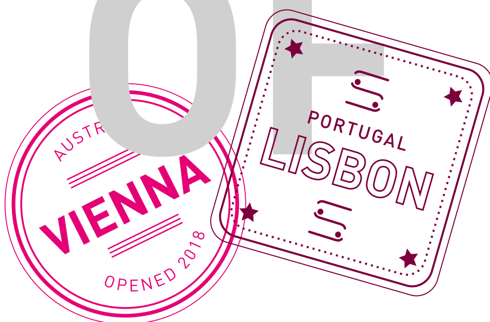
ANNUAL REPORT 2019

STAY IN A NEW KIND OF PLACE



2018–2019

Establishing Safestay as Europe's leading premium hostel network.

77.3% hostel occupancy achieved over the period.

(2018: **75.6%** occupancy)

26% growth in total revenues to **£18.4** million.

(2018: **£14.6** million)

7 new hostels increasing the total bed stock to nearly **5,000** beds in **12 countries**.

(2018: **3,200** beds)

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UK

Edinburgh

Glasgow

York

London Kensington Holland Park

London Elephant and Castle

BELGIUM

Brussels

GERMANY

Berlin

CZECH REPUBLIC

Prague

POLAND

Warsaw

SLOVAKIA

Bratislava

FRANCE

Paris

AUSTRIA

Vienna

PORTUGAL

Lisbon

SPAIN

Barcelona Passeig de Gràcia

Barcelona Gothic

Barcelona Sea

Madrid

ITALY

Pisa

Venice

GREECE

Athens

2019

From Athens to Vienna, we've redefined the hostel experience across the continent.

"In a year that saw the Safestay network almost double in size, we've transformed the hostel market, one unique space at a time. From solo stopovers to family getaways, every great trip begins – and ends – at a Safestay."

In 2014 we opened our doors to a brand-new concept in London's Elephant and Castle. Six years later, our vision of an international network of contemporary hostels has been well and truly realised, with nearly 5,000 beds across 20 properties, in 12 vibrant European cities.

2019 was a year of unprecedented expansion for the Group, with the addition of seven hostels almost doubling the Safestay network. Investments in digital have driven growth through increased direct bookings, while refurbished food and beverage offerings proved a valuable new revenue pipeline, and have significantly enhanced the customer experience.

With occupancy at an all-time high, Safestay has established itself as the brand of choice in the premium hostel market. From backpackers to business travellers, we provide an attractive and affordable option for visitors across the continent, with 2019's financial results demonstrating once again the enduring appeal of the Safestay way.

2019

Six years and counting.

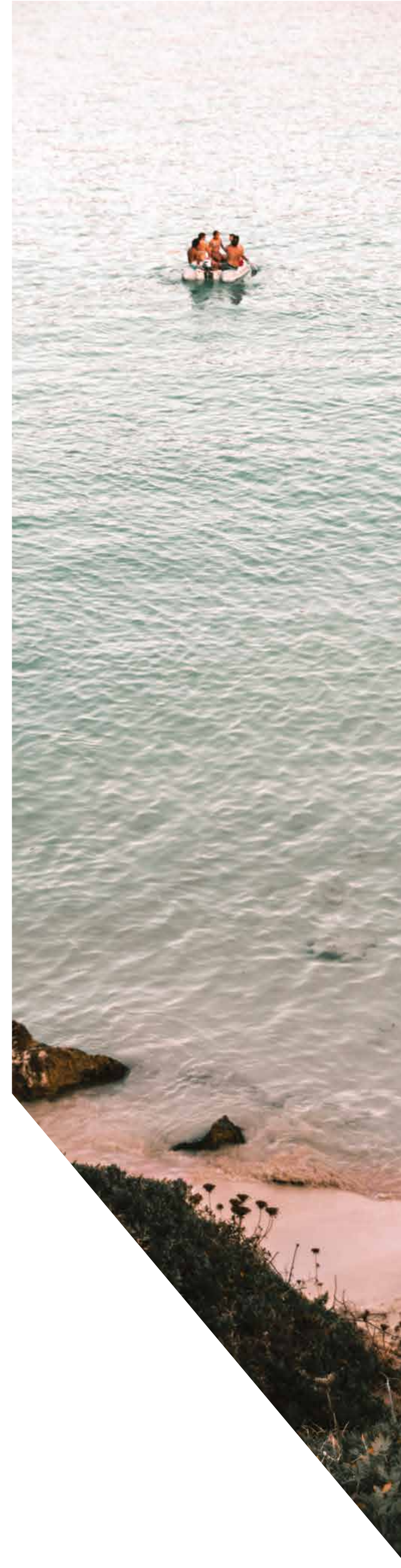
DANCING IN THE STREET
LISBON
EVENING, SEPTEMBER 5TH 2019

In **2014** we set out to create the world's first ever 'poshtel', founded on the principles of style, safety and affordability. Since opening our doors in London, we've welcomed over **2.2 million guests** to the Safestay family, added **20 hostels** and **almost 5000 beds.** From ancient ruins to modern marvels, our hostels have been the gateway to adventure and culture – our rooftop bars and balconies the backdrop for **2190 sunsets**, our communal spaces the setting for school trips, family reunions and hen parties. The Safestay team has grown exponentially, with **300 incredible members of staff** stationed across **Europe** in **12 different countries**, speaking **15 languages.** We're proud to have created a home away from home for our guests to discover new places, new experiences and new friendships.

We are Safestay.
We invented a new kind of hostel.
What's next?

2019

A year of expansion and consolidation for Safestay.



“Safestay has become synonymous with smart hostels, in even smarter locations. By identifying unique properties in ever-popular cities and emerging destinations, we’ve built a business that moves with our guests – and stands the test of time.”

+26%
Revenue from 2018
£18.4 Million

+7%
Revenue Like-for-like

+43%
F&B / £2.5 Million

+11%
EBITDA / £3.8 Million

+5.4%
Bed Rate / £21.4

2019

+39%
Revenue from 2017
£14.6 Million

2018

+43%
Revenue from 2016
£10.5 Million

2017

+84%
Revenue from 2015
£7.4 Million

2016

With the growth of the Safestay network, what was once a bold ambition is now a proven success. But while our brand has grown over the years, our approach to challenging perceptions of the hostel experience has remained the same. Style, safety, cleanliness, comfort and value for money – these principles have been the driving force behind every building we’ve transformed, and every hostel we’ve brought into the Safestay brand.

Identifying the cities with broad appeal, rich cultural offerings and vibrant economies has enabled us to target a diverse market. Families, friends, budget-conscious backpackers and savvy business travellers alike turn to Safestay hostels for our central, well-connected locations. While continual reinvestment in our excellent facilities and communal spaces keeps guests coming back, time and again.

2019 saw the Safestay network almost double in size, with six deals bringing seven new hostels into our portfolio. Expanding our reach and diversifying our offering means guests can find a Safestay in cities the length and breadth of the continent, with continental Europe now representing 49% of total sales.

In 2019 we began an ambitious renovation programme to further improve the Safestay network. £0.9 million has been invested in various projects to enhance the experience and choice for our guests. Among these improvements, Barcelona Gothic has new bathrooms and dormitories, the rooms were refreshed and the showers replaced at our Edinburgh location and we have added brand new, state-of-the-art bedrooms in York.

Following the opening of the rooftop bar in Madrid in 2018, the bars have been entirely renovated in Barcelona Passeig de Gràcia, London Elephant & Castle and Lisbon. This is part of our plan to further drive growth in the Food and Beverage segment, following 2019’s 43% increase.

"In 2019 we near doubled the number of beds across our network – giving the Safestay brand significant strategic dominance in the hostel sector."

1600 Safestay beds added in 2019, bringing our total to 4900.

2019

Driving growth through our digital platforms.

> “A multi-channel approach has been central to the digital strategy this year and has proven a key contributor to increased direct web bookings, and overall revenues of the Group.”

Our increased investment spans across multi-channel digital networks, in line with an aggressive strategy of targeting revenue contribution away from Online Travel Agents (OTAs).

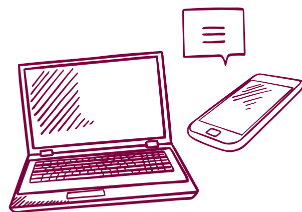
Taking a multi-channel approach has been central to the digital strategy this year and has proven a key contributor to increased direct web bookings, and overall revenues of the Group. This resulted in a 20% increase in direct revenue contribution whilst maintaining a 10% acquisition cost. Throughout the year, we've taken a growth hacking approach to every new tactic deployed - not least to all Safestay-owned platforms, but to all third-party managed platforms too. This helped identify, test and expand the Safestay Membership and direct revenue contribution across multiple digital networks.

In early 2019 we made a significant change to our website and in particular, our booking engine. These changes allowed us to take a more customer-focused approach – in a very similar way to OTAs, who constantly test and enhance the user experience, based on actual user interaction data. Through data-driven insights we were able to set out a clear aspirational design vision, with better navigation and improved functionality. With the ability to quickly launch new features, test, iterate and improve, we saw a 25% increase in conversion rate and 49% increase in direct website revenue, with total digital activity converting at 14x ROI.

In order to target and shift the historic OTA contribution to total revenue it was imperative that we capture and utilise our guest data effectively. This is typically masked by the OTAs when passed through into any property management system. We created the Safestay Membership to provide discounts as a key driver for our guests, in exchange for data capture. One such example was the creation of a WiFi Ad platform across our hostel network. This allowed us to monetise the free service and direct guests towards our own website to make repeat bookings, converting at over 9%.

To compete better with OTAs we also increased investment in digital ads for better price comparison visibility. This typically happens through the vertical search funnel, from OTAs through to Google, and in particular Google Hotel Ads (meta-search) and AdWords (which grew in conversion value at over 70%).

Behind the scenes, our ongoing investment in a customised reporting solution alongside Geniefacts BVBA, has led to greater data-driven insights. Coupled with CloudBeds (the centralised property management system we've been using for the last three years), this has enabled the successful, swift integration of our new acquisitions. With sites made operational and brought online quickly, they can immediately benefit from the Group's economies of scale, experience and established digital systems.



