hostel accommodation to Other income. This rental income was £330,000 in 2017.

The underlying business generated revenues of £14.6 million (2017: £10.5 million). Operating profit before exceptional costs was £1.7 million (2017: £1.5 million) and an underlying adjusted EBITDA, as defined in the Chairman's statement, of £3.4 million (2017: £3.2 million) for the year to 31 December 2018. 2018 has been an important year for Safestay, which has seen it continue to grow to 12 operating hostels with one under development. With a total of 2,817 beds in December 2018, Safestay is well positioned as one of the leaders in the hostel arena.

The key operational performance indicators in 2018 resulted in an average bed occupancy of 75.6% and average bed rate of £20.3 for the group as a whole.

In 2018 management have decided to review the way it calculates the ABR (Average Bed Rate) and occupancy. These metrics are now calculated using the units sold by the hostels instead of using the beds. A unit is either a bed in a dormitory or a private room which may include more than one bed. This methodology is aligned with the one used in the booking and property management systems. It therefore gives us full consistency in the metrics used across the business and guarantees a perfect integrity in the data used to assess the performance of the hostels. The 2017 ABR was restated from £19.3 as reported in 2017 when using beds, to £21.4 when using units.

The hostel industry and Safestay in particular have shown some resilience in the recent market disruption, including a softer market in the UK following the uncertain European future of the UK. The split of our revenue between the UK and the rest of Europe gives a us a good balance and a natural hedging against local market disruptions and currency volatility.

The Chairman's statement includes further analysis of the business performance and future prospects of the Group.

Principal risks and uncertainties

The principal risks and uncertainties that could potentially have a material impact on the Group's performance are discussed below.

Business risk

Safestay operates in the hospitality industry which, over the years, has experienced fluctuations in trading performance. Traditionally, the hotel sector's performance has tracked macro-economic trends, feeling the strain during the economic downturn and becoming more buoyant during recovery. The hostel sector, which leans more heavily on leisure travellers and has a lower price point, has proved more resilient and has delivered more robust cash flows through the economic cycle and has quickly recovered from isolated terror acts which may limit travel in the short term. The hospitality sector in the UK continues to face a number of cost headwinds from the National Living Wage, business rates, commodity price inflation and foreign exchange rate fluctuations.

A proportion of Safestay's business in the UK comes from Europe, including a number of school groups. In addition, nearly half of the turnover is coming from hostels located in mainland Europe. The business is therefore susceptible to changes in the source market, schools' education, travel policies and any fluctuations arising in the market from the 'Brexit' process together with risks arising from exchange rate fluctuations. Conversely, this balance between the UK and mainland Europe offers a natural hedging against fluctuations of each local market and currency where Safestay operates.

Whilst demand in Safestay's markets is projected to strengthen, the provision of new supply will dilute the trading performance within the competitor set. It should be recognised the barriers to entry are quite high with the availability of suitable real estate limited. Safestay's defence to such threats is the combination of our premium locations and high standard of accommodation and operations. As supply increases, the business' focus on revenue, customer service, and sales and marketing activity is key in order to protect and grow market share, brand loyalty and reputation.

Safestay's property management system is deployed via SaaS (software as a service). As such the Group is dependent on robust internet connectivity and the resilience of the provider's third-party data centre and back-up protocols to operate. Whilst the arrangement carries risks, these are deemed to be reduced when compared to an in-house option which would lead to higher management overhead costs for the business. Management believe this current arrangement is more suitable to the business needs as well as being more cost effective due to the small size of our business. The other systems used are not deemed to be business critical.

Accessing expansion opportunities at the right price and in the right locations is, by its nature, an opportunistic exercise. Whilst the leadership team has a track record in securing properties to support business growth, there is no guarantee that future opportunities can be secured.

Financial risk

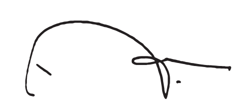
In 2018, the Group has a £18.2 million debt facility secured until 2022. This provides an efficient base from which to grow the business at a reduced margin over LIBOR. However, any increases in LIBOR will increase the cost of these loans and therefore impact the net profit of the business (a 0.5% change in LIBOR would impact the net profit before tax by £91,000). Strict financial controls are in place to ensure that monies cannot be expended above the available limits or to breach any banking covenants.

In 2018 Safestay has demonstrated its ability to raise additional equity to provide new source of cash and finance its expansion whilst reducing its gearing (inclusive of obligations under finance lease) from 207% to 141%.

A proportion of Safestay's business comprises group bookings and there is a risk of booking cancellations which will leave the hostel with unforeseen beds to sell at relatively short notice. To offset this risk, all group bookings require a non-refundable deposit of 10% at time of confirmation and staged payments in advance of the group arrivals.

Except for a small number of credit sales for which applied credit limits are verified through external sources, Safestay has a policy of full payment upfront for guests staying which is the norm for hostels. As such there are negligible trade receivable risks.

Approved by the board of Directors and signed on behalf of the board.



Larry Lipman
Chairman
9 April 2019

Directors' Report

The directors present their annual report on the affairs of the Company and Group together with the financial statements for the year ended 31 December 2018.

Directors

The directors who have served in the year to 31 December 2018 were as follows:

Larry Lipman
Nuno Sacramento
Hervé Deligny (appointed 14 Aug 2018)
Stephen Moss CBE
Michael Hirst OBE
Anson Chan
Paul Cummins (Alternate director for Anson Chan. Appointed 13 Sep 2018)
Sharon Segal (resigned 31 July 2018)

Larry Lipman and Stephen Moss were re-elected at the Company's AGM in 2018.

Larry Lipman
Chairman

Larry Lipman (aged 62) has been the main driving force behind the Safestay business since its establishment. He is responsible for the Group's strategy and business development. He has extensive experience of the property market, gained over thirty years, throughout which he has been the managing director of Safeland plc, where his primary focus is on trading opportunities and the assessment of potential investments and refurbishment projects. He was also a key executive in each of Safeland's previous demergers, including Workspace and Safestore, and, in each case, he continued after the demerger to be closely involved with the growth of those businesses as well as continuing to manage the core businesses of Safeland.

Nuno Sacramento
Chief Operating Officer

Nuno Sacramento (aged 51) was appointed as Chief Operating Officer on 1st February 2018. His significant hospitality background with international brands gives him the right platform to take the Safestay brand to the next stage of growth. Prior to joining Safestay, Nuno was Operations Director for Whitbread, managing a portfolio of 100 Premier Inns with on-site restaurants and Costa Coffee in key locations. Whitbread is the UK's largest hotel, restaurant and coffee shop operator with 50,000 employees and a leading FTSE 100 business. Nuno was a key contributor to the success of Whitbread, primarily its Premier Inn brand, where he had an influential role shaping the business. He headed the transition from fixed pricing to dynamic pricing, had a key role in defining the operating format and shaping evolving structures and labour models. Previously, Nuno ran his own businesses in Brazil and the UK and held various management roles with Accor, from Sofitel to Novotel in Russia, Argentina, France and Brazil.

Hervé Deligny
Chief Financial Officer & Company Secretary

Hervé Deligny (aged 46) is the Chief Finance Officer of Safestay. He joined the business in August 2018 to bring his experience in hospitality, finance and hotel investment and help to deliver the ambitious growth plan at Safestay. Hervé came from onefinestay, a luxury private rental operator managing 10,000 properties worldwide, where he was CFO. Previously, Hervé was with Accorhotels in Paris and then London where he was CFO of the UK business from 2006, becoming head of the UK investment arm in 2013 and managing a portfolio of 100 hotels in the UK. Hervé began his career in Audit at PricewaterhouseCoopers and has over 20 years' experience in finance. He holds a Masters degree in Finance from University Paris IX Dauphine. He lives in London with his wife and three children.

Stephen Moss CBE
Non-Executive Director

Stephen Moss (aged 66) is Chairman of Grosvenor Securities, a Central London commercial property investment and development company and of Mr Lee's Pure Foods Co, an innovative, award-winning, healthy food business. He was Chairman of Bibendum PLB Group, a leading drinks distribution company, until its sale in 2016 and, prior to that, was Managing Director of BCP Airport Parking which he had grown into one of the leading booking agents for travel ancillaries via a mix of internet bookings and distribution agreements with leading travel agents, tour operator and airlines. Stephen founded Springboard in 1990, a charity which promotes careers in hospitality, leisure and tourism, of which he remains Chairman, and its board and corporate partners include many of the UK's leading hotel groups. In 1992 he was awarded an MBE for services to the restaurant industry and, in 2002, a CBE for his contribution towards education and training.

Michael Hirst OBE
Non-Executive Director

Michael Hirst (aged 75) is consultant to CBRE Hotels, the world's leading hotel experts. He also advises hospitality and tourism businesses and has acted as an Arbitrator for the International Court of Arbitration in hotel dispute resolution.
He is a Director of CP Holdings Ltd, a diversified industrial and services group, which includes hotels and thermal spas in Central Europe. He is Chairman of the Business Visits & Events Partnership, representing Britain's Events Industry and recently appointed Chairman of the UK Government's Events Industry Board. He is a director of The Tourism Alliance, bringing together all the major tourism organisations in the UK and is appointed to the Tourism Industry Council, a collaboration between the UK Government and the tourism industry. He was awarded OBE in 2004 for services to Tourism in Britain.

Anson Chan
Non-Executive Director

Anson Chan (aged 55) is a respected Hong Kong businessman who has accumulated a variety of management and investment experiences. Over the years, he has served as an executive director for his family's real estate development and investment business, the Bonds Group of Companies. Before joining his family business, Mr. Chan was an associate director in the proprietary investments group for a Japanese investment bank, Nomura International, from 2000 to 2004, and of AIG Investment Corporation from 1998 to 2000. He was responsible for developing new investment opportunities in private equity in Greater China. In addition, Mr. Chan is a seed investor and responsible officer of an Asia-focused fund, Evenstar Fund. From 2005 to 2008, he also served as a senior advisor to Elliott Associates, a leading U.S. based activist investment fund with assets under management in excess of US$10 billion.

Paul Cummins
Alternate Non-Executive Director

Paul Cummins (aged 54) is the alternate non-executive director for Anson Chan. He is a qualified chartered accountant and is currently Investment Director of Pyrrho Investments Ltd, Safestay's largest shareholder. He has previously worked at Nomura International in both Hong Kong and London as a proprietary trader, he also worked at KPMG in Hong Kong and BDO in London. He is currently Chairman of Pacific Jade Holdings Ltd, a Hong Kong based tax and company secretarial business.