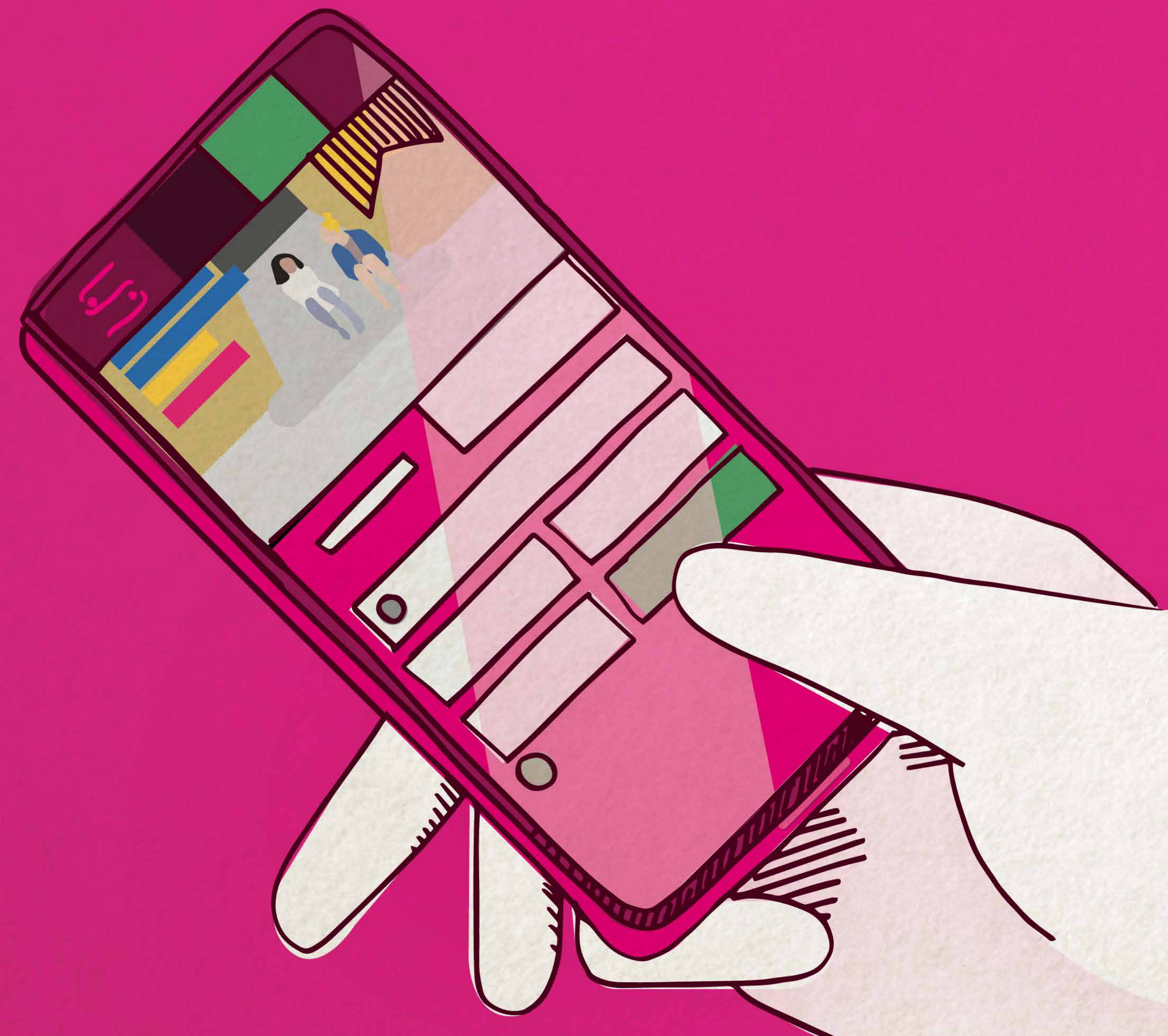
Increase in direct revenue
+20%

Increase in web sales revenue
+49%

Increase in conversion rate
+25%

Bookings via hostel WiFi
9% conversion

Google Ads conversions
70%



2019

A word from our Safestay family around the world.

Safestay Prague

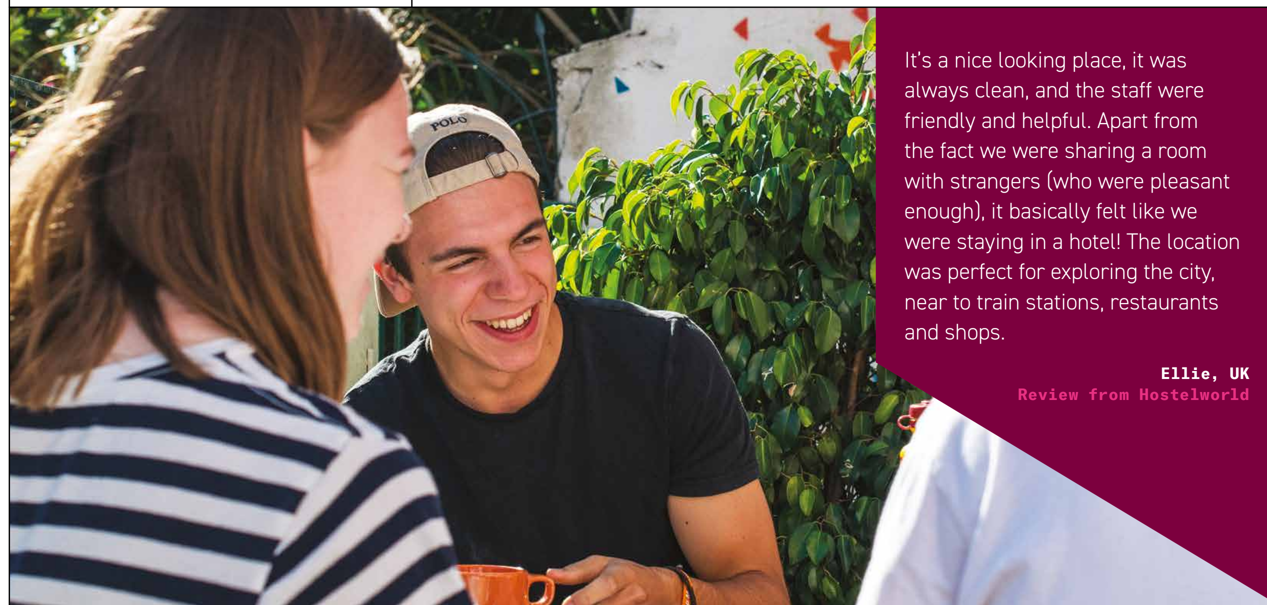
High quality service, clean and attentive. Definitely recommend!

I'd definitely recommend this hostel. The service is of high quality both for cleanliness or support of residents. They did early check-in at my request and kept my luggage after check-out till I was ready to depart later that night. Thanks Safestay!

Lucia, USA
Review from Google

Safestay Lisbon

Would highly recommend - it was one of the cheaper options but you wouldn't know!



It's a nice looking place, it was always clean, and the staff were friendly and helpful. Apart from the fact we were sharing a room with strangers (who were pleasant enough), it basically felt like we were staying in a hotel! The location was perfect for exploring the city, near to train stations, restaurants and shops.

Ellie, UK
Review from Hostelworld

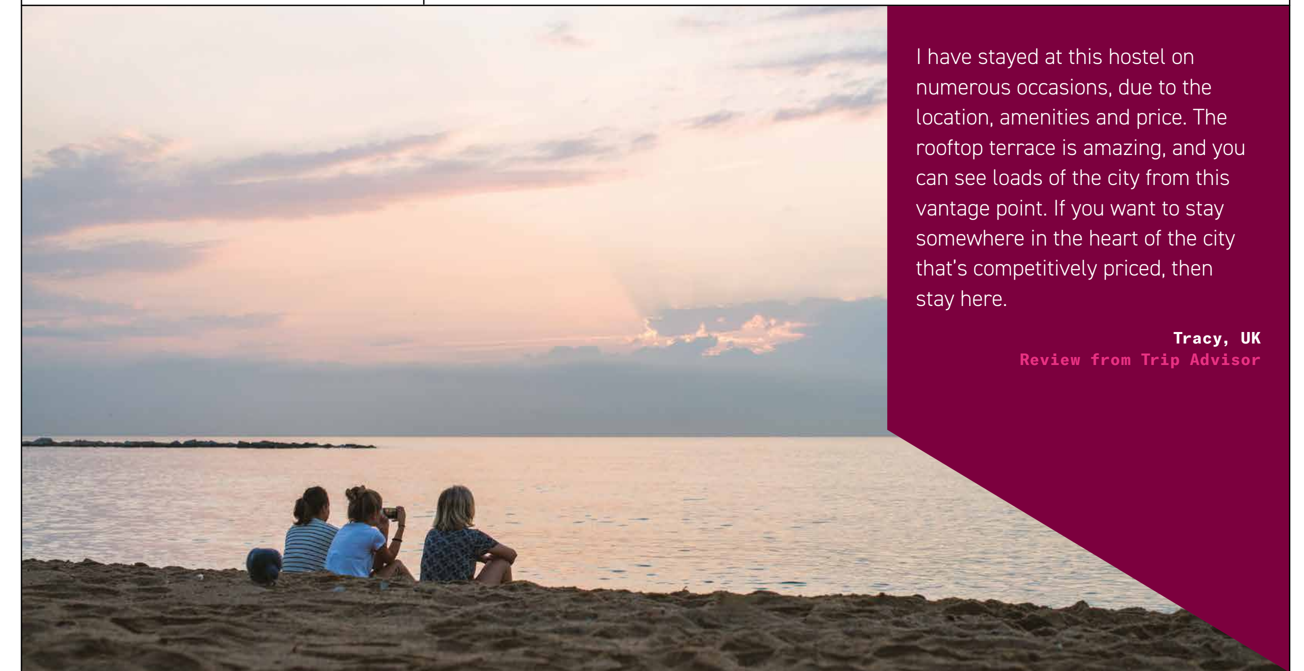
> "Safestay York: Staff very helpful. Location is great and breakfast was delicious! We will definitely be back."

Andrew, Australia, review from Trivago

All reviews sourced relevant to stays from March 2019-2020.

Safestay Barcelona Passeig De Gràcia

Great location, great rooftop terrace and a great price.

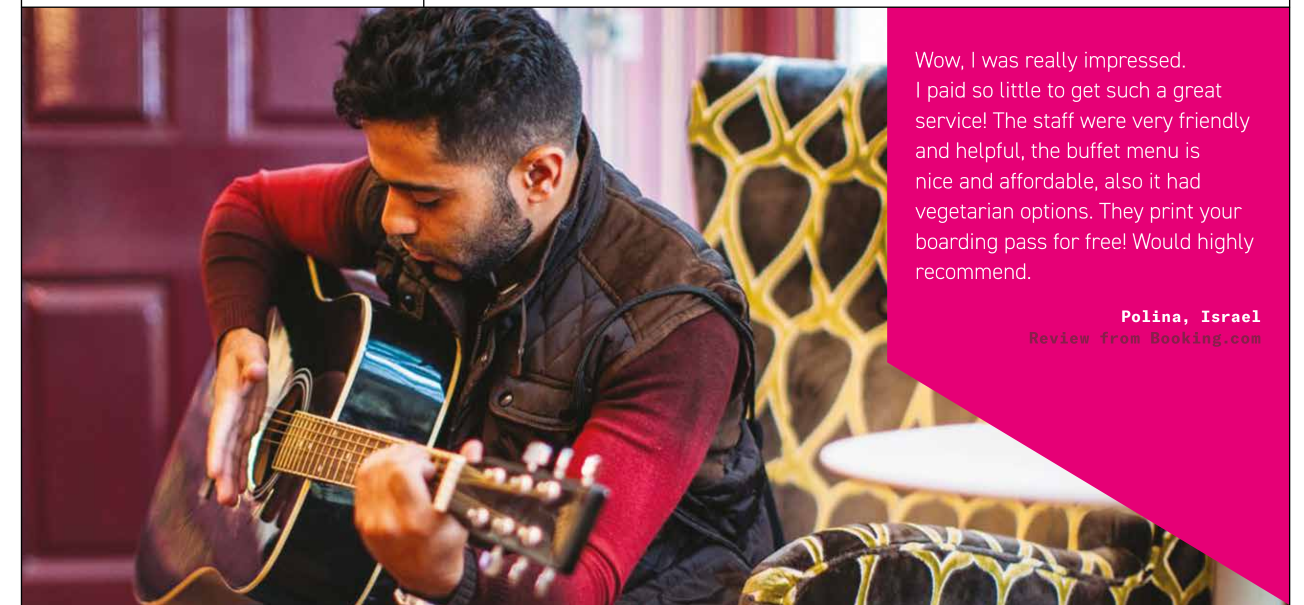


I have stayed at this hostel on numerous occasions, due to the location, amenities and price. The rooftop terrace is amazing, and you can see loads of the city from this vantage point. If you want to stay somewhere in the heart of the city that's competitively priced, then stay here.

Tracy, UK
Review from Trip Advisor

Safestay Pisa

Above and beyond to make my stay as comfortable as possible, I was really impressed.



Wow, I was really impressed. I paid so little to get such a great service! The staff were very friendly and helpful, the buffet menu is nice and affordable, also it had vegetarian options. They print your boarding pass for free! Would highly recommend.

Polina, Israel
Review from Booking.com

43%

Growth in Food & Beverage revenues in 2019, now representing 14% of total revenues.

“From breakfast buffets to rooftop beers, great food and drink has always been at the heart of the Safestay experience – and our growth strategy.”

2019 Chairman's Statement

Introduction

I am pleased to present the results for the year to 31 December 2019 which showed the Group performing strongly. Our strategy was to expand our network whilst improving underlying profitability and investing behind our premium hostel positioning. I believe our 2019 results illustrate our success with total revenues increasing by 26% against 2018.

We would normally focus this report on reviewing the Company's trading performance in 2019, however, given the impact of COVID-19, we have instead begun with a review of the actions we have the taken to protect Safestay, and the plans we are making to successfully re-open our portfolio of hostels and also potentially capitalise on any opportunities that arise.

Response to COVID-19

In line with the hospitality industry globally, all our hostels have been closed since 1 April 2020. The majority of our hostel staff have been furloughed, receiving financial support from the governments in their respective countries and the Company has taken advantage of government reliefs where available. Operational costs associated with the running of the individual sites and our head office have been greatly reduced. Individual agreements have been reached with landlords involving a mix of suspension of rents or rent reductions for a limited period. As a result, the monthly cost base of the Group has been significantly lowered to approximately £0.6 million, of which half relates to payments which can be temporarily deferred.

To support our financial ability to manage the crisis, we agreed an additional £5 million overdraft from HSBC which together with our cash reserves will enable us to fund liquidity requirements during this lockdown period and for us to be well positioned to re-open as restrictions are lifted and as and when we believe they can be profitable.

Our re-opening plans will be staggered over the course of 2020, subject to the restrictions in each market and look to initially focus on just domestic customers while international travel remains limited. Under the slogan, 'Stay Safe at Safestay' the priority will be to inform guests of the safety measures that will be in place. Check-in will be completed via WhatsApp, hand sanitiser gel, masks and gloves will be made available, common

rooms including the restaurant areas will be closed, breakfasts will instead be served in boxes. A substantially increased cleaning rota will be introduced and no shared rooms will be sold, and instead rooms will be sold to individuals or groups who are known to each other.

With this as a starting point, the hostels will adapt their operating structures according to market conditions over the course of 2020 with the emphasis on matching operational costs with income. It will require flexibility and careful monitoring across all our markets.

Material uncertainty which may cast significant doubt regarding the Company's ability to trade as a going concern has resulted from the impact of the COVID-19 virus on the economy and the hospitality industry. The Directors' Report and Strategic Report elaborate on the position of the Company regarding going concern, and the measures introduced before and after the re-opening of the hostels to protect our clients, employees and the Company. We believe that Safestay has the infrastructure in place to manage the re-engagement and that ultimately, we will find the route to returning our portfolio of hostels to pre-COVID-19 levels.

80% of the hostel market is made up of small operators (1-5 hostels) who are currently being put under severe financial pressure due to the pandemic. It is inevitable there will be closures and distressed sales as a result and there may well be opportunities for Safestay to benefit.

Financial Results

Revenue

Group revenue for the financial year ended 31 December 2019, increased by 26% to £18.4 million (2018: £14.6 million). £9 million coming from non-UK properties, a 43% increase over last year (2018: £6.2 million) reflecting the additional contribution from the openings of Vienna, Brussels and Barcelona Passeig De Gràcia in 2018 and the opening of Pisa, Glasgow and Berlin in 2019.

The Like for Like (LFL) growth, which only compares performances of hostels opened during the same period, is 7%. This breaks down into LFL Room revenue which progressed by 4% in the period, and a very strong improvement in LFL Food and Beverage (F&B) revenues, up 23%. Contribution from our bars and restaurants benefited from the efforts of the team to tap into this additional revenue source, and from the renovation of the bars in Barcelona, Elephant & Castle and Edinburgh. With the full renovation of the bar in Lisbon and the conversion of the Glasgow, Berlin, Vienna and Brussels hotels into hostels in 2020, we expect this trend to continue going forward.

Larry Lipman, Chairman of the Company, commenting on the results said:

"2019 was a transformational year for Safestay. We added 7 new hostels increasing our number of sites to 20 making us a leading premium hostel operator in Europe. Our financial performance reflected this expansion with revenues up 26% and while we also made a good start to trading in 2020, the sudden spread of COVID-19 has meant we have had to adapt quickly to an unexpected phase.

We secured the financial stability of the business and we are now working on our plans to re-open our hostels on a staggered basis, over the course of 2020, as and when we believe they can be profitable. Our focus is on ensuring the safety of our guests, initially targeting the domestic markets in each country, and then looking to gradually return to normal trading patterns.

Navigating the re-engagement of the business will require us to be highly flexible as we test and match demand in individual markets. However, we are confident of being able to do this, while making sure that we balance increased operational cost with increased income. From an industry perspective, the hostel market is highly fragmented with a large number of small operators who are under pressure as a result of the pandemic and this may well create unique opportunities for Safestay."

2019 Chairman's Statement continued

Adjusted EBITDA

Adjusted EBITDA provides a key measure of progress made. Adjusted EBITDA for the year to December 2019 was £6.1 million, and £3.8 million pre-IFRS 16 adjustment (2018: £3.4 million).

The Group has implemented the newly introduced IFRS 16 standard (Lease accounting) and decided to opt for the modified approach which does not require restatement of comparative periods. The introduction of the standard means that we are changing the way we report the charges in relation to leaseholds in our consolidated statement of income. The rental expense (£2.2 million) is replaced with an interest charge (£0.8 million) and depreciation of the leased asset (£1.9 million). The adjusted EBITDA post-IFRS 16 is £6.1 million in 2019 and would have been £5.1 million in 2018 on a comparable basis.

Adjusted EBITDA is as follows:

	2019 £'000	2018 £'000
Operating Profit (Pre-IFRS 16)	**1,541**	**1,044**
Add back:		
Depreciation (Pre-IFRS 16)	1,458	1,421
Amortisation	188	181
Loss on disposal of fixed assets	0	74
Exceptional expenses	585	662
Share based payment expense	34	34
Adjusted EBITDA (pre-IFRS 16)	**3,806**	**3,416**
Rent	2,248	1,709
Adjusted EBITDA (post-IFRS 16)	**6,054**	**5,125**

The exceptional expenses totalled £0.6 million and included essentially costs in relation to acquisitions made in 2019.

Finance costs

Finance costs in 2019 were £2.6 million (2018: £1.6 million). There has been no significant change since 2017 when the Group signed a five-year £18.4 million secured bank facility with HSBC and entered a Land Sale and Lease back with two properties, in London and Edinburgh. These two leases have been accounted for as finance leases since 2017, under IAS 17. Our lease at Kensington Holland Park has also been accounted for as a finance lease since 2017, under IAS 17.

However, the introduction of IFRS 16 from 1 January 2019 means that the finance costs now include the interest resulting from the retreatment of the rental charge for operating leases, which is replaced with interest and depreciation. In 2019, the finance costs therefore include £0.8 million of interest in relation to IFRS 16 which explains a substantial portion of the year on year variance.

Earnings per Share

Basic loss per share for the year ended 31 December 2019 was 1.48p (2018: loss 2.56p) based on the weighted number of shares, 64,679,014 (2018: 35,387,458) in issue during the year. The total number of shares in issue was increased in December 2018 following a 30,459,880 share issue.

Despite being cash generative, the Company is making a £1 million net loss in 2019. This loss includes a £0.4 million negative adjustment (0.67p per share) for IFRS 16.