Directors' Report continued

Directors' indemnity provisions

The company has granted an indemnity to each of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. The company purchases Directors and Officers liability insurance which gives appropriate cover for any legal action brought against its directors. Such qualifying indemnity provision remains in force as at the date of approving the directors' report.

Directors' interests in shares

The following directors directly own share capital of the company:

	Ordinary shares of 1p each	
	Fully paid number	Percentage %
Stephen Moss	233,988	0.4
Larry Lipman	206,054	0.3
Hervé Deligny	44,117	0.1
Nuno Sacramento	37,160	0.1
Michael Hirst	97,142	0.2

Larry Lipman also owns one-third of the share capital of Safeland Holdings (2008) Corporation ("SHC") a corporation incorporated in Panama and 1.7% of Safeland plc. SHC owned 3,112,484 ordinary shares in the Company, representing 4.8% of the Company's shares in issue as at 31 December 2018. SHC owned 69.8% of Safeland plc, a company incorporated in the UK. Safeland plc owned 2,597,334 ordinary shares of the Company, representing 4.0% of the Company's shares in issue at 31 December 2018.

Anson Chan is not considered to be independent due his interest in Pyrrho Investments Limited which is a significant shareholder in the company, owning 19,025,638 ordinary shares representing 29.4% of the Company's shares in issue at 31 December 2018.

Directors' interests in options over the equity share capital of the company at 31 December 2018 were as follows:

	Granted	Lapsed	At 31 Dec 2018	Exercise price	Exercisable from	Exercisable to
Larry Lipman	396,521	–	396,521	50p	02/05/2017	01/05/2024
	250,000	–	250,000	60p	14/07/2020	13/07/2027
Nuno Sacramento	500,000	–	500,000	50p	21/07/2020	20/07/2027
	100,000	–	100,000	42p	11/10/2021	12/10/2028

Other substantial shareholdings

The Company had been notified of the following shareholdings which constitutes three per cent or more of the total issued ordinary shares of the Company as at 31 March 2019.

	Ordinary shares of 1p each	
	Fully paid number	Percentage %
Pyrrho Investments Limited	7,525,000	21.99
BGF Investment Management Ltd	11,791,661	18.23
Chelverton Asset Management Ltd	4,411,764	6.82
Miton Asset Management Ltd	4,398,301	6.80
Hargreaves Landsdowne Asset Management Ltd	4,001,199	6.19
Bredbury Ltd	3,129,665	4.84
Safeland Holdings (2008) Corporation	3,112,484	4.81
Safeland plc	2,597,334	4.02

Dividends

The Directors have not recommended the payment of a dividend for the year (2017: nil).

Directors' Responsibilities Statement

The Directors are responsible for preparing the Chairman's Statement, Directors' Report, Strategic 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. The directors are required to prepare consolidated accounts under International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and profit or loss of the company and Group for that period. In preparing these financial statements, the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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.

Conflicts of interest

Under the articles of association of the Company and in accordance with the provisions of the Companies Act 2006, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. However, the directors may authorise conflicts and potential conflicts, as they deem appropriate. As a safeguard, only directors who have no interest in the matter being considered will be able to take the relevant decision, and the directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. During the financial period ended 31 December 2018, the directors have authorised no such conflicts or potential conflicts in accordance with the above procedures.

Directors' Report continued

Going concern

Although the group reports a loss before tax in the consolidated income statement, it generates significant cash from its operations and expects to continue to do so for the foreseeable future. The group's strategy is to continue to develop and expand the premium hostel offering provided by the group within the UK and through its European acquisitions. The plan, based on the Group's budgets and financial projections 12 months from the date of approval, expects significant increase in group revenue, building on the recent expansion and management's expertise, and the directors consider this to be achievable. In addition, the group maintains a cash surplus for the foreseeable future.

As a result, the directors believe that the group and company should have adequate resources to continue in operational existence for at least 12 months after the date of approval of these financial statements and continues to adopt the going concern basis of accounting in preparing the financial statements.

Post balance sheet events

On 5 February 2019, the Group announced the completion of the 73 bed extension in London Elephant & Castle. The £2.4 million cost is part financed by our landlord up to £1.18 million which was received in February as agreed in the re-financing contract executed in 2017.

Statement of disclosure of information to the auditor

— So far as each of the directors currently in office is aware, there is no relevant audit information of which the Company's auditor is unaware; and

— Each of the directors has taken all the steps that ought to have been taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

Approved by the Board of Directors and signed on behalf of the Board.

Larry Lipman
Chairman
9 April 2019

Directors' Remuneration Report

Introduction

This report describes how the Board has applied the principles of good governance relating to Directors' remuneration during the period ended 31 December 2018.

Remuneration committee

The duties of the Remuneration Committee are performed by Stephen Moss and Michael Hirst, with advice being taken from the Board as a whole in respect of employees who are not directors of the Company. The Committee determines on behalf of the shareholders, the Company's policy for the level of remuneration for the executive directors.

Remuneration policy on executive directors' remuneration

Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre required and to reward them for enhancing value to shareholders. The performance measurement of both executive and non-executive directors and the determination of their annual remuneration package is undertaken by the Committee.

There are three main elements of the remuneration package for executive directors and senior managers:

1. Basic salary is determined by the Remuneration Committee at the beginning of each year and when an individual changes position or responsibility. Appropriate salary levels are set by reference to the performance, experience and responsibilities of each individual concerned and having regard to the prevailing market conditions
2. Performance related bonuses are assessed annually and are based on a combination of individual and corporate performances during the preceding financial year. During the current year under review and prior years the directors did not receive a bonus
3. Share options

It is the Company's policy that its executive directors may take up outside directorships where it is considered that the appointment would not impinge on their employment with the Company. Individuals may retain any remuneration received from such services.

Directors' service contracts

Larry Lipman has a contract terminable on six months' notice. Stephen Moss and Michael Hirst have an initial term of three years unless terminated by either party upon three months written notice. Anson Chan has no service agreement. Nuno Sacramento and Hervé Deligny have a service agreement terminated by either party upon three months' notice.

The directors' service contracts contain no provision for fixed termination payments.

Share price

The Company has a single class of ordinary shares listed on the AIM market of the London Stock Exchange. High and low prices for the period were 33.5p and 51.5p respectively and the market price of the shares at 31 December 2018 was 33.5p. The share price at 31 December 2018 is coherent with the 30,459,880 share issue which was completed on 17 December 2018 at a price of 34p.

Directors' Remuneration Report continued

Directors' emoluments

The emoluments of the directors of the Company for the period ended 31 December 2018 were as follows:

	Salary and fees £'000	Pension £'000	Benefits in kind £'000	2018 Total £'000	2017 Total £'000
Executive directors					
Larry Lipman	80	–	–	80	73
Nuno Sacramento	126	2	–	128	85
Hervé Deligny*	62	1	–	63	–
Sharon Segal**	62	4	–	66	25
Non-executive directors					
Stephen Moss	24	–	–	24	24
Michael Hirst	27	–	–	27	18
Anson Chan	–		–	–	–
Total	**381**	**7**	**–**	**388**	**225**

* Appointed 14 August 2018

** Resigned 31 July 2018

Approved by the Board of Directors and signed on behalf of the board.

Larry Lipman
Chairman
9 April 2019

Corporate Governance

Safestay plc is committed to maintaining high standards of corporate governance throughout the Group and to ensuring that all of its practices are conducted transparently, ethically and efficiently. The Company believes that good governance will result in the continued success of the Company and improve shareholder value. Therefore, the Company has chosen to formalise its governance policies by complying with the UK's Quoted Companies Alliance Corporate Governance code for Small and Mid-Size Quoted Companies (the "QCA Code"). Full disclosure is available in the investor section of the Company Website https://www.safestay.com/investors/

By order of the Board.

Larry Lipman
Chairman
9 April 2019

Independent Auditor's Report
to the Members of Safestay plc

Our opinion on the financial statements is unmodified

We have audited the financial statements of Safestay plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

— the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;

— the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

— the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, 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

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

— the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

Overview of our audit approach

— Overall materiality: £300,000, which represents 2.05% of the group's revenue

— Key audit matters for the group were identified as acquisition accounting, risk of impairment of previously recognised goodwill, and the risk of fraud in revenue recognition

— A full scope audit was performed on the financial statements of the parent company and on the financial information of all UK trading entities, with targeted and analytical procedures for the existing and acquired European entities.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group

Acquisition accounting

During the year, the group acquired three European hostels. Accounting for each acquisition is set out in note 24 to the consolidated financial statements. The assessment of the fair values of assets and liabilities acquired, and their associated useful lives, requires management judgement and the use of estimates in the determination of these values and the resultant intangible assets and goodwill recognised.

We therefore identified acquisition accounting in accordance with the requirements of IFRS 3 'Business Combinations' as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

— reading the accounting policy for compliance with IFRSs as adopted by the European Union and confirming that the application by the group is consistent with the stated accounting policy;

— obtaining management's assessment of the transactions and corroborating the fact pattern with reference to the Sale and Purchase Agreements;

— challenging management's assessment of the appropriateness of the allocation of the purchase price to assets and liabilities acquired, recognition and measurement of intangible assets and goodwill, based on our knowledge of the client and its industry;

— challenging the judgemental assessment of the value of any intangible assets recognised and discount rates used;

— considering evidence obtained from other audit procedures that would indicate any material inconsistency with the accounting treatment adopted; and

— reading management's disclosures for the transactions in the financial statements, ensuring that these are consistent with the underlying documentation.

The group's accounting policy on acquisition accounting is shown in note 1 to the financial statements and related disclosures are included in note 24.

Key observations

As a result of the audit procedures we performed and, after considering management's disclosures of the judgements applied by them, we have concluded that acquisitions have been appropriately accounted for in accordance with the requirements of IFRS 3 'Business Combinations'.