Cash flow, capital expenditure and debt

Net cash generated from operations was £5.2 million, or £3 million pre-IFRS 16 (2018: £1.8 million). The increase in cash from the hostels was partly offset by a £0.2 million increase in central costs. The increase in central costs has significantly reduced versus 2018 when the Group had made significant investments into the central teams and systems to build a scalable platform to support the growth in the network. The Group had cash balances of £3 million at 31 December 2019 (2018: £9.9 million). The cash balance at 31 December 2019 included £10.4 million from the share issue completed in December 2018. This cash was deployed in expanding the hostel network in 2019 as follows:

Completed acquisitions in 2019:

- £3 million was invested in June in the acquisition of a freehold of an existing 171 bed hostel in Pisa.
- £3.3 million was invested in October in the acquisition of a freehold of an existing 52 bedroom hotel in Glasgow. This property was converted into a 200 bed hostel in the first quarter of 2020.
- £1.1 million was invested in November in the acquisition of a leasehold of an existing 32 bedroom hotel in Berlin. This property will be converted into a 171 bed hostel.

In 2019, the Group also announced two projects which were exchanged in 2019 but completed in 2020:

- £1.3 million was invested in January 2020 in the acquisition of a leasehold of an existing 132 bed hostel in Athens.
- £2.3 million was invested in January 2020 in the acquisition of two leaseholds of two existing hostels in Warsaw (158 beds) and Bratislava (124 beds). These hostels were both acquired from the same owner, Dream Management Group Ltd.

> "Safestay's product and service offer is of a very high standard, with guest satisfaction scores achieving 80 (out of 100) in 2019."

Safestay also announced the agreement to enter a Joint Venture to acquire a freehold of a vacant property in Venice for £3.8 million. The property will be converted into a 660 bed hostel at an estimated cost of £7 million and will be leased to Safestay upon completion.

The Group completed the extension of the London Elephant & Castle property adding a further 73 beds. The project completed in January 2019 at a total cost of £2.4 million of which only £0.3 million was invested in the period ending December 2019. In line with the property refinancing agreement signed in 2017, on completion Safestay received £1.18 million back from the landlord.

From the beginning of 2019, the Group has set aside a capex fund to invest in a continuing programme of renovation and upkeep across the portfolio. In this context £0.9 million was invested in various improvement projects such as the showers and restaurant in Lisbon, the restaurant in Barcelona Passeig de Gràcia, the bathrooms and guestrooms in Barcelona Gothic and the beds and showers in Edinburgh.

Outstanding bank loan was £17.7 million (2018: £18.1 million). This includes a £17.9 million loan with HSBC (2018: £18.2 million), minus the £0.2 million amortised loan fees (2018: £0.3 million). The finance lease obligations already recognised under IAS 17 in 2018 amount to £22.4 million (2018: £21.2 million) following the £1.2 million contribution of our landlord in London Elephant & Castle to the extension of the building in 2019. We have also recognised an additional £25.8 million liability in relation to leases retreated under IFRS 16 since 2019. This results in a £65.8 million debt at 31 December 2019 (2018: £39.3 million). The gearing ratio (inclusive of obligations under finance lease) has reduced from 141% in 2018 to 111% in 2019. The Company is fully compliant with the HSBC debt covenants as at 31 December 2019: The historic (595%) and projected (696%) interest cover as well as the historic (369%) and projected (427%) debt service cover are all significantly in excess of the minimum covenant ratios (175% for the interest cover and 150% for the debt service cover).

Net asset value per share increased to 56p (2018: 43p) as a result of the increase in the valuation of the London Elephant & Castle property to £26.8 million, up by £10.8 million since the last valuation performed in 2017.

Operational Review

Since establishing its first hostel, Safestay has been achieving a 57% CAGR (Compounded Average Annual Growth Rate) in revenues in five years. It is clear that the Safestay model, which was originally developed in the UK, is well suited to the rest of the European market. Since the acquisition of four hostels in Spain, Czech Republic and Portugal in 2017, Safestay has entered seven more countries with the openings of Brussels and Vienna in 2018, Pisa, Glasgow and Berlin in 2019 and Athens, Warsaw and Bratislava in 2020.

Safestay's product and service offer is of a very high standard, with guest satisfaction scores achieving 80 (out of 100) in 2019. High guest satisfaction is a fundamental pillar of the Safestay brand experience. To this end, the Company invested £0.9 million in capex improvement works across the portfolio in 2019. We had started a £1 million under the capex programme in 2020 before COVID-19 forced us to review our capex plans, and the situation will be reassessed when the situation improves.

In 2019, a primary focus was to capitalise on our investment in a dynamic revenue management system and revenue team, aimed at increasing our revenue per available bed. It is therefore pleasing to see that occupancy has increased to 77.3% (2018: 75.6%) whilst average rates have also increased to £21.4 (2018: £20.3). The occupancy levels are similar in the UK (77.9%) and Europe (76.8%), both increasing versus 2018, and reflect the strategy to focus on operating properties in central locations which benefit from strong and resilient demand. The increase in bed rate is not only attributable to the effort of the revenue management team, but also from the fact that some properties have been operating as hotels in 2019 pending conversion to becoming hostels in 2020, therefore attracting a higher rate.

It was also pleasing to see that the revenue generated directly via our website increased by 50% in 2019 to reach 9% of the total room revenue. Reflecting a 34% increase in website traffic, combined with a 4.3% conversion to booking (2018: 3.5%). More specifically, the contribution from our website was 12% of total room revenue in the last five months of the year after the completion of a website refresh.

We are still targeting a revenue split of 40% from a broad range of group bookings, 20% from direct individual bookings and 40% through Online Travel Agencies ('OTAs'). Thereby spreading our revenue generation beyond OTA's to the higher margin direct and group bookings.

Following the recent acquisitions in continental Europe, almost half of all revenues now come from European properties. The spread of locations across tourist cities in Europe, positions Safestay uniquely and provides the opportunity to offer young travellers and groups visiting Europe, accommodation in multiple cities in one packaged deal. In addition, it provides Safestay with a natural hedge against currency volatility.

2019 Chairman's Statement continued

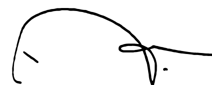
EBITDA margins in Like for Like hostels have improved from 39.8% to 40.1% where the reduction in payroll costs (reducing by 6% per unit sold) were partly offset by an increase in maintenance and utility costs. The overall Hostel EBITDA margin (pre-IFRS 19) reduces from 36.9% to 32.9%. This is partly due to the change in the mix in revenues originating from leasehold versus freehold properties between 2018 (46% from leasehold in 2019 versus 42.6% in 2018). This is also due to the fact some of the properties acquired in 2018 and 2019 (Brussels, Glasgow, Vienna and Berlin) were still operated as hotels in 2019 and have not yet benefited from operational efficiencies which will arise when fully converted to hostels in 2020.

Outlook

Safestay has been at the forefront of the modernisation of the hostel market over the last five years. Our strategy is to offer a comfortable and safe stay in beautiful, often iconic buildings that are centrally located, in well-known and popular cities but still with an expected bed rate of £20. This has proven to be a successful formula and one which we believe will continue to appeal to our customer base again once the world gets past the current crisis.

Safestay has put in place measures to minimise losses whilst our hostels remain closed and we have been very focused on developing flexible plans to manage a staggered re-opening as restrictions are lifted. We are not providing guidance on the Company's trading performance for 2020 as there are too many unknown factors, not least the point at which we will be allowed to re-open our sites.

Our teams remain in place and while it will take time to re-build our bookings to pre-COVID-19 levels, we are confident of being able to do so and perhaps also taking advantage of corporate opportunities that will arise from this crisis.



Larry Lipman
Chairman
28 May 2020

2019 Financial Highlights

Total revenues increased by 26% to £18.4 million (2018: £14.6 million) with like for like sales up 7%.

49% or £9 million of net revenue now coming from mainland Europe versus 43% in 2018 (£6.2 million).

77.3% occupancy achieved over the period, up from 75.6%, reflecting good demand.

5.4% increase in average bed rate to £21.4 (2018: £20.3).

Adjusted EBITDA of £6.1 million and £3.8 million pre-IFRS 16 adjustments (2018: £3.4 million).

Loss before tax of £0.6 million and £0.2 million pre-IFRS 16 adjustments (2018: £0.6 million).

Loss per share 1.48p (2018: loss of 2.56p).

2019 Operational Highlights

Transformational year with the portfolio increasing from:
- 13 to 20 hostels
- 3,200 to 4,900 beds
- 6 to 12 countries.

Added seven new properties in the key tourist cities of Pisa, Venice, Glasgow, Berlin, Athens, Bratislava and Warsaw.

43% growth in F&B revenues now representing 14% of total revenues.

50% increase in number of bookings made via the Safestay website.

£0.9 million was invested in renovation projects to maintain the premium positioning of the Safestay brand.

Elephant & Castle hostel was revalued following the 73 bed extension at £26.8 million, an increase of £10.8 million over the last valuation in 2017, which equates to an NAV increase of 16.7p per share.

Post-year end — 2020 year to date highlights

Agreed to increase debt facility from £17.9 million to £22.9 million with HSBC under the same terms as the previous facility, for a new five-year term until January 2025.

In response to COVID-19 and the temporary closure of all hostels from 1 April, the Company minimised all costs, agreed a £5 million overdraft with HSBC, utilised available government reliefs and as a result is well placed to weather the current crisis.

Management focus has switched to preparing for a staggered re-opening plan initially just targeting the domestic market in each country.

Under the re-opening plan there will be protective changes introduced to check-in, food service, cleaning rotas and the temporary closure of common spaces with no shared rooms. Instead rooms will be sold to individuals or groups known to each other.

Officers and Professional Advisers

Directors
Larry Lipman
Chairman
Nuno Sacramento
Chief Operating Officer
Hervé Deligny
Chief Finance 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
1a Kingsley Way
London N2 0FW

Company Number
8866498

Nominated Adviser and Broker
Liberum Capital Limited
Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY

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

Section 172(1) statement

The directors understand the importance of their section 172 duty, namely: to act in good faith; to promote the success of the Company; and to engage with key relevant stakeholders to consider their best interests.

- Customer satisfaction levels is a key performance indicator of our business. The results are shared with all employees to help implement relevant changes, and reported every month to the board of directors. We use this customer feedback to continuously improve our product and level of service in the hostels. The Company also directly engages with customers via social media to share information and collect further feedback.
- Employees are at the heart of the hospitality industry and the directors know that the long term success of the Company and its ability to continue to extend its unique pan-European hostel network will rely on a strong company culture, employee's wellbeing and efficient succession planning. Some board meetings take place in hostels to encourage direct contact between the board and the operational teams. Bi-annual meetings are organised with all managers to share best practice, company information and help build a positive culture amongst the teams. Social media is used amongst the teams to encourage regular communication across the group.
- In addition to the annual general meeting, the directors hold meetings with institutional shareholders following the release of year end and interim results, and remain available for ad hoc meetings throughout the year. The Company has engaged with a media supplier to regularly communicate with shareholders via interactive webinars, podcasts and interviews. In addition, the executive directors have participated in shareholder conferences to present their business and strategy and obtain live and direct feedback from non institutional shareholders. The Company website includes an investor section where shareholders can find all relevant information and reports.

The board believes communication with stakeholders helps to shape and adapt the Company's strategy and ultimately contributes to maintaining a high standard of business conduct. The directors will always assess the consequences of any decision over the long term. For example, decisions over whether to acquire or develop new properties follows a rigorous process involving long term financial assessment and commercial study, all in conjunction with the funding capabilities of the Company. Similarly, the Company uses customer satisfaction reports to help allocate the way funds are deployed under an annual capex improvement programme to enhance the experience of customers and ultimately safeguard brand equity.

More recently during COVID-19 crisis, the Company has increased the frequency of communication with all stakeholders, including suppliers, investors, banks, employees and customers, to share the financial position of the Company and share the measures implemented during and after the lock down and how this will impact each stakeholder.

The COVID-19 note in the Strategic Report, the Chairman's statement and the Going Concern note in the Directors' Report elaborate on the measures implemented by the Company in relation to COVID-19.

The Company complies with the UK's Quoted Companies Alliance Corporate Governance code for Small and Mid-Size Quoted Companies (the "QCA Code") and further information is publicised in the investor section of the Company website: https://www.safestay.com/investors/

Review of business and future prospects

Key Metrics

	2019	2018
Occupancy %	77.3%	75.6%
Average Bed Rate	£21.4	£20.3
Room Revenues (£'000)	15,115	12,171
Total Revenues (£'000)	18,379	14,620
Net cash generated from operations (£'000)	5,280	1,832
Net assets per share	56p	43p

The underlying business generated revenues of £18.4 million (2018: £14.6 million). Operating profit before exceptional costs was £2.5 million, or £2.1 million pre-IFRS 16 (2018: £1.7 million) and an underlying adjusted EBITDA, as defined in the Chairman's statement, of £6.1 million, or £3.8 million pre-IFRS 16 (2018: £3.4 million) for the year to 31 December 2019. Loss before Tax is

Strategic Report continued

£0.6 million which is £0.2 million pre-IFRS 16 (2018: £0.6 million). The model is becoming more efficient as we increase the number of hostels to absorb a larger portion of the central costs. We are expecting that economy of scales will continue to increase the profitability as the network continues to grow.

2019 has been a transformational year for Safestay, which has continued to grow to 15 operating hostels with two under development and another three which were committed in 2019 and which acquisition were completed in 2020. With a total of 3,318 beds in December 2019, which will increase to more than 4,900 beds when all acquisitions and hotel conversions are complete, Safestay is confirming its position as one of the leaders in the hostel arena.

The key operational performance indicators in 2019 resulted in an average bed occupancy of 77.3% and average bed rate of £21.4 for the Group as a whole.

The hostel industry and particularly Safestay had shown some resilience in the market disruption, until the more recent COVID-19 outbreak impacted the worldwide economy. 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.

COVID-19

Although no business can be fully prepared for a worldwide catastrophe, the financial health of Safestay and the strength of the underlying business have helped to mitigate the impact of this unexpected event, and the lessons learnt in recent months since March 2020 will help build stronger processes and policies to combat any similar event in the future.

The directors have made enquiries into the adequacy of the Company's financial resources, through a review of the Company's budget and financial plan, including available lending facilities, government available schemes to protect businesses during the period of closure, capital expenditure plans and cash flow forecasts.

Material uncertainty which may cast significant doubt regarding the Company's ability to trade as a going concern has resulted from the impact of the COVID-19 virus on the economy and the hospitality industry.

Outlined in the Going Concern section of the Directors' Report are all measures implemented by the Company to ensure trading in the next months. One of the crucial parts of our plan for the coming months are the operational measures to be implemented in the hostels once they re-open, focused on protecting employees and guests against the risk of the COVID-19. All actions to be introduced have been planned and the Company website has been updated to inform guests of the new safety protocols.

When governments permit hostels to re-open, the Company will operate with enhanced health and safety protocols. We have set out a safety standard that is being deployed across all Safestay properties and will involve the release of an internal certification to hostels before they re-open. This is being closely monitored and accessed by our management team to ensure a safe space in public and private areas. During phase 1 of the plan, when a hostel re-opens, the following measures will be implemented:

- Treatment of all high-touch areas with additional hospital grade disinfectant/sanitisers. The hostel teams will continually clean the areas of greatest contact. These include door and window knobs, public WC, switches, tables, chair armrests, bar areas, handrails, elevators and vending machines.
- Introduction of protection screens in reception.
- Temperature check on arrival and distribution of free gel, mask and gloves.
- Closure of common space.
- Electro-static disinfection. This is the process of disinfecting contained spaces by spraying electrically charged liquid disinfectant over the entire area with a handheld sprayer. Electrostatic disinfection is used to maintain hygiene standards as well as contain or prevent bacteria/viruses such as COVID-19. We are working with certified third-party providers to disinfect all Safestay properties.
- New guestroom configuration to ensure guests only share with people they know and have made a booking with.
- Additional cleaning and sanitising of guestrooms and common areas each day by the housekeeping teams. Before check-in, windows will be opened and all WC, sink, taps, shower walls/tiles, shower head, mirrors and the floor will be thoroughly sanitised. All linen will be washed regularly and disinfected thoroughly.

The timing of phases 2 and 3 of exiting the lockdown, which will see the restrictions lifted progressively, will be adapted in line with local and international guidance and regulation.

Other business risks

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, commodity price inflation and foreign exchange rate fluctuations. Business rates had continued to increase until a one year relief was introduced for the 12 months to March 2021 as part of the government support measures introduced recently.

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

Strategic Report continued

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.

Post COVID-19 crisis, the demand in Safestay's markets is expected to strengthen, however 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 and accounting systems are 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.

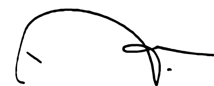
Financial risk

In 2019, the Group had a £17.9 million debt facility secured until 2022. In January 2020, this was increased by £5 million to £22.9 million and extended to January 2025. This provided 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 £115,000). Strict financial controls are in place to ensure that monies cannot be expended above the available limits or to breach any banking covenants.

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
28 May 2020

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 2019.

Directors

The directors who have served in the year to 31 December 2019 were as follows:

Larry Lipman
Hervé Deligny
Nuno Sacramento

Stephen Moss CBE
Michael Hirst OBE
Anson Chan

Paul Cummins
(Alternate director for Anson Chan)

Directors' and senior management biographies as at 31 December 2019

Larry Lipman
Chairman

Larry Lipman 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 Bizpace 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 was appointed as Chief Operating Officer on 1st February 2017. He is responsible for the day-to-day leadership and general management of the Company. Prior to joining Safestay, Nuno served as Regional Operations Director for Premier Inn, where he held various executive and management positions for seventeen years. Nuno's responsibilities extended throughout all areas of the organisation including strategic planning and execution, product development, technology deployment, and customer and network operations. Before that Nuno worked for Accor in a number of international roles. Nuno seats on the boards of two secondary schools and non-profits in London. He received an MBA from Oxford Brookes and currently participates in various Executive Leadership programs. He lives in North London with his wife and three children. In his spare time he is an outdoor sports enthusiast and tennis coach.

Hervé Deligny
Chief Financial Officer & Company Secretary

Hervé Deligny 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 3 children.

Directors' Report continued

Stephen Moss CBE
Non-Executive Director

Stephen Moss is Chairman of Grosvenor Securities Limited, a central London commercial property investment and development company and of Mr Lee's Pure Food Company, a fast growing innovator in the convenience food sector. He is past Chairman of Bibendum PLB, the leading wine and spirit distributors and, prior to that, CEO of BCP Airport Parking which he grew to become the UK's largest airport car parking booking platform. Stephen founded Springboard in 1990, a charity which promotes careers in hospitality, leisure and tourism, of which he remains Life President, and its board and corporate partners include many of the UK's top hotel groups. He is Chairman of Trustees of London's top-ranked comprehensive school and of a leading demographic and social research think tank. 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 is a 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 non-executive 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 UK Government's Events Industry Board and Immediate Past Chairman and Executive Committee Member of the Business Visits & Events Partnership, representing Britain's Events' Industry. He is a director of The Tourism Alliance, bringing together all the major tourism organisations in the UK and a member of the Tourism Industry Council, a collaboration between Government and the tourism industry. In 2002 he was awarded the OBE for his service to tourism in Britain.

Anson Chan
Non-Executive Director

Anson Chan 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. 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 UK$10 billion.

Paul Cummins
Alternate Non-Executive Director

Paul Cummins 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	
Grant date	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 2% of Safeland plc, a company incorporated in the UK. SHC owned 3,112,484 ordinary shares in the Company, representing 4.8% of the Company's shares in issue as at 31 December 2019. SHC owned 83.4% of Safeland plc. Safeland plc owned 2,597,334 ordinary shares of the Company, representing 4.0% of the Company's shares in issue at 31 December 2019.

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 2019.

Directors' interests in options over the equity share capital of the Company at 31 December 2019 were as follows:

	Granted	Lapsed	At 31 Dec 2019	Exercise price	Exercisable From	Exercisable to
Larry Lipman	396,521	–	396,521	50p	02/05/2017	01/05/2024
	250,000	–	250,000	50p	14/07/2020	13/07/2027
	300,000	–	300,000	34p	01/01/2022	31/12/2028
Hervé Deligny	500,000	–	500,000	34p	29/04/2022	28/04/2029
Nuno Sacramento	500,000	–	500,000	50p	21/07/2020	20/07/2027
	100,000	–	100,000	42p	11/10/2021	12/10/2028
	200,000	–	200,000	34p	01/01/2022	31/12/2028

Directors' Report continued

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 2020.