Independent Auditor's Report
to the Members of Safestay plc continued

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk of impairment of previously recognised goodwill The Directors are required to perform an annual impairment review of unamortised intangible assets as more fully explained in note 11. The process for measuring and recognising impairment under International Accounting Standard (IAS) 36: 'Impairment of Assets' is complex and highly judgemental, particularly as judgement is applied in determining that each individual trading outlet is treated as a separate cash-generating unit for impairment purposes, and the valuation relies on forecasts of trading activity made by management, and the use of discount rates. We therefore identified the risk of impairment of previously recognised goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: — reading the accounting policy for compliance with IFRSs as adopted by the European Union and confirming that the application by the group is consistent with the stated accounting policy; — comparing current and forecast future trading to the strategic plan and available market information for the hospitality industry; — checking the determination of cash generating units used in the impairment models by assessing whether it is reasonable to treat each hostel as a cash generating unit; — testing of the arithmetical accuracy of management's impairment calculations; — challenging the assumptions and judgements used by management in their impairment model, using industry data to consider the reasonableness of management's assumptions, in particular maintainable trading levels, growth and discount rates; and — testing the accuracy of management's forecasting through a comparison of budget to actual data and historical trends. The group's accounting policy on impairment is shown in note 1 and related disclosures are included in respect of goodwill in note 11. **Key observations** As a result of the audit procedures we performed and, after considering management's disclosures of the judgements applied by them, we have concluded that management have assessed impairment of intangible assets in accordance with the requirements of IAS 36 'Impairment of assets'.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk of fraud in revenue recognition Under ISA (UK) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', there is a presumed risk of fraud in revenue recognition. As the Group records a proportion of sales in cash and through point of sale transactions, we identified the risk of fraud in revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: — an evaluation of the revenue recognition policies for each of the Group's two principal revenue streams against the requirements of the Group's stated accounting policies and IFRS 15: 'Revenue from contracts with customers'; — assessing the design effectiveness of the global system for capturing and recording revenue transactions; — testing the key controls over the recording of income within the system and weekly reconciliation of sales to cash and credit card receipts to verify the completeness and capture of revenue from individual hostels; — agreeing the receipt of cash collected at hostels for transactions, into Group bank accounts; and — for all income streams, assessing management review processes for the recording and reporting of revenue, to determine this was performed accurately, and on a timely basis. The Group's accounting policy on revenue, including its recognition, is shown in note 1 and related disclosures are included in note 2. **Key observations** As a result of the audit procedures performed we have concluded that revenue has been recognised appropriately in accordance with IFRS 15 'Revenue from contracts with customers'.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	£300,000 which is approximately 2.05% of revenue. This benchmark is considered the most appropriate because, as the group is currently loss-making, reven ue represents a stable benchmark at this stage of the group's development. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect the increased revenue of the group, following its recent acquisitions.	£270,000 which is approximately 0.5% of total assets. This benchmark is considered the most appropriate because the parent entity does not trade in its own right, holding assets for the benefit of the group as a whole. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect the increased total assets of the company, following its recent acquisitions.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.

Independent Auditor's Report
to the Members of Safestay plc continued

Materiality Measure	Group	Parent
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£15,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£15,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit approach was a risk-based approach founded on a thorough understanding of the group's business. We take into account the group's size, risk profile, how it is organised and its operating environment including the application of group wide controls when assessing the level of work to be performed, including:

— considering the fair values of assets and liabilities in respect of the acquisitions of European hostel in the current and prior years;

— an evaluation by the group audit team of identified components to assess the significance of that component to the group and to determine the planned audit response based on a measure of materiality. The group financial statements are a consolidation of the UK and European operations, which operate a common booking and revenue recording system;

— recognising that the group is organised into two operating segments: hostels based in the UK and those based in Europe. Hostel accommodation represents one revenue stream and food and beverage revenue is reported as another stream. We tested controls over the revenue recording system which accounts for 95% of total group income and substantively tested a sample of transactions;

— undertaking substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

Other information

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

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

— the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

— the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

— adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent company 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 18, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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.

Philip Westerman
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
9 April 2019

Consolidated Income Statement
Year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	2	**14,620**	**10,547**
Cost of sales	3	(2,228)	(1,561)
Gross profit		**12,392**	**8,986**
Administrative expenses	4	(10,686)	(7,520)
Operating profit before exceptional expenses		**1,706**	**1,466**
Exceptional expenses	4	(662)	(495)
Operating profit after exceptional expenses		**1,044**	**971**
Finance costs	5	(1,648)	(1,833)
Loss before tax		**(604)**	**(862)**
Tax	7	(303)	(11)
Loss for the financial year attributable to owners of the parent company		**(907)**	**(873)**
Basic and diluted loss per share	8	(2.56p)	(2.55p)

There is no difference between the diluted loss per share and the basic loss per share presented. Due to the loss incurred in the year the effect of the share options in issue is anti-dilutive.

The revenue and operating result for the period is derived from continuing operations in the United Kingdom and Europe.

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
Year ended 31 December 2018

	2018 £'000	2017 £'000
Loss for the year	**(907)**	**(873)**
Other comprehensive income: **Items that will be reclassified subsequently to profit and loss**		
Exchange differences on translating foreign operations	106	–
Total comprehensive (loss)for the year attributable to owners of the parent company	**(801)**	**(873)**

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Financial Position
31 December 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	10	47,522	45,971
Intangible assets	11	1,268	1,410
Goodwill	11	10,506	7,301
Total non-current assets		**59,296**	**54,682**
Current assets			
Stock		45	25
Trade, Derivative financial instruments and other receivables	12	1,200	903
Cash and cash equivalents	13	9,859	4,504
Total current assets		**11,104**	**5,432**
Total assets		**70,400**	**60,114**
Current liabilities			
Loans and overdrafts	15	353	168
Finance lease obligations	16	28	26
Trade, Derivative financial instruments and other payables	14	1,890	1,625
Current liabilities		**2,271**	**1,819**
Non-current liabilities			
Bank loans and convertible loan notes	15	17,772	17,990
Finance lease obligations	16	21,176	21,202
Deferred tax liabilities	17	105	105
Trade and other payables due in more than one year	14	1,140	–
Total non-current liabilities		**40,193**	**39,297**
Total liabilities		**42,464**	**41,116**
Net assets		**27,936**	**18,998**
Equity			
Share capital	18	647	342
Share premium account	18	23,904	14,504
Other components of equity	18	6,221	6,081
Retained earnings		(2,836)	(1,929)
Total equity attributable to owners of the parent company		**27,936**	**18,998**

These financial statements were approved by the Board of Directors and authorised for issue on 9 April 2019.

Signed on behalf of the Board of Directors

Larry Lipman
Chairman
9 April 2019

Consolidated Statement of Changes in Equity
31 December 2018

	Share Capital £'000	Share premium account £'000	Other Components of Equity £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2017	**342**	**14,504**	**6,047**	**(1,056)**	**18,998**
Comprehensive income					
Loss for the year	–	–	–	(873)	(873)
Total comprehensive income	–	–	–	(873)	(873)
Transactions with owners					
Share based payment charge for the period	–	–	34	–	34
Balance at 31 December 2017	**342**	**14,504**	**6,081**	**(1,929)**	**18,998**
Comprehensive income					
Loss for the year	–	–	106	(907)	(801)
Total comprehensive loss	–	–	106	(907)	(801)
Transactions with owners					
Issue of shares	305	9,400	–	–	9,705
Share based payment charge for the period	–	–	34	–	34
Balance at 31 December 2018	**647**	**23,904**	**6,221**	**(2,836)**	**27,936**

Consolidated Statement of Cash Flows
31 December 2018

	Note	2018 £'000	2017 £'000
Operating activities			
Cash generated from operations	20	2,056	1,911
Income tax paid		(224)	(48)
Net cash generated from operating activities		**1,832**	**1,863**
Investing activities			
Purchases of property, plant and equipment		(2,510)	(1,088)
Purchases of intangible assets		(24)	(48)
Acquisitions, net of cash acquired	24	(1,791)	(7,298)
Net cash outflow from investing activities		**(4,325)**	**(8,434)**
Financing activities			
Proceeds from property refinancing transaction		–	11,420
New bank loans drawn		–	18,400
Bank loans repaid		(304)	(17,600)
Loan and refinancing arrangement fees		–	(375)
Proceeds from issue of share capital		10,356	–
Fees related to the issue of shares		(652)	–
Amounts paid under finance leases		(960)	(916)
Interest paid		(592)	(591)
Net cash generated from financing activities		**7,848**	**10,338**
Net increase /(decrease) in cash and cash equivalents		**5,355**	3,767
Cash and cash equivalents at beginning of year		**4,504**	737
Cash and cash equivalents at end of year	13	**9,859**	**4,504**

Notes to the Consolidated Financial Statements
31 December 2018

1. Accounting policies for the group and company financial statements

Safestay plc is listed on the AIM market of the London Stock Exchange and was incorporated and is domiciled in the UK.

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS regulation.

The financial statements have been presented in sterling, prepared under the historical cost convention, except for the revaluation of freehold properties and certain financial instruments.

The accounting policies have been applied consistently throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2018.

New standards and interpretations effective in the year

The following standards were effective from 1 January 2018.

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers

The adoption of IFRS9 Financial Instruments and IFRS15 Revenues from contracts with customers have not had a material effect on the financial statements.

New standards and interpretations issued but not yet applied

The following standard is in issue but is not effective in the year and has not yet been endorsed for use in the EU:

- IFRS 16: Leases – effective 1 January 2019

The Directors consider the implementation of IFRS 16, which replaces IAS 17 Leases, will have a material impact on the financial statements of the Group in future periods. The Standard will require recognition of current operating leases to be accounted for within the balance sheet by recognising a new category of right-of-use asset and a liability for future lease payments, discounted to present value. In addition, IFRS 16 replaces the straight-line operating lease expense in the income statement with a depreciation charge for the lease asset (included within operating costs) and an interest expense on the lease liability (included within finance costs). As a result, the adjusted EBITDA, as well as the Cash generated from operations reported in the Consolidated Statement of Cash Flows statement will both be increased by an amount equivalent to the operating lease expense previously reported under IAS 17.

The Group's full assessment of its potential impact on the financial statements is not yet complete. As an indicative assessment, the 2018 Consolidated Income Statement includes a £1.7m rental charge for all hostel leases currently treated as operating leases under IAS 17. The future minimum lease payments under non-cancellable term for these leases is £8.7m.

Going concern

Although the group reports a loss before tax in the consolidated income statement, it generates significant cash from its operations and expects to continue to do so for the foreseeable future. The group's strategy is to continue to develop and expand the premium hostel offering provided by the group within the UK and through its European acquisitions. The plan, based on the Group's budgets and financial projections 12 months from the date of approval, expects significant increase in group revenue, building on the recent expansion and management's expertise, and the directors consider this to be achievable. In addition, the group maintains a cash surplus for the foreseeable future.