	Ordinary shares of 1p each	
Grant date	Fully paid number	Percentage %
Pyrrho Investment Ltd	19,025,638	29.42
BGF Investment Management Ltd	11,791,661	18.23
Chelverton Asset Management Ltd	4,411,764	6.82
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 (2018: 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 UK accounting standards or IFRSs as adopted by the European Union, 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 2019, the directors have authorised no such conflicts or potential conflicts in accordance with the above procedures.

Directors' Report continued

Going concern

Although the Group reported a loss before tax in the 2019 consolidated income statement, it generated significant cash from its operations. The Group's strategy to develop and expand the premium hostel offering provided by the Group within the UK and through its European acquisitions is proving successful.

Following the implementation of social distancing measures in all European jurisdictions as a result of the outbreak of COVID-19 virus, all the hostels operated by the Company had to be temporary closed by the 1 April 2020. There is also a risk of a recession as a result of Covid-19, which could lead to a prolonged downturn in trade. Material uncertainty which may cast significant doubt regarding the Company's ability to trade as a going concern has resulted from the impact of COVID-19 virus on the economy and the hospitality industry.

The directors have reviewed the measures implemented by the management since the start of the outbreak which have resulted in a significant reduction of the monthly cost base to £0.6 million, and the monthly cash burn to £0.3 million during the lock down period and as long as the government support measures are maintained.

- The Company has taken advantage of the employment support governmental schemes in all jurisdictions where they were available. Most employees in the UK hostels were registered as furloughed under the job retention scheme introduced by the government in March and extended until June. Portugal, Germany, Slovakia and Austria have similar schemes whereby governments refund salaries of furloughed employees. In Greece, Spain, Belgium, Italy and Poland, furloughed employees are paid directly by the government.
- The Company also benefited from business rates reliefs for the 5 hostels operated in the UK for the 12 months ending March 2021.
- Most governments, including in the UK, have offered to defer the payment of social charges until later in the year when business has fully resumed.
- The Company has liaised with landlords and obtained deferments of rent payments during the lock period, as well as rent reductions for some properties.
- Operating costs in the head office have reduced by 50% to adjust the team and spend to this unprecedented context.

The cash in bank was £1.4 million as at 1 April 2020. In addition, the Company has obtained from HSBC a £5 million overdraft facility from 13 April 2020 to satisfy the working capital cash requirements during and after the lock down period. The covenants of the existing £23 million debt facility, also with HSBC, were waived until the end of 2020 when the position will need to be revisited for the period to 31st December 2021. Due to the impact of Covid-19 the overall impact cannot be quantified at the moment.

A new budget has been prepared for the 18 months to 31 December 2021, based on the assumption that the hostels would start to operate again from July 2020, and that occupancy levels would be reduced to 30% in July and August, 40% from September to December, half of the level normally achieved for this 6 month period in previous years. These assumptions will depend on government policies in each jurisdiction and may therefore vary from one hostel to the other. The occupancy is expected to return to more normal levels from March 2021. This reflects the expectation of a slow recovery of the tourism market in general, and the need to implement social distancing and cleaning measures in all properties in the months following the lock down. The additional costs resulting from the implementation of these new safety requirements in the hostels were factored into the budget. The budget includes a sensitivity analysis to assess what minimum occupancy levels the Company could face given the financial resources available. In the event the occupancy levels were continuously below 25% until February 2021 the Company would have to reduce further the costs or secure additional funding.

During the lock down period, the management has organised 24/7 security in all hostels and all properties have been serviced, maintained and cleaned. The job retention schemes have allowed the Company to keep essential staff employed therefore we will have the ability to resume activity in all hostels as soon as authorised by relevant jurisdictions and provided it makes financial sense.

Despite the material uncertainties the directors believe the existing cash and facilities in place would allow them to continue as a going concern. For this reason, they continue to adopt the going-concern basis in preparing the Company's financial statements.

Post balance sheet events

On 13 January 2020, the Group completed the renewal of its debt facility with HSBC. The £17.9 million facility which was agreed for 5 years in April 2017 for an original amount of £18.4 million, was replaced with a new facility of £22.9 million for 5 years until 2025. The terms are similar to the previous facility, with interests of 2.45% + LIBOR and same covenants as before.

On 15 January 2020 announced the completion for £1.3 million of the leasehold acquisition of the 132 bed hostel in Athens.

On 30 January 2020 Safestay completed for £2.4 million the acquisition of the 2 Leaseholds hostels in Warsaw (158 beds) and Bratislava (124 beds), both acquired from Dream Management Group Ltd.

Directors' Report continued

From March 2020 Safestay was impacted by the COVID-19 outbreak. Bookings and stays have started to fall in the first weeks of March, until all hostels were closed by 1 April 2020. We have elaborated on the impact of this COVID-19 in the Chairman's statement, the Directors' Report and Strategic Report. COVID-19 is a non-adjusting event but would have had some impact on the balance sheet had it been an adjusting event:

- Due to current closure of the hostels and the slow recovery expected from re-opening, as explained in the Going concern note, cash flows from operation will be reduced, which will reduce the recoverable amount from each hostel. As a consequence, has this been taken in consideration within these financial statements, an impairment charge could have arisen. Note 11 includes a sensitivity analysis for each hostel.
- Payments from guests take place at the time of booking or check in, except for groups which may occasionally benefit from partial credit facility. Trade debtors amount to as at 31 December 2019. There would therefore be no risk of significant trade bad debt resulting from COVID-19.

Statement of disclosure of information to the auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

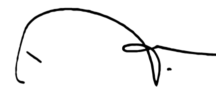
To the best of our knowledge:

- Company and Group financial statements, prepared in accordance with, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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
28 May 2020

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 2019.

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. The Remuneration committee favours longer term incentives such as options to align the remuneration of the management with the objective of the Company, which is expected to continue to grow and reach full maturity in the coming years.
3. Share options. A total of 3,013,766 options are issued and not forfeited as at 31 December 2019, of which 2,246,521 for executive directors. 77% of the options issued are still vesting. The vesting period is 3 years from the date of grant and the average exercise price is 43.6p. However, the scheme includes a minimum price of 50p (60p for options issued before 2018), below which options cannot be exercised. This condition aligns the incentive of the managers with the interest of the Company whilst creating a strong retention scheme.

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 6 months' notice. Stephen Moss and Michael Hirst have an initial term of 3 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 30.0p and 45.0p respectively and the market price of the shares at 31 December 2019 was 32.5p.

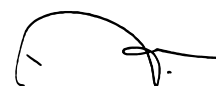
Directors' Remuneration Report continued

Directors' emoluments

The emoluments of the directors of the Company for the period ended 31 December 2019 were as follows:

Name	Salary and fees £'000	Pension £'000	Benefits in kind £'000	2019 Total £'000	2018 Total £'000
Executive directors					
Larry Lipman	100	–	–	100	80
Nuno Sacramento	125	3	–	128	128
Hervé Deligny	156	11	–	167	63
Sharon Seagal					66
Non-executive directors					
Stephen Moss	24	–	–	24	24
Michael Hirst	27	–	–	27	27
Anson Chan	–	–	–	–	–
Total	432	14	–	446	388

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

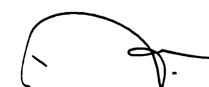


Larry Lipman
Chairman
28 May 2020

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
28 May 2020

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 'Company') and its subsidiaries (the 'Group') for the year ended 31st December 2019, 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 Statements of Cashflows 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 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 Company's affairs as at 31 December 2019 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 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 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.

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with a course of action such as Brexit.

Material uncertainty related to going concern

We draw attention to the Going concern note within note 1 in the financial statements, which indicates the risks to the group's and the company's ability to continue trading if resultant closures of hostels due to the impact on the business of the Covid-19 virus are on a prolonged basis. As stated in the going concern note within note 1, these events or conditions, along with other matters set forth in the going concern note within note 1, indicate that a material uncertainty exists that may cast significant doubt on the group's and the company's ability to continue as a going concern. Our audit opinion is not modified in respect of this matter.

Audit work performed

In evaluating whether a material uncertainty exists, our procedures evaluated management's assessment of the impact of Covid-19 on the group's business model, working capital and covenant compliance by undertaking the following work:

- robustly challenging the paper prepared by management supporting the basis of preparation of the financial statements on a going concern basis;
- challenging the process that management has undertaken to conclude over the duration of the going concern period;
- re-calculation of covenant compliance calculations, both during the year ended 2019 and forecast;
- testing management's forecasts for at least 12 months from the date of expected approval of the financial statements, together with assessment of areas of judgement and sensitivity applied within those forecasts
- agreeing key inputs into the model, such as revenue and margin assumptions to underlying budgets and forecasts approved by the board;

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

- testing the robustness of forecasts prepared by comparison to forecasts made in prior periods and in the light of our understanding of the Group's operations;
- considering sensitivity to change for key management estimates; and
- reviewing the disclosures made within the financial statements for consistency with management's assessment of going concern and in line with the accounting standards.

Overview of our audit approach

- Overall Group materiality: £319,000, which represents 1.7% of the Group's revenue
- Overall Company materiality £239,000 which is approximately 0.5% of total assets
- Key audit matters for the Group were identified as going concern, acquisition accounting, risk of impairment of previously recognised goodwill subject to annual impairment review, the impact of the new International Financial Reporting Standard – IFRS 16 Leases and risk of fraud in revenue recognition
- A full scope audit was performed on the financial statements of the Company and on the financial information of the seven UK trading entities, as well as one overseas entity. Targeted and analytical procedures were performed on the remaining existing and acquired European entities.
- We performed full scope audit procedures on the financial information of nine companies and specific audit procedures over certain material balances and transactions of three further companies to gain sufficient appropriate audit evidences at both divisional and Group levels. We performed analytical procedures on the financial information on the remaining ten companies in the Group.

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, which include the matter described in the 'Material uncertainty related to going concern' section 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.

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

Key Audit Matter – Group	How the matter was addressed in the audit – 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. As a result of acquisition accounting being applied, an assessment of the allocation of the purchase price was required, including recognition of intangible assets and goodwill arising in the consolidated accounts. Management judgement is involved in determining the appropriate accounting treatment, including whether the acquisition met the definition of a business combination, date of transfer of control and accounting for consideration. Management judgement is also required in the assessment of the fair values of assets and liabilities acquired, and their associated useful lives, 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.	Our audit work included, but was not restricted to: – assessing the accounting policy and disclosures for compliance with IFRS 3 Business combinations as adopted by the EU; – 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; – obtaining supporting documentation for transaction costs incurred as part of the acquisition, and ensuring that treatment as exceptional costs was consistent with managements disclosed accounting policy; – 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 found that the acquisitions are consistent with the requirements of IFRS 3 'Business Combinations.'

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

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk of impairment of goodwill subject to annual impairment review As explained in Note 1 management are required to perform an annual impairment review of goodwill with indefinite useful lives. The process for measuring and recognising impairment under IAS 36: "Impairment of Assets" is complex and requires significant judgement, 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: – assessing the accounting policy and disclosures for compliance with IFRS as adopted by the EU; – 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 in accordance with IAS 36 Impairment of assets; – testing of the arithmetical accuracy of management's impairment calculations; – challenging the assumptions and judgements used by management in their impairment model, in particular maintainable trading levels, growth and the discount rates applied and ensuring the forecasts are consistent with the forecasts used with other areas of the financial statements; – reviewing the sensitivities to change considered by management and checking these have been calculated accurately including reasonably possible changes in key assumptions; – considering whether there are any impairment indicators, particularly in the context of other information drawn from our audit procedures in other areas; 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 found that management's assessment of impairment of goodwill is consistent with the requirements of IAS 36 'Impairment of assets', and no impairment are required.

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

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Impact of the new Financial Reporting Standard – IFRS 16, Leases As explained on pages 48 and 49 the Group implemented IFRS 16 Leases during the year using the modified retrospective approach to transitioning to the new standard. There are a number of judgements made in the application of and transition to IFRS 16, including; – Determination of the discount rate applied in calculating lease liabilities, specifically in assessing the Group's Incremental Borrowing Rate (IBR). – Lease term including break clauses, termination and extension options. – Use of practical expedients on transition including judgements made around low value or short term leases. We have therefore identified the disclosure of the impact of the new Financial Reporting Standard – IFRS 16, 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: – assessing the accounting policy and disclosures for compliance with IFRS 16 as adopted by the EU; – testing the arithmetical accuracy and integrity of the underlying data, in respect of minimum lease payments and the initial recognition of right of use assets and lease liabilities, by checking the consistency of the formulas and agreeing inputs to supporting documentation including lease agreements; – testing management's treatment of lease adjustments including variable/step rents, lease incentives, sub-leases and break clauses and the judgments made; – testing the completeness of the leases identified to known leases and lease payments made in the year; – assessing and challenging the reasonableness of the incremental rate of borrowing applied, including use of our internal experts, as well as performing sensitivity analysis of a reasonably possible change in rate applied; and – obtaining corroborative evidence to support the judgements made by management for the key assumptions in applying IFRS 16. The Company's accounting policy and related disclosures in relation to IFRS 16 is shown in note 1 on pages 48-55 and in note 16 on pages 64 and 65. **Key observations** As a result of the audit procedures performed and after considering management's disclosures of judgements applied, we did not identify any material misstatement in the application of IFRS 16.

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

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. Due to the number of transactions recorded and due to the fact that the Group records a proportion of sales in cash and through point of sale transactions, we identified the risk of fraud in revenue recognition, where transactions could be recorded where the cash had not been received. This was identified 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 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 and implementation of controls around revenue recognition, from the cash reconciliation process to the revenue recorded in global system to ensure the correct revenue is recognised; – performing analytical procedures at a hostel level to identify any significant deviations from expectations, that will indicate the need for any additional audit procedures. Significant movements are expected to relate to price changes and seasonal fluctuations. – testing the key controls over a sample of weeks of the weekly reconciliation between the recording of income within the system and the receipt of cash and credit card receipts to verify the occurrence and accuracy of revenue from individual hostels; – agreeing the receipt of cash and card receipts collected at hostels for a sample of weeks, into Group bank accounts; and – testing third party sublease income with reference to the underlying contract, calculation of revenue to be recognised and cash receipt. – substantively testing deposits and advanced bookings balances to ensure revenue had been recorded in the correct period. 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** Based on our audit work, we did not identify any material misstatement, or evidence of fraud in revenue recognition in the year to 31 December 2019.

We did not identify any Key Audit Matters relating to the Company financial statements.

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

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	Company
Financial statements as a whole	£319,000 (2018: £300,000) which is approximately 1.7% (2018: 2.05%) of revenue. This benchmark is considered the most appropriate because, as the group is currently loss-making, revenue 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 2018 to reflect the increased revenue of the group, following its recent acquisitions.	£239,000 (2018: £270,000) which is approximately 0.5% (2018:0.5%) of total assets. This benchmark is considered the most appropriate because the Company entity does not trade, holding assets for the benefit of the group as a whole. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2018 to reflect the decrease in total assets of the company.
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the Group's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.	Based on our risk assessment, including the Company's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.
Specific materiality	We determined a lower level of materiality of £10,000 for certain specific areas being directors' remuneration and related party transactions.	We determined a lower level of materiality of £10,000 for certain specific areas being directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	All misstatements above £15,950 (2018: £15,000), including those above the specific materiality, have been reported to the Audit Committee.	All misstatements, , including those above the specific materiality above £11,950 (2018: £15,000 have been reported to the Audit Committee.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile. In order to address the risks described above as identified during our planning procedures, we performed a full scope audit of the financial statements of the Company, Safestay Plc taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The reporting units of the Group were evaluated by the Group engagement team based on a measure of materiality considered as a percentage of revenues, profit before taxes, total group assets and total group liabilities to assess the significance of the component and to determine the planned audit response. For those components that we determined to be significant components, either a full scope approach or audit of the financial information of the component using component materiality. This approach was determined based on their relative materiality to the Group and our assessment of audit risk.

The Group's companies vary significantly in size. Of the Group's twenty-two reporting units, we performed either a full scope approach or audit of the financial information of the component using component materiality on nine entities either due to their size or their risk characteristics, or for the purposes of a UK Statutory audit. Specific audit procedures over certain balances and transactions were performed on a further three companies, to give appropriate coverage of all material balances at reporting and Company level. Together, the reporting units subject to audit procedures, being full scope and specific procedures, were responsible for 90% of the Group's revenues, 82% of the Groups Loss Before Tax, 90% of the Group's total assets and 99% of the Group's liabilities.

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

The Group is organised into two operating segments being 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 sought wherever possible, to rely on the effectiveness of the Group's internal controls. We tested the operating effectiveness of controls over revenue recording system and substantively tested a sample of transactions.

We then undertook substantive testing on significant transactions and material account balances, including the procedures outlined above in relation to the key risks. For the components where specific procedures were carried out a similar testing strategy was applied, focused on the significant transactions and material account balances.

We performed analytical procedures over the remaining ten reporting units. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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 opinions on other matters prescribed by the Companies Act 2006 are 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 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 28, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

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

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: https://www.frc.org.uk/. 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.

Sergio Cardoso
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
28 May 2020

Consolidated Income Statement
Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue	2	18,379	14,620
Cost of sales	3	(2,875)	(2,228)
Gross profit		15,504	12,392
Administrative expenses	4	(12,996)	(10,686)
Operating profit before exceptional expenses		2,508	1,706
Exceptional expenses	4	(585)	(662)
Operating profit after exceptional expenses		1,923	1,044
Finance costs	5	(2,558)	(1,648)
Loss before tax		(635)	(604)
Tax	7	(325)	(303)
Loss for the financial year attributable to owners of the parent company		(960)	(907)
Basic and diluted loss per share	8	(1.48p)	(2.56p)

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 2019

	2019 £'000	2018 £'000
Loss for the year	(960)	(907)
Other comprehensive income: Items that will be reclassified subsequently to profit and loss		
Exchange differences on translating foreign operations	(47)	106
Total comprehensive (loss)for the year attributable to owners of the parent company	(1,007)	(801)

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

Consolidated Statement of Financial Position

31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	10	87,366	47,522
Intangible assets	11	1,084	1,268
Goodwill	11	12,603	10,506
Total non-current assets		101,053	59,296
Current assets			
Stock		85	45
Trade, Derivative financial instruments and other receivables	12	1,408	1,200
Cash and cash equivalents	13	2,954	9,859
Total current assets		4,447	11,104
Total assets		105,500	70,400
Current liabilities			
Loans and overdrafts	15	279	353
Finance lease obligations	16	1,648	28
Trade, Derivative financial instruments and other payables	14	2,602	1,890
Current liabilities		4,529	2,271
Non-current liabilities			
Bank loans and convertible loan notes	15	17,399	17,772
Finance lease obligations	16	46,483	21,176
Deferred tax liabilities	17	105	105
Trade and other payables due in more than one year	14	767	1,140
Total non-current liabilities		64,754	40,193
Total liabilities		69,283	42,464
Net assets		36,217	27,936
Equity			
Share capital	18	647	647
Share premium account	18	23,904	23,904
Other components of equity	18	15,461	6,221
Retained earnings		(3,795)	(2,836)
Total equity attributable to owners of the parent company		36,217	27,936

These financial statements were approved by the Board of Directors and authorised for issue on 28 May 2020.

Signed on behalf of the Board of Directors

Larry Lipman
Chairman
28 May 2020

Consolidated Statement of Changes in Equity
31 December 2019

	Share Capital £'000	Share premium account £'000	Other Components of Equity £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2018	342	14,504	6,081	(1,929)	18,998
Comprehensive income					
Loss for the year	–	–	106	(907)	(801)
Total comprehensive income	–	–	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
Comprehensive income					
Loss for the year	–	–	–	(960)	(960)
Movement in translation reserve	–	–	(47)	–	(47)
Total comprehensive loss	–	–	(47)	(960)	(1,007)
Transactions with owners					
Share based payment charge for the period	–	–	34	–	34
Revaluation reserve	–	–	9,253	–	9,253
Balance at 31 December 2019	647	23,904	15,461	(3,795)	36,217

Consolidated Statement of Cash Flows
31 December 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Cash generated from operations	20	5,445	2,056
Income tax paid		(217)	(224)
Net cash generated from operating activities		5,228	1,832
Investing activities			
Purchases of property, plant and equipment		(1,413)	(2,510)
Purchases of intangible assets		(24)	(24)
Acquisitions, net of cash acquired	24	(7,122)	(1,791)
Payment of deferred consideration		(395)	
Net cash outflow from investing activities		(8,954)	(4,325)
Financing activities			
Proceeds from property refinancing transaction		1,180	–
Bank loans repaid		(528)	(304)
Proceeds from issue of share capital		–	10,356
Fees related to the issue of shares		–	(652)
Amounts paid under finance leases		(3,242)	(960)
Interest paid		(589)	(592)
Net cash generated from financing activities		(3,179)	7,848
Net increase /(decrease) in cash and cash equivalents		9,859	5,355
Cash and cash equivalents at beginning of year		(6,905)	4,504
Cash and cash equivalents at end of year	13	2,954	9,859

Notes to the Consolidated Financial Statements
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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 interim 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 2019.