As a result, the directors believe that the group and company should have adequate resources to continue in operational existence for at least 12 months after the date of approval of these financial statements and continues to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation

The Group's financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2018. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Notes to the Consolidated Financial Statements continued
31 December 2018

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Business combinations

Acquisitions of subsidiaries and businesses are accounted using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to former owners of the acquire and the equity interest issued by the Group in exchange for control of the acquire. Acquisition costs are expensed as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. A review of the goodwill is carried out annually.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors. Currently there are only operating segment, which is the operation of hostel accommodation in the UK and Europe.

Revenue

Revenue is stated net of VAT and comprises revenues from overnight hostel accommodation, income from the rental of student accommodation during the academic year and the sale of ancillary goods and services such as food & beverage and merchandise. Accommodation and the sale of ancillary goods and services is recognised when provided. Income from the rent of student accommodation is recognised on a straight-line basis over the academic year to which the rent relates.

The sale of ancillary goods comprises sales of food, beverages and merchandise.

Deferred income comprises deposits received from customers to guarantee future bookings of accommodation.
This is recognised as revenue once the bed has been occupied.

Leases

The Group as lessor

- Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

- Assets held under finance leases are recognised as assets of the group at the present value of the lease payments at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction in lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the income statement.

All other leases are classified as operating leases. Operating leases are recognised in the income statement on a straight-line basis over the life of the lease.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling which is the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are generally recognised in profit and loss. They are deferred in equity if they relate to qualifying cash flow hedges, qualifying net investment hedges or are attributable to part of the investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss within finance costs. All other exchange gains and losses are presented in the statement of profit or loss within administrative expenses.

Non-monetary items that are measured at fair-value in a foreign currency are translated using the exchange rates at the date when fair-value was determined. Translation differences on assets or liabilities carried at fair-value are reported as part of the fair-value gain or loss.

The results and financial position of foreign operations that have a functional currency different to the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position are translated using the closing rate at the date of that statement of financial position.
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates.
- All resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair-value adjustments arising on the acquisition of a foreign operation are treated as the assets and liabilities of the foreign operation and translated at the closing rate.

Property, plant and equipment

Freehold property is stated at fair value and revalued periodically in accordance with IAS 16 Property Plant and Equipment. Valuation surpluses and deficits arising in the period are included in other comprehensive income. Fixtures fittings and equipment are stated at cost less depreciation and are depreciated over their useful lives. The applicable useful lives are as follows:

Fixtures, fittings and equipment	3-5 years
Freehold properties	50 years
Leasehold properties	50 years or term of lease if shorter

Assets held as finance leases are depreciated over the shorter of the lease term and their expected useful lives on the same basis as owned assets.

Impairment of property, plant and equipment

At each statement of financial position date, the Group reviews the carrying amounts of its property, plant and equipment 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 in order to determine the extent of the impairment loss (if any).

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 been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease, but a negative revaluation reserve is not created.

For revalued assets, where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. Any remaining balance of the reversal of an impairment loss is recognised in the income statement. For assets carried at cost, any reversals of impairments are recognised in the income statement.

Intangible assets

Intangible assets are initially recognised and measured at fair market value.

Where an intangible has a determinable finite useful life, the intangible asset is amortised on a straight-line basis over that useful life. The applicable useful life is

10 years for the life of the interest in the head lease
13 years for tenancy sublease
3 years for website development.

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired.

Notes to the Consolidated Financial Statements continued
31 December 2018

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Other intangible assets

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Assets with a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives s set out above.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Dividends

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Borrowings

Borrowings other than bank overdrafts are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method.

Loan arrangement fees

Loan arrangement fees are amortised over the term of the loan to which they relate.

Stock

Stock is stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Equity

The total equity attributable to the equity holders of the parent comprises the following:

Share Capital

Share capital represents the nominal value of shares issued.

Share premium account

Share premium represents amounts subscribed for share capital in excess of nominal value less the related costs of share issues.

Merger reserve

Merger reserve represents amounts subscribed for share capital in excess of nominal value exchanged for the shares in the acquisition of a subsidiary company.

Revaluation reserve

Revaluation reserves represent the increase in fair value of investment property over the value at which it was previously carried on the balance sheet. Any gain from a revaluation is taken to the revaluation reserve. Where it reverses a previous impairment, the impairment is reversed, but any surplus in excess of the amount of the impairment is added to the revaluation reserve.

Translation Reserve

Translation Reserve comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into presentational currency.

Retained earnings

Retained earnings represent undistributed cumulative earnings.

Equity Instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Share based payments

The equity settled share-based payment reserve arises as the expense of issuing share-based payments is recognised over time. The reserve will fall as share options vest and are exercised but the reserve may equally rise or might see any reduction offset, as new potentially dilutive share options are issued. Balances relating to share options that lapse after they vest are transferred to retained fair value of employee services determined by reference to transfer of instruments granted.

The Group has applied the requirements of IFRS 2 Share based payment to share options. The fair value of the share options is determined at the grant date and are expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non-transferability, exercise restrictions and behavioural considerations.

Derivative financial instruments

None of the Group's derivative financial instruments are designated as a hedging instrument. The derivative financial instruments are initially recognised at fair value and subsequently re-measured at fair value at the end of each reporting period. Changes in fair value of the derivatives are taken to the income statement.

Exceptional Items

The Group separately discloses on the face of the Income Statement items of income or expense which nature or amount would, without separate disclosure, distort the reporting of the underlying business.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Notes to the Consolidated Financial Statements continued
31 December 2018

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised on the basis of tax losses enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Critical accounting judgements and key sources of estimation and uncertainty

The fair value of the Group's property is the main area within the financial information where the Directors have exercised significant estimates.

Judgements

- The Holland Park lease showed indicators that it could be treated as either a finance or operating lease. The Group's decision to treat it as a finance lease was based on a balanced judgment of relevant factors. Furthermore, the fair value of the Group's finance lease asset is inherently subjective. The methodology applies a discount rate to the future lease payments to approximate to the fair value of the asset. Details of the methodology of property valuations are detailed in note 10.
- Judgements were made around the capitalised leases for Edinburgh and Elephant & Castle. The valuations will remain fixed going forward. The valuation of the leasehold interest was performed by external valuers as set out in note 10. No tax arises on these transactions.
- The Group has identified certain costs as exceptional in nature in that, without separate disclosure, would distort the reporting of the underlying business. This is set out in note 4.

Estimates

- The fair-value of the assets and liabilities recognised on the acquisition of an operation or entity is determined using both external valuations and directors' valuations. Details of the fair values are set out in the note 24.
- Assessment of impairment of goodwill requires estimation of future cash flows, which are uncertain, discounted to present value which also requires estimation by management. The key assumptions used to calculate the value in use (VIU) to test the goodwill for each cash generating units (CGUs) are detailed in note 11.

2. Segmental analysis

	2018 £'000	2017 £'000
Hostel accommodation	12,171	8,641
Food and Beverages sales	1,746	1,383
Other income	703	523
Total Income	14,620	10,547
Like-for-like income	10,643	10,547

The 2017 figures were restated to reallocate the rental income in Edinburgh from Hostel accommodation to Other income. This rental income was £330,000 in 2017 and £342,000 in 2018.

Management consider the like-for-like income only for acquisitions and continuing operations that were operational during the same period in the prior year.

The Group has two operating segments: UK and Europe. The operating segments are organised and managed separately due to the location of each market. The Group provides a shared services function to its operating segments and reports these activities separately.

The most important measures used to evaluate the performance of the business are revenue and adjusted EBITDA, which is the operating profit after excluding non-cash items such as depreciation and amortisation, and removing non-recurring expenditure which would otherwise distort the cash generating nature of the segment.

2018	UK £'000	Europe £'000	Shared services £'000	Total £'000
Revenue	8,393	6,227	–	14,620
Operating Profit after exceptional expenses	2,981	801	(2,738)	1,044
Depreciation, Amortisation & disposals	1,320	356	–	1,676
Exceptional & Share based payment expense	–	–	696	696
Adjusted EBITDA	4,301	1,157	(2,042)	3,416

2017	UK[1] £'000	Europe £'000	TOTAL £'000
Revenue	8,496	2,051	10,547
Operating Profit after exceptional expenses	922	49	971
Depreciation & Amortisation	1,450	249	1,699
Exceptional & Share based payment expense	529	–	529
Adjusted EBITDA	2,901	298	3,199

[1] Shared Services are included within the adjusted EBITDA of the UK segment in 2017.

The above information is presented in the format of that frequently reviewed by the Chief Operating Decision Maker (CODM), and decisions made on the basis of adjusted segment operating results.

As segment assets and liabilities are not regularly provided to the CODM, the Group has elected, as provided under IFRS 8 Operating Segments (amended), not to disclose a measure of segment assets and liabilities.

3. Cost of sales

	2018 £'000	2017 £'000
Food and drinks	715	571
Direct room supplies and sales commissions	1,513	990
	2,228	1,561

Notes to the Consolidated Financial Statements continued

31 December 2018

4. Administrative expenses

	2018 £'000	2017 £'000
Staff costs (see note 9)	4,034	3,018
Legal and professional fees	1,358	778
Property costs	2,265	761
Depreciation and amortisation	1,602	1,682
Loss on sale of assets	74	–
Share option expenses	34	34
Other expenses	1,981	1,742
	11,348	8,015
Add back:		
Exceptional expenses	662	495
	10,686	7,520

Administrative expenses include £662,000 (2017: £495,000) of exceptional expenses broken down as follows:

	2018 £'000	2017 £'000
Retrospective VAT adjustment	90	–
Acquisition costs	474	201
Property refinancing costs	8	222
Intellectual property advice	38	72
Other matters	52	–
	662	495

Exceptional items comprises expenses that without separate disclosure would distort the reporting of the underlying business.

5. Finance costs

	2018 £'000	2017 £'000
Interest on bank overdrafts and loans	593	798
Amortised loan arrangement fees	81	73
Other interest costs	–	115
Lease finance (note 16)	936	831
Movement in fair value of interest rate swaps	–	16
Unwinding of discount on deferred consideration	38	–
	1,648	1,833

6. Loss for the financial year

	2018 £'000	2017 £'000
Loss for the financial period is arrived at after charging:		
Depreciation on owned assets	517	843
Depreciation of assets under finance lease	904	695
Amortisation of intangible assets	181	161
Loss on disposal of assets	74	–
Operating lease expense	1,714	559
Auditor's remuneration for audit services	99	85

Amounts payable in respect of both audit and non-audit services are set out below:

	2018 £'000	2017 £'000
Fees payable to the auditor for the audit of: the company's annual accounts	69	55
the subsidiary entities	30	30
	99	85
Fees payable to the auditor and its related entities for other services:		
Tax advice services	17	46
Taxation compliance services	22	25
Due diligence	89	25
	128	71

The audit fees disclosed in 2018 represent the fees payable for the audit for the period ended 31 December 2018 and the non-audit fees are those incurred in the period.

7. Tax

	2018 £'000	2017 £'000
Current tax		
Current tax on profits for the year	213	11
Adjustments for current tax on prior periods	90	–
Total current tax	303	11
Deferred tax	–	–
Total tax charge	303	11

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The charge for the year can be reconciled to the loss per the consolidated income statement as follows:

	2018 £'000	2017 £'000
Loss before tax	(604)	(862)
Tax at the standard UK corporation tax rate of 19% (2017: 19.25%)	(115)	(166)
Adjustment for tax rate differences in foreign jurisdictions	37	–
Adjustments for current tax on prior periods	90	–
Factors affecting charge for the period		
Non-deductible items and other timing differences	64	101
Depreciation in excess of capital allowances	227	76
Group tax charge	303	11

8. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

	2018 £'000	2017 £'000
Loss for the period attributable to equity holders of the company	(907)	(873)

	2018 '000	2017 '000
Weighted average number of ordinary shares for the purposes of basic loss earnings per share	35,387	34,219
Effect of dilutive potential ordinary shares	1,830	1,807
Weighted average number of ordinary shares for the purposes of diluted loss per share	37,217	36,026
Basic loss per share	(2.56p)	(2.55p)
Diluted loss per share	(2.56p)	(2.55p)

There is no difference between the diluted loss per share and the basic loss per share presented. Due to the loss incurred in the year the effect of the share options in issue is anti-dilutive.

The total number of shares in issue as at 31 December 2018 was 64,679,014 following the 30,459,880 share issue completed on 17 December 2018.

9. Staff costs

The average monthly number of employees (including directors) during the period was:

	2018 Number	2017 Number
Hostel operation	178	149
Directors	5	4
	183	153

The costs incurred in respect of employees (including directors) were:

	2018 £'000	2017 £'000
Wages and salaries	3,515	2,729
Social security costs	446	274
Other employment costs	73	15
Total staff costs	4,034	3,018

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10. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures, fittings and equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 January 2017	32,460	13,122	1,253	–	46,835
Transfer	(29,777)	29,777	–	–	–
Additions	–	818	149	121	1,088
Acquired in business combination	–	–	598	–	598
Exchange movements	–	–	52	–	52
At 31 December 2017	2,683	43,717	2,052	121	48,573
Transfer	18	(230)	–	–	(212)
Additions	–	208	207	2,084	2,499
Acquired in business combination	–	319	259	–	578
Disposals	–	–	(48)	(55)	(103)
Transfer to current assets	–	–	–	(88)	(88)
Exchange movements	–	–	43	–	43
At 31 December 2018	**2,701**	**44,014**	**2,513**	**2,062**	**51,290**
Depreciation					
At 1 January 2017	153	333	578	–	1,064
Charge for the period	108	698	732	–	1,538
At 31 December 2017	261	1,031	1,310	–	2,602
Transfer	(205)	(25)	–	–	(230)
Charge for the year	28	904	489	–	1,421
Released on disposal	–	–	(25)	–	(25)
At 31 December 2018	**84**	**1,910**	**1,774**	**–**	**3,768**
Net book value:					
At 31 December 2018	**2,617**	**42,104**	**739**	**2,062**	**47,522**
At 31 December 2017	2,422	42,686	742	121	45,971

The directors based their valuation of the freehold properties using external valuations as at 14 March 2017 prepared by Cushman and Wakefield on behalf of HSBC (the Group's bankers) as part of the security for the Group's bank financing. Had the properties not been revalued their historic cost carrying value would have been £2.4 million.

Leasehold land and buildings additions comprise the capitalised finance lease plus refurbishment costs incurred on the Holland Park hostel and the Group properties transferred from freehold land and buildings following the finance transactions in respect of its hostels in Edinburgh and Elephant & Castle which completed on 31 March 2017.

The newly-created leaseholds for both properties were also independently valued on 14 March 2017 at £30.3 million by Cushman and Wakefield on behalf of HSBC (the Group's bankers). The Group has accounted for the finance transactions as interest-bearing borrowings secured on the original properties held. There were no recognised gains or losses arising in respect of these transactions.

Assets in the course of construction represent additional letting rooms in the London Elephant & Castle hostel, which completed after the balance sheet date.

Included in disposals is a transfer from assets under construction to current receivables representing development costs that were reimbursed by the landlord post year end as disclosed in note 12.

11. Intangible assets and goodwill

	Website Development £'000	Leasehold 4rights £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2017	–	1,400	525	1,925
Additions	48	–	–	48
Arising in business combination	–	302	6,685	6,987
Exchange movements	–	9	91	100
At 31 December 2017	48	1,711	7,301	9,060
Additions	24	–	–	24
Arising in business combination (note 24)	–	–	3,109	3,109
Exchange movements	–	15	96	111
At 31 December 2018	**72**	**1,726**	**10,506**	**12,304**
Amortisation				
At 1 January 2017	–	188	–	188
Charge for the period	4	157	–	161
At 31 December 2017	4	345	–	349
Charge for the period	20	161	–	181
At 31 December 2018	**24**	**506**	**–**	**530**
Net book value:				
At 31 December 2018	**48**	**1,220**	**10,506**	**11,774**
At 31 December 2017	44	1,366	7,301	8,711

Leasehold Rights

The directors identified intangible assets in the following transactions:

- acquisition of the business on Smart City hostel in Edinburgh in 2015 identified an intangible asset in relation the lease with the University of Edinburgh, which terminates in 2027
- acquisition of the Barcelona Sea property in 2017 identified a sublease agreement with a tenant in-situ for the duration of the head lease.

Amortisation of leasehold rights is based on a straight-line basis for the term of the lease.

Goodwill

Goodwill arising from business combinations in the year are disclosed in note 24. Goodwill in a business combination is allocated to the cash generating units (CGUs) that are expected to benefit from that business combination. The group's CGUs have been defined as each operating hostel. This conclusion is consistent with the approach adopted in previous years and with the operational management of the business.

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Goodwill is not amortised but tested annually for impairment. The recoverable amount of each CGU is determined from value in use (VIU) calculations based on future expected cash flows discounted to present value using an appropriate pre-tax discount rate.

The key assumptions used in the VIU calculations for all hostels are based on forecasts approved by management performed for a 5-year period:

- Pre-tax discount rate of 11%
- 2018 average bed rate per property, increasing in line with inflation in following years
- Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR) margin of 2018 with an increase up to 3 basis points over 5 years

Four hostels acquired from one vendor in 2017 show the lowest relative VIU headroom. These operations of these hostels are still being optimised following their acquisition in 2017. Management are confident that the improvement in operating margin and utilisation of space within the hostels will not lead to any impairment once the expected improvements have been completed.

No impairment has been identified for the year ended 31 December 2018.

Sensitivity analysis

Headroom between the carrying and recoverable value of an asset is dependent upon sensitivities to the following assumptions:

For each of CGU, a fall in operating margin and average bed rate (ABR), or an increase in the weighted average cost of capital (WACC) by the following rates of change would result in the carrying value of goodwill falling below its recoverable amount:

CGU	Operating margin	ABR	WACC
Barcelona Gothic	2bps	1%	1bps
Barcelona Sea	2bps	1%	1bps
Lisbon	2bps	1%	2bps
Madrid	8bps	9%	20bps
Prague	3bps	2%	3bps

12. Trade and other receivables

	2018 £'000	2017 £'000
Trade and other receivables	819	740
Other debtors	88	–
Prepayments and accrued income	293	163
	1,200	903

Other debtors represent development costs reimbursed by the landlord after the reporting date.

The directors consider that the carrying amount of other receivables approximates to their fair value. All amounts outstanding are within their agreed credit terms.

13. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and cash equivalents	9,859	4,504

The directors consider that the carrying amount of cash and cash equivalents approximates their fair value. Cash and cash equivalents comprise cash.

14. Trade and other payables

	2018 £'000	2017 £'000
Due in less than on year		
Trade payables	683	495
Corporation tax	57	104
Social security and other taxes	208	145
Other creditors	202	182
Accruals and deferred income	740	699
	1,890	1,625
Due in more than one year		
Other payables	1,140	–
	3,030	1,625

Payables due in more than one year represents the remainder of the discounted present value of deferred consideration as disclosed in note 24.

15. Loans

	2018 £'000	2017 £'000
At amortised cost		
Bank Loan and other loans	18,389	18,503
Loan arrangement fees	(264)	(345)
	18,125	18,158
Loans repayable within one year	353	168
Loans repayable after more than one year	17,772	17,990
	18,125	18,158

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16. Leases

	Minimum lease payments due			
	Within 1 year £'000	1 to 5 years £'000	After 5 years £'000	Total £'000
31 December 2018				
Lease payments	960	3,840	43,955	48,755
Finance charges	(932)	(3,707)	(22,912)	(27,551)
Net present values	**28**	**133**	**21,043**	**21,204**
31 December 2017				
Lease payments	960	3,840	44,915	49,715
Finance charges	(934)	(3,716)	(23,837)	(28,487)
Net present values	26	124	21,078	21,228

The group continues to treat the Holland Park lease as a finance lease on the basis that the present value of the lease payments constitutes the substantial part of a theoretical freehold valuation.

The average effective borrowing rate was 6.55%. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

On 31 March 2017 the group property refinancing transactions on its hostels in Edinburgh and Elephant & Castle, receiving gross proceeds of £5.32 million and £6.1 million respectively. The properties were independently valued at £14.3 million and £16.0 million; as the undervaluation matched by lease rentals is below the full market rate, the directors have deemed the transactions as outside the scope of IAS17 and treatment as finance leases is considered appropriate.

The average effective rate of borrowing for the transactions was 7.74% and 7.81% respectively.

The fair value of the group's lease obligations is approximately equal to their carrying amount. The Group's finance leases disclosed above are in sterling.

17. Deferred income tax

	Deferred tax assets £'000	Deferred tax liabilities £'000	Total £'000
Balance as at 1 January 2017	102	(107)	(5)
Recognised in the income statement	(102)	102	–
Recognised on acquisition	–	(100)	(100)
Balance at 31 December 2017	–	(105)	(105)
Recognised in the income statement	–	–	–
Balance at 31 December 2018	**–**	**(105)**	**(105)**

Deferred tax liabilities relate primarily to accelerated capital allowances.

18. Equity

CALLED UP SHARE CAPITAL

	£'000
Allotted, issued and fully paid	
34,219,134 Ordinary Shares of 1p each as at 1 January 2018	342
27,609,496 Ordinary Shares of 1p each issued on 17 December 2018	276
1,802,269 Ordinary Shares of 1p each issued on 17 December 2018	18
1,048,115 Ordinary Shares of 1p each issued on 17 December 2018	11
	647

At the 31 December 2018, the ordinary shares rank pari passu. There are no changes to the voting rights of the ordinary shares since the balance sheet date.

SHARE PREMIUM

	£'000
At 1 January 2018	**14,504**
Share premium received on 30,459,880 Ordinary Shares of 1p each	10,052
Share issue costs	(652)
At 31 December 2018	**23,904**

Share issue costs represent the costs of the placing, subscription and open offer undertaken in 2018.

OTHER COMPONENTS OF EQUITY

	Merger reserve £'000	Share based payment reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Total £'000
Cost					
At 1 January 2017	1,772	57	4,218	–	6,047
Share based payment charge	–	34	–	–	34
At 31 December 2017	1,772	91	4,218	–	6,081
Share based payment charge	–	34	–	–	34
Exchange differences on translating foreign operations	–	–	–	106	106
At 31 December 2018	**1,772**	**125**	**4,218**	**106**	**6,221**

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19. Share based payments

The company has granted share options to subscribe for ordinary shares of 1p each, as follows:

Grant date	Exercise price per share (pence)	Period within which options are exercisable	2018	Number of share options outstanding 2017
2 May 2014	50p	2/5/2017 to 1/5/2024	396,521	396,521
12 May 2014	50p	12/5/2017 to 11/5/2024	528,695	528,695
21 May 2014	50p	21/5/2017 to 20/5/2024	132,173	132,173
14 July 2017	50p	14/7/2020 to 13/7/2027	250,000	250,000
21 July 2017	50p	21/7/2020 to 20/7/2027	500,000	500,000
11 October 2018	42p	11/10/2021 to 10/10/2028	100,000	–
			1,907,389	1,807,389

The share options are exercisable at a price equal to the average quoted market price of the company's shares on the date of grant. The vesting period is 3 years from the date of grant and the share price must be a minimum of 60p, with the exception of the 100,000 options issued in 2018 which have a target price of 50p. The options are forfeited if the employee leaves the Group before the options vest. Details of these share options are summarised in the table below:

	2018		2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Brought forward 1 January	1,807,389	50p	1,057,389	50p
Issued in the period	100,000	42p	750,000	50p
Outstanding at 31 December	1,907,389	50p	1,807,389	50p
Exercisable at end of the period	1,057,389	50p	1,057,389	50p

No options were exercised in the period.

A share-based payment charge was calculated using the Black Scholes model to calculate the fair value of the share options. The charge of £34,000 (2017: £34,000) is included with administrative expenses.

The inputs are as follows:

	2018	2017
Closing price of Safestay plc	33.50p	51.00p
Weighted average share price	45.30p	50.00p
Weighted average exercise price	49.60p	60.00p
Expected volatility	18.00%	30.00%
Expected life	6.84 years	7.00 years
Risk free rate	0.50%	0.25%
Expected dividend yield	0.00%	1.00%

The expected volatility percentage was derived from 12 and 3 month quoted share prices to 7 February 2019.

20. Notes to the cash flow statement

	2018 £'000	2017 £'000
Loss before tax	(604)	(862)
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangible assets	1,602	1,699
Loss on sale of property, plant & equipment	74	–
Finance cost	1,648	1,833
Share based payment charge	34	34
Exchange movements	(112)	(147)
Changes in working capital:		
Decrease/(Increase) in inventory	(14)	2
(Increase) in trade and other receivables	(295)	(259)
(Decrease) in trade and other payables	(277)	(389)
Net cash from operating activities	2,056	1,911

21. Related party transactions

The Group has taken advantage of the exemption contained within IAS 24 – 'Related Party Disclosures' from the requirement to disclose transactions between wholly owned group companies as these have been eliminated on consolidation.

The remuneration of the directors, who are the key management personnel of the Group, is set out below.

	2018 £'000	2017 £'000
Directors' emoluments	381	215
Benefits in kind	–	10
Pension	7	–
Share based payment charges	34	34
	422	259

Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report.

Details of directors share options is provided in the Directors' Remuneration Report.

Notes to the Consolidated Financial Statements continued
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22. Financial instruments

Capital management

Total Capital is calculated as equity, as shown in the consolidated statement of financial position, plus debt.

The Board's policy is to maintain a strong capital base with a view to underpinning investor, creditor and market confidence and sustaining the future development of the business. Capital consists of ordinary shares, other capital reserves and retained earnings. To this end, the Board monitors the Group's performance at both a corporate and individual asset level and sets internal guidelines for interest cover and gearing.

The executive directors monitor the Group's current and projected financial position against these guidelines. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

	2018 £'000	2017 £'000
Share capital	647	342
Share premium account	23,904	14,504
Merger reserve	1,772	1,772
Retained earnings	(2,836)	(1,929)
Share based payment reserve	125	91
Revaluation reserve	4,218	4,218
Translation reserve	106	–
Bank loans	18,389	18,503
Finance lease obligations	21,204	21,228

The Group has no externally imposed capital requirements.

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in note 1 to these financial statements and in the tables below:

Categories of financial instruments

At 31 December 2018, the Group held the following financial assets:

	2018 £'000	2017 £'000
Trade and other receivables	907	903
Cash and cash equivalents	9,859	4,504
	10,766	5,407

At 31 December 2018, the Group held the following financial liabilities:

	2018 £'000	2017 £'000
Bank loans (note 15)	18,389	18,503
Finance leases (note 16)	21,204	21,228
Trade and other payables (note 14)	2,233	809
Derivative financial instruments	–	13
	41,826	40,553

All financial liabilities are measured at amortised cost (2017: £13,000 financial instrument held at fair value through profit or loss).

The carrying amounts of the Group's bank loans and overdrafts, lease obligations and trade and other payables approximate to their fair value.

Financial Liability Movements

	Long term borrowings £'000	Short term borrowings £'000	Lease liabilities £'000	Total £'000
At 1 January 2018	17,990	168	21,228	**39,386**
Cash flows				
Repayment of bank loans	–	(304)	–	**(304)**
Repayment of lease liabilities	–	–	(960)	**(960)**
Loan acquired in business combination	95	94	–	**189**
Non-cash				
Reclassification	(313)	313	–	**–**
Imputed interest and amortisation of fees	–	82	936	**1,018**
At 31 December 2018	**17,772**	**353**	**21,204**	**39,329**
At 1 January 2017	13,906	3,489	10,229	27,624
Cash flows				
Repayment of bank loans	(14,111)	(3,489)	–	(17,600)
Repayment of lease liabilities	–	–	(960)	(960)
Proceeds received	18,400	–	11,420	29,820
Loan and refinancing fees	–	–	(375)	(375)
Non-cash				
Reclassification	(168)	168	–	–
Imputed interest and amortisation of fees	(37)	–	914	877
At 31 December 2017	17,990	168	21,228	39,386

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Financial risk management

The Group's financial instruments comprise bank loans and overdrafts, finance leases, cash and cash equivalents, available-for-sale investments, derivative financial instruments and various items within trade and other receivables and payables that arise directly from its operations.

The main risks arising from the financial instruments are credit risk, interest rate risk and liquidity risk. The board reviews and agrees policies for managing these risks which are detailed below.

Credit risk

The principal credit risk arises from bookings where the customer does not show up and the beds cannot be resold. The terms and conditions of any future booking received in advance requires the payment of a 10% deposit which is non-refundable. This policy ensures that the risk of customers not fulfilling their booking is reduced.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings at variable rate expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

Liquidity risk

All of the Group's long-term bank borrowings are secured on the Group's property portfolio. If the value of the portfolio were to fall significantly, the Group risk breaching borrowing covenants. The board regularly review the Group's gearing levels, cash flow projections and associated headroom and ensure that excess banking facilities are available for future use.

Interest rate risk management

The Group is exposed to interest rate risk on its borrowings, which is at an interest rate of 2.45% above the London inter-bank offer rate (LIBOR) shown in the table below. The Group carefully manages its interest rate risk on an ongoing basis.

Interest rate sensitivity

The sensitivity analysis in the paragraph below has been determined based on the exposure to interest rates for all borrowings subject to interest charges at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the statement of financial position date was outstanding for the whole year. A 0.25% increase or decrease is used when reporting interest rate risk internally to key management and represents management's assessment of the reasonably possible change in interest rates.

Based on bank borrowings, at 31 December 2018, if interest rates were 0.5% higher or (lower) and all other variables were held constant, the Group's net profit would increase or decrease by £91,000 (2017: £35,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Credit risk management

Credit risk refers to the risk that counterparties will default on its contractual obligations resulting in financial loss to the Group. Customers' bookings received in advance are made with a 10% non-refundable deposit to reduce the risk of lost revenue from a cancellation. The Group is not exposed to any other material credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors. The board manages liquidity risk by regularly reviewing the Group's gearing levels, cash flow projections and associated headroom and ensuring that excess banking facilities are available for future use. All of the Group's long-term bank borrowings are secured on the Group's property portfolio.

Liquidity and interest risk analysis

The following tables detail the Group's remaining contractual maturity for its all financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay including interest.

	Less than 1 year £'000	1-2 years £'000	3-5 years £'000	Later than 5 years £'000	Total £'000
Variable interest rate borrowings	949	938	18,206	–	**20,093**
Fixed interest rate borrowings	73	30	65	–	**168**
Finance leases payments	960	960	2,880	43,955	**48,755**
	1,982	1,928	21,151	43,955	**69,016**

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

23. Fair values of non-financial assets

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2018				
Freehold Property	–	–	2,617	**2,617**
Leasehold Property	–	–	42,104	**42,104**
	–	–	44,721	**44,721**
2017				
Freehold Property	–	–	2,422	2,422
Leasehold Property	–	–	42,686	42,686
	–	–	45,108	45,108

The group's freehold and leasehold property asset is estimated based on appraisals performed by independent, professionally qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation process and fair value changes are reviewed by the directors at each reporting date.

At 31 December 2018 no adjustment to the fair value of leasehold properties was required.

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24. Business combinations

See accounting policy in note 1.

On 7 March 2018, the Group acquired its third hostel in Barcelona for a consideration of £2.2m, of which £0.62m was paid at acquisition; the balance is due in 4 annual instalments and is recognised as a Balance Sheet liability at its discounted rate. The transaction has been treated as a business combination as the hostel was operational at the point of purchase.

On 1 October 2018, the Group acquired the trade of a hotel in Vienna, Austria for £nil consideration. The staff, customer listing and supply chain was transferred from the existing operator. Simultaneously, the Group entered into a lease with the property owner for a period of 20 years.

On 10 October 2018, the Group purchased 100% of the shares of Arcadie SA, an entity incorporated in Belgium. Consideration for the operator of Hotel Opera in Brussels totalled £1.16m. Following acquisition, the hotel immediately commenced trading as Safestay Brussels.

	Barcelona	Vienna	Brussels	2018	2017
Number of sites purchased				3	5
	£'000	£'000	£'000	£'000	£'000
Provisional fair value					
Property, plant & equipment	415	–	163	**578**	598
Intangible assets	–	–	–	**–**	401
Current assets	55	61	12	**128**	156
Cash	–	–	–	**–**	470
Debt	–	–	(189)	**(189)**	–
Deferred revenue, trade & other payables	(51)	(61)	(151)	**(263)**	(442)
Deferred tax	–	–	–	**–**	(100)
Goodwill	1,770	5	1,334	**3,109**	6,685
Consideration					
Cash paid on acquisition	617	5	1,169	**1,791**	7,768
Deferred payments	1,572	–	–	**1,572**	–
Total Consideration	2,189	5	1,169	**3,363**	7,768

Goodwill recognised on each acquisition reflects the future growth of the group and represent the first stage in establishing a pan-European network of Safestay Hostels. All goodwill acquired has been allocated to a cash generating unit.

The Board reviewed each business on acquisition for its separately identifiable assets:

1) **Brand** – the hostels were purchased from two selling entities, each with a large portfolio of hostels that are continuing to trade under their original brand names. For this reason, management do not attribute the future earnings to the brands purchased; the key asset purchased is the future potential of each hostel as operated under the Safestay management team, and as an extension of the existing Safestay portfolio.

2) **Advanced deposits** – each acquisition resulted in the purchase of advanced deposits taken under previous management that would result in potential sales whilst under Safestay control. The Board quantified the value of contracted sales under their original terms of sale and found the contracts to be immaterial at acquisition.

3) **Property, plant and equipmen**t – the Board reviewed the asset registers of each entity and performed an impairment of each. The book value of assets was agreed to represent the fair value of each asset class.

4) **Intangible assets** – the Board reviewed the agreements with customers and found no intangible assets for capitalisation.

The group incurred acquisition costs of £0.118 million on legal fees and due diligence costs. These have been charged to operating exceptional items in the Consolidated Income Statement.

The acquisitions have contributed the following revenue and operating profits to the Group in the year ended 31 December 2018 from the date of acquisition:

	Barcelona £'000	Vienna £'000	Brussels £'000
Revenue	1,696	305	241
Operating profit	40	81	62

It is not practicable to identify the related cash flows, revenue and profit on an annualised basis as the months for which the businesses have been controlled by Safestay are not indicative of the annualised figures.

The pre-acquisition trading results are not indicative of the trading expectation under Safestay's stewardship; the Group deployed its Property Management System and digital marketing platform, updated internal processes and undertook a light re-branding exercise in each new property in the year ended 31 December 2018.

25. Operating leases

The Group's leases are all in Europe and provide for periodic rent reviews in line with inflation, and enjoy statutory rights to renewal on expiry. Generally, they do not contain conditions to rent escalation, rights to purchase, concessions or other material provision of an unusual mature.

Total future minimum lease rental payments under non-cancellable leases as follows:

	2018 £'000	2017 £'000
Due after one year	**2,180**	1,359
Between one and five years	**4,094**	4,695
After five years	**2,402**	5,481

26. Post reporting date events

As disclosed in the 2017 Annual Report, the Group underwent refinancing on its Edinburgh and Elephant & Castle locations in March 2017, receiving proceeds of £5.32 million and £6.1 million respectively.

The transaction included receipt of additional consideration of £1.18 million upon completion of extension works to the Elephant & Castle location in February 2019; a milestone that was reached on 20 January 2019.

No further adjusting or significant non-adjusting events have occurred between the 31 December reporting date and the date of authorisation.

Company Statement of Financial Position
31 December 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	2	12,658	12,952
Investments	3	6,591	7,756
Total non-current assets		**19,249**	**20,708**
Current assets			
Trade and other receivables	4	24,947	22,389
Cash at bank and in hand		8,706	854
Total current assets		**33,653**	**23,243**
Total assets		**52,902**	**43,951**
Current liabilities			
Loans and overdrafts	6	279	168
Finance lease obligations	7	38	36
Trade and other payables	5	8,643	5,265
Total current liabilities		**8,960**	**5,469**
Non-current liabilities			
Bank loans and convertible loan notes	6	17,677	17,885
Lease obligations	7	10,122	10,159
Total non-current liabilities		**27,799**	**28,044**
Total liabilities		**36,759**	**33,513**
Net assets		**16,143**	**10,438**
Equity			
Share capital	8	647	342
Share premium account	9	23,904	14,504
Merger reserve		1,772	1,772
Share based payment reserve		125	91
Profit and loss account		(10,305)	(6,271)
Equity attributable to the owners of the parent company		**16,143**	**10,438**

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The company's loss for the period was £4,034,000 (2017: £2,859,000)

These financial statements were approved by the Board of Directors and authorised for issue on 9 April 2019.

Larry Lipman
Chairman
9 April 2019

Company Statement of Changes in Equity
31 December 2018

	Share Capital £'000	Share premium account £'000	Merger Reserve £'000	Share based payment reserve £'000	Profit and loss account £'000	Total equity £'000
At 1 January 2017	**342**	**14,504**	**1,772**	**57**	**(3,412)**	**13,263**
Comprehensive income						
Loss for the year	–	–	–	–	(2,859)	(2,859)
Total comprehensive loss	**–**	**–**	**–**	**–**	**(2,859)**	**(2,859)**
Transactions with owners						
Share based payment charge for the period	–	–	–	34	–	34
At 31 December 2017	**342**	**14,504**	**1,772**	**91**	**(6,271)**	**10,438**
Comprehensive income						
Loss for the year	–	–	–	–	(4,034)	(4,034)
Total comprehensive loss	**–**	**–**	**–**	**–**	**(4,034)**	**(4,034)**
Transactions with owners						
Issue of shares	305	9,400	–	–	–	9,705
Share based payment charge for period	–	–	–	34	–	34
At 31 December 2018	**647**	**23,904**	**1,772**	**125**	**(10,305)**	**16,143**

Company Statement of Cash Flows
31 December 2018

	2018 £'000	2017 £'000
Loss before tax	**(4,034)**	**(2,859)**
Adjustments for:		
Finance cost	1,278	1,211
Finance income	(59)	–
Share based payment charge	34	34
Depreciation	310	295
Loss on sale of property, plant & equipment	23	–
Changes in working capital:		
(Increase) / decrease in trade and other receivables	2,077	(6)
(Decrease) / increase in trade and other payables	1	(3,348)
Net cash used in operating activities	**(370)**	**(4,673)**
Investing activities		
Interest received	59	–
Investment in subsidiaries	(90)	(5,163)
(Loans to) / received from subsidiaries	–	(3,024)
Purchase of tangible fixed assets	(39)	(719)
Net cash (outflow) / inflow from investing activities	**(70)**	**(8,906)**
Financing activities		
Proceeds from new loans	–	18,400
Loan repayments	(180)	(2,760)
Proceeds from issue of share capital	10,356	–
Fees related to the issue of shares	(652)	
Amounts paid under finance leases	(660)	(660)
Interest paid	(572)	(551)
Net cash generated / (outflow) from financing activities	**8,292**	**14,429**
Cash and cash equivalents at beginning of year	**854**	**4**
Net decrease in cash and cash equivalents	7,852	850
Cash and cash equivalents at end of year	**8,706**	**854**

Notes to the Company Financial Statements
31 December 2018

1. Staff costs

The average monthly number of employees (including directors) during the period was:

	2018	2017
Administration	12	6
Directors	5	3
	17	9

2. Property, plant and equipment

	Leasehold Investment in Property £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 1 January 2017	12,793	77	12,870
Additions	655	64	719
As at 31 December 2017	13,448	141	13,589
Additions	–	39	39
Disposals	–	(48)	(48)
At 31 December 2018	**13,448**	**132**	**13,580**
Depreciation			
At 1 January 2017	327	15	342
Charge for the year	264	31	295
At 31 December 2017	591	46	637
Charge for the year	272	38	310
Released on disposal	–	(25)	(25)
At 31 December 2018	**863**	**59**	**922**
Net book value			
At 31 December 2018	**12,585**	**73**	**12,658**
At 31 December 2017	12,857	95	12,952

Notes to the Company Financial Statements continued
31 December 2018

3. Fixed asset investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2017	2,593
Additions	5,163
As at 31 December 2017	7,756
Additions	90
Designation as an intercompany loan	(1,255)
At 31 December 2018	**6,591**
Net book value	
At 31 December 2018	**6,591**
At 31 December 2017	7,756

Shares in subsidiary undertakings

The subsidiaries at 31 December 2018 and their principal activities are as follows:

Direct ownership		
WXZYZ2 Limited	Investment activities (dormant)	
Safestay (York) Limited	Property owning activities	
Safestay (Edinburgh) Limited	Property owning activities	
Safestay (Edinburgh) Hostel Limited	Hostel operation	
Safestay (Elephant and Castle) Limited	Hostel operation	
Safestay (HP) Limited	Hostel operation	
Safestay Hostels Madrid SL	Holding company (Spain)	Calle Sagasta 22, Madrid 28004
Safestay France SAS	Hostel operation (France)	11 Rue de Cambrai CS 90042, Paris
Safestay España S.L	Hostel operation (Spain)	Street Vigatans 5-9, Barcelona 08003
Equity Point Lisboa Unipessoal Lda.	Hostel operation (Portugal)	Travessa do Fala-So9, Lisbon 1250-109
Equity Point Prague, s.r.o	Hostel operation (Czech Republic)	Ostrovni 131/15 Prague, Nove Mesto 110 00
Safestay Hostel GmbH	Hotel operation (Austria)	Schubertring 6, 1010 Wien
GELS BVBA	Holding company (Belgium)	Av. Louise 209A, 1050 Brussels
Indirect ownership		
Safestay (York) Hostel Ltd	Hostel operation	
Safestay (Edinburgh) Holdings Ltd	Property owning activities	
U Hostels Albergues Juveniles S.L	Hostel operation (Spain)	Calle Sagasta 22, Madrid 28004
MREF II White Property Limited (Jersey)	Property owning activities	44 Esplanade, St Helier, Jersey, JE4 9WG
MREF II White GP Limited (Jersey)	Holding company (dormant)	44 Esplanade, St Helier, Jersey, JE4 9WG
MREF II White Limited Partnership (Jersey)	Holding company (dormant)	44 Esplanade, St Helier, Jersey, JE4 9WG
MREF II White Holdings Limited (Jersey)	Holding company (dormant)	44 Esplanade, St Helier, Jersey, JE4 9WG
U Places Spain S.L	Dormant (Spain)	Calle Sagasta 22, Madrid 28004
Arcadie SA	Hotel operation (Belgium)	Rue Grétry 53, 1000 Bruxelles

All subsidiaries are incorporated in Great Britain and registered in England and Wales unless otherwise stated.
All subsidiaries are 100% owned.

Notes to the Company Financial Statements continued
31 December 2018

4. Trade and other receivables

	2018 £'000	2017 £'000
Due within one year:		
amounts due from subsidiary undertakings	24,910	22,231
Other debtors	–	158
Other receivables and prepayments	37	–
	24,947	22,389

The amounts due from subsidiary undertakings are repayable on demand but are not expected to be recovered within the next 12 months.

5. Trade and other payables

	2018 £'000	2017 £'000
Trade payables	134	142
Amounts due to subsidiary undertakings	8,503	5,123
Other payables	6	–
	8,643	5,265

6. Bank and other finance loans

	2018 £'000	2017 £'000
Bank Loan	18,220	18,400
Loan arrangement fees	(264)	(347)
	17,956	18,053

The loan is secured on properties owned by the Group.

The bank loan is repayable as follows:

	2018 £'000	2017 £'000
Within one year	279	168
After more than one year	17,677	17,885
	17,956	18,053

7. Obligations under finance leases

	Minimum lease payments due			
	Within 1 year £'000	1 to 5 years £'000	After 5 years £'000	Total £'000
31 December 2018				
Lease payments	660	2,640	27,060	30,360
Finance charges	(622)	(2,461)	(17,117)	(20,200)
Net present values	38	179	9,943	10,160
31 December 2017				
Lease payments	660	2,640	27,720	31,020
Finance charges	(624)	(2,472)	(17,729)	(20,825)
Net present values	36	168	9,991	10,195

The Company has treated the Holland Park lease as a finance lease on the basis that the present value of the lease payments constitutes the substantial part of a theoretical freehold valuation.

The average effective borrowing rate was 6.55%. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Company's lease obligations is approximately equal to their carrying amount. The Company's finance leases disclosed above are in sterling.

8. Share capital

	£'000
Allotted, issued and fully paid	
34,219,134 Ordinary Shares of 1p each as at 1 January 2018	342
27,609,496 Ordinary Shares of 1p each issued on 17 December 2018	276
1,802,269 Ordinary Shares of 1p each issued on 17 December 2018	18
1,048,115 Ordinary Shares of 1p each issued on 17 December 2018	11
	647

At the 31 December 2018, the ordinary shares rank pari passu. There are no changes to the voting rights of the ordinary shares since the balance sheet date.

Notes to the Company Financial Statements continued
31 December 2018

9. Share premium

	£'000
Brought forward at 1 January 2018	**14,504**
Share premium received on 30,459,880 Ordinary Shares of 1p each	**10,052**
Share issue costs	**(652)**
	23,904

Share issue costs represent the costs of the placing, subscription and open offer undertaken in 2018.

10. Share based payments

The company has granted share options to subscribe for ordinary shares of 1p each, as follows:

			Number of share options outstanding	
Grant date	Exercise price per share (pence)	Period within which options are exercisable	2018	2017
72 May 2014	50p	2/5/2017 to 1/5/2024	396,521	396,521
12 May 2014	50p	12/5/2017 to 11/5/2024	528,695	528,695
21 May 2014	50p	21/5/2017 to 20/5/2024	132,173	132,173
14 July 2017	50p	14/7/2020 to 13/7/2027	250,000	250,000
21 July 2017	50p	21/7/2020 to 20/7/2027	500,000	500,000
11 October 2018	42p	11/10/2021 to 10/10/2028	100,000	–
			1,907,389	1,807,389

The share options are exercisable at a price equal to the average quoted market price of the company's shares on the date of grant. The vesting period is 3 years from the date of grant and the share price must be a minimum of 60p, except for the 100,000 options issued in 2018 which have a target price of 50p. The options are forfeited if the employee leaves the Group before the options vest. Details of these share options are summarised in the table below:

	2018		2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Brought forward 1 January	1,807,389	50p	1,057,389	51p
Issued in the period	100,000	42p	750,000	50p
Outstanding at 31 December	**1,907,389**	**50p**	1,807,389	50p
Exercisable at end of the period	1,057,389	50p	1,057,389	50p

No options were exercised in the period.

A share-based payment charge was calculated using the Black Scholes model to calculate the fair value of the share options. The charge of £34,000 (2017: £34,000) is included with administrative expenses.

The inputs are as follows:

	2018	2017
Closing price of Safestay plc	33.50p	51.00p
Weighted average share price	45.30p	50.00p
Weighted average exercise price	49.60p	60.00p
Expected volatility	18.00%	30.00%
Expected life	6.84 years	7.00 years
Risk free rate	0.50%	0.25%
Expected dividend yield	0.00%	1.00%

The expected volatility percentage was derived from 12 and 3 month quoted share prices to 7 February 2019.

11. Related party transactions

The remuneration of the Company's directors, who are the key management personnel of the Group, is set out in note 21 of the group financial statements Further information about the remuneration of individual directors and the directors share options is provided in the Directors' Remuneration Report.

UK

London Elephant & Castle
London Kensington Holland Park
Edinburgh
York

Spain

Barcelona Sea
Barcelona Gothic
Barcelona Passeig de Gracia
Mardrid

Portugal

Lisbon

Austria

Vienna

Czech Republic

Prague

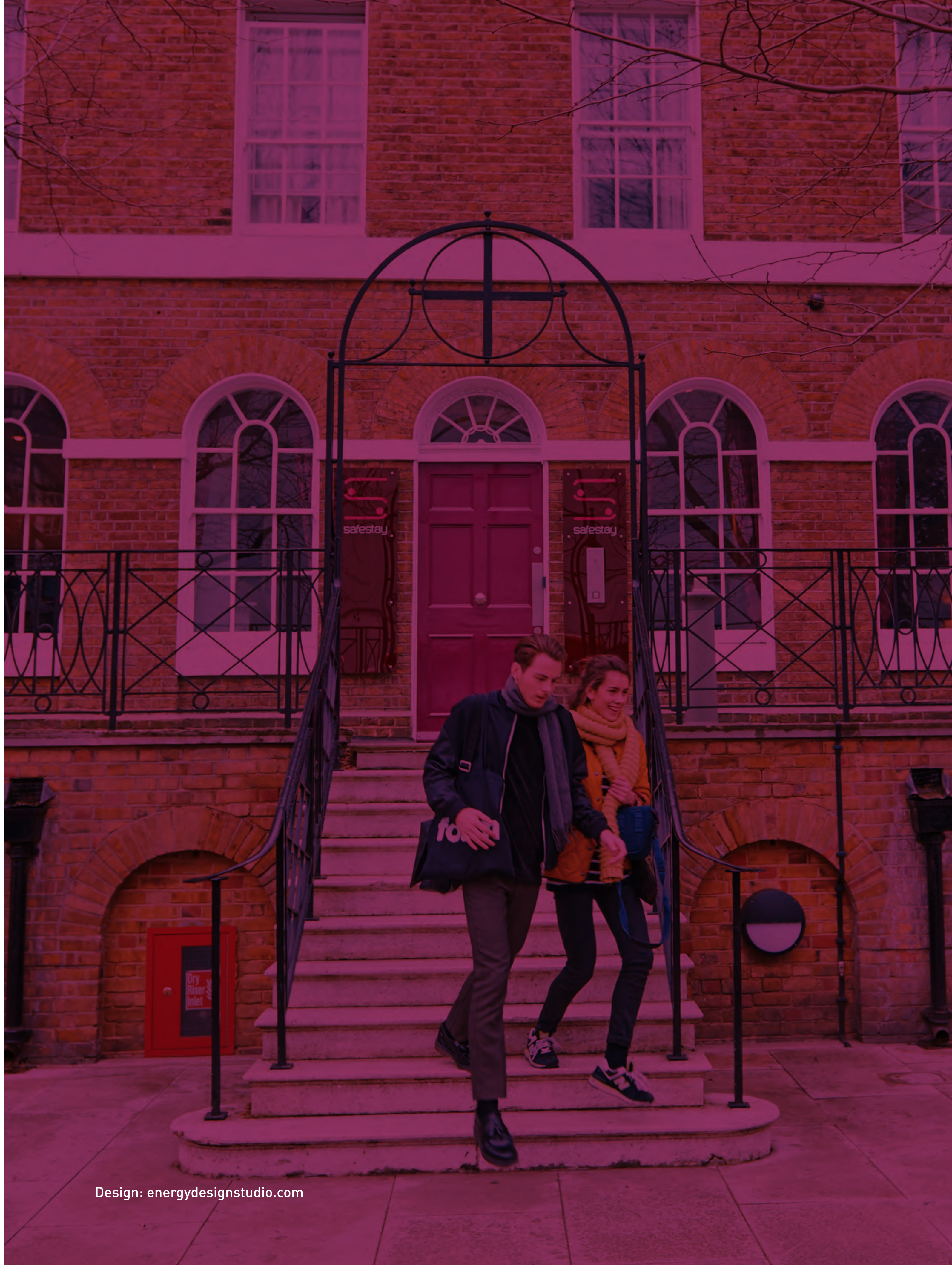
Belgium

Brussels

France

Paris (coming 2020)

safestay



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