New standards and interpretations effective in the year

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 16: Leases – effective 1 January 2019

IFRS 16 Leases replaces IAS17 Leases. IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the transitional exemptions to not recognise right-of-use assets but to account for the lease expense on a straightline basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.5%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

	Carrying value at 31 December 2018	Reclassification	IFRS 16 Carrying value at 1 January 2019
Property, Plant and equipment	42,104	25,632	64,945
Lease liabilities	21,204	25,632	46,836

Notes to the Consolidated Financial Statements continued
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The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

Total operating lease commitments disclosed at 31 December 2018	8,676
Operating lease liabilities before discounting	32,482
Discounted using incremental borrowing rate	25,631
Operating lease liabilities	25,632
Finance lease obligations (Note 16)	21,204
Total lease liabilities recognised under IFRS 16 at 1 January 2019	46,836

Lessor accounting

The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Going concern

The impact of the COVID-19 virus on the economy and the hospitality industry indicate that a material uncertainty exists that may cast significant doubt on the Group and company's ability to continue as a going concern. Following the implementation of social distancing measures in all European jurisdictions as a result of the outbreak of COVID-19 virus, all the hostels operated by the Company had to be temporary closed by the 1 April 2020. There is also a risk of a recession as a result of Covid-19, which could lead to a prolonged downturn in trade. The directors have made enquiries into the adequacy of the Company's financial resources, through a review of the Company's cashflow forecasts and financial plan, including available lending facilities, government available schemes to protect businesses during the period of closure, capital expenditure plans and cash flow forecasts.

The directors have reviewed the measures implemented by the management since the start of the outbreak which have resulted in a significant reduction of the monthly cost base to £0.6 million, and the monthly cash burn to £0.3 million during the lock down period and as long as the government support measures are maintained.

- The Company has taken advantage of the employment support governmental schemes in all jurisdictions where they were available. Most employees in the UK hostels were registered as furloughed under the job retention scheme introduced by the government in March and extended until June. Portugal, Germany, Slovakia and Austria have similar schemes whereby governments refund salaries of furloughed employees. In Greece, Spain, Belgium, Italy and Poland, furloughed employees are paid directly by the government.
- The Company also benefited from business rates reliefs for the 5 hostels operated in the UK for the 12 months ending March 2021.
- Most governments, including in the UK, have offered to defer the payment of social charges until later in the year when business has fully resumed.
- The Company has liaised with landlords and obtained deferments of rent payments during the lock period, as well as rent reductions for some properties.
- Operating costs in the head office have reduced by 50% to adjust the team and spend to this unprecedented context.

The cash in bank was £1.4 million as at 1 April 2020. In addition, the Company has obtained from HSBC a £5 million overdraft facility from 13 April 2020 to satisfy the working capital cash requirements during and after the lock down period. The covenants of the existing £23 million debt facility, also with HSBC, were waived until the end of 2020 when the position will need to be revisited for the period to 31st December 2021. Due to the impact of Covid-19 the overall impact cannot be quantified at the moment.

A new budget has been prepared for the 18 months to 31 December 2021, based on the assumption that the hostels would start to operate again from July 2020, and that occupancy levels would be reduced to 30% in July and August, 40% from September to December, half of the level normally achieved for this 6 month period in previous years. These assumptions will depend on government policies in each jurisdiction and may therefore vary from one hostel to the other. The occupancy is expected to return to more normal levels from March 2021. This reflects the expectation of a slow recovery of the tourism market in general, and the need to implement social distancing and cleaning measures in all properties in the months following the lock down. The additional costs resulting from the implementation of these new safety requirements in the hostels were factored into the budget. The budget includes a sensitivity analysis to assess what minimum occupancy levels the Company could face given the financial resources available. In the event the occupancy levels were continuously below 25% until February 2021 the Company would have to reduce further the costs or secure additional funding.

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During the lock down period, the management has organised 24/7 security in all hostels and all properties have been serviced, maintained and cleaned. The job retention schemes have allowed the Company to keep essential staff employed therefore we will have the ability to resume activity in all hostels as soon as authorised by relevant jurisdictions and provided it makes financial sense.

Despite the material uncertainties the directors believe the existing cash and facilities in place would allow them to continue as a going concern. For this reason, they continue to adopt the going-concern basis in preparing the Company's 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 2019. 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.

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 represents the future economic benefits arising from a business combination, 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. Goodwill is carried at cost less accumulated impairment losses. 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 the operating segments are the operation of hostel accommodation in the UK and Europe.

Lease

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract the Group has the right to direct the use of the identified asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
  - The Group has the right to operate the asset; or
  - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

Notes to the Consolidated Financial Statements continued
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Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise an extension or termination option.

The Group has elected to take the exemption not to recognise right-of-use assets and lease liabilities for short-term lease of machinery that have a lease term of 12 months or less and leases of low-value assets. The Group defines leases of low value assets as being any lease agreement where the total value of payments made across the lease term is less than £10,000. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease. On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

Revenue

To determine whether to recognise revenue, the Group follows a 5-step process in accordance with IFRS 15.

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognising revenue when/as performance obligation(s) are satisfied.

Due to the nature of the goods and services sold, the judgements made in identifying performance obligations and transaction prices have not had an impact on the revenue recognised.

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.

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.

There are no significant judgements or estimations made in calculating and recognising revenue.

Revenue is not materially accrued or deferred between one accounting period and the next.

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.

Notes to the Consolidated Financial Statements continued
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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.

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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.

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.

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 as 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.

Financial liabilities

The Company classifies its financial liabilities as other financial liabilities. Other financial liabilities are measured at fair value on initial recognition and subsequently measured at amortised cost, using the effective-interest method.

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.

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.

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.

Financial assets measured at amortised cost

Financial assets held at amortised costs are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non current assets. Loans and receivables comprise 'other receivables' and 'cash and cash equivalents' on the balance sheet.

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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.

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.

Credit risk
The Group assesses impairment on a forward-looking basis using the expected credit loss method and has applied the simplified approach which permits the use of the lifetime expected loss provision for all trade and other receivables. The Company has no significant history of non-payment; as a result, the expected credit losses on financial assets are not material.

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.

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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.

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 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.
- Extension options for leases: In accordance with IFRS 16, when the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.
- The IFRS 16 standard specifies the accounting for an individual lease and therefore the IBR is specific to each lease. However, as a practical expedient, the Standard may be applied to a portfolio of leases with similar characteristics if management reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual leases within that portfolio. If accounting for a portfolio, management shall use estimates and assumptions that reflect the size and composition of the portfolio. Generally, the Group uses its incremental borrowing rate as the discount rate adjusted for lease specific and asset specific terms where required. All the commercial leases entered in by the Company are of similar terms, in European countries which offer similar lending rates. Management has assessed the sensitivity of the model as follows: a change of 100bps in the IBR would impact the total lease liability by 6%. Therefore, management have applied the same discount rate to all leases in the portfolio.

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.

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2. Segmental analysis

	2019 £'000	2018 £'000
Hostel accommodation	15,115	12,171
Food and Beverages sales	2,492	1,746
Other income	772	703
Total Income	18,379	14,620
Like-for-like income	13,206	12,377

Management consider the like-for-like income only for acquisitions and continuing operations that have been operational 12 consecutive months 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.

2019	UK £'000	Spain £'000	Rest of Europe £'000	Shared services £'000	TOTAL £'000
Revenue	9,401	4,909	4,069	–	18,379
Profit/(Loss) before tax	3,347	(387)	498	(4,093)	(635)
Finance costs	338	681	308	1,231	2,558
Operating Profit after exceptional expenses	3,685	294	806	(2,862)	1,923
Depreciation & Amortisation	1,265	1,555	692	–	3,512
Exceptional & Share based payment expense	–	–	–	619	619
Adjusted EBITDA	4,950	1,849	1,498	(2,243)	6,054
Rental charges (IFRS 16)	–	(1,504)	(744)	–	(2,248)
Adjusted EBITDA (pre-IFRS 16)	4,950	345	754	(2,243)	3,806
Total assets	47,965	17,021	14,059	26,455	105,500
Total liabilities	12,255	16,553	12,426	28,049	69,283

2018	UK £'000	Spain £'000	Rest of Europe £'000	Shared services £'000	TOTAL £'000
Revenue	8,393	4,449	1,778	–	14,620
Profit/(Loss) before tax	2,711	314	369	(3,998)	(604)
Finance costs	270	112	6	1,260	1,648
Operating Profit after exceptional expenses	2,981	426	375	(2,738)	1,044
Depreciation, Amortisation & disposals	1,320	271	85	–	1,676
Exceptional & Share based payment expense	–	–	–	696	696
Adjusted EBITDA	4,301	697	460	(2,042)	3,416
Total assets	35,347	1,667	1,260	32,126	70,400
Total liabilities	11,820	1,590	570	28,484	42,464

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.

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3. Cost of sales

	2019 £'000	2018 £'000
Food and drinks	794	715
Direct room supplies and sales commissions	2,081	1,513
	2,875	2,228

4. Administrative expenses

	2019 £'000	2018 £'000
Staff costs (see note 9)	5,676	4,034
Legal and professional fees	1,148	1,358
Property costs	825	2,265
Depreciation and amortisation	3,512	1,602
Loss on sale of assets	–	74
Share option expenses	34	34
Other expenses	2,386	1,981
	13,581	11,348
Add back:		
Exceptional expenses	585	662
	12,996	10,686

Administrative expenses include £584,670 (2018: £662,000) of exceptional expenses broken down as follows:

	2019 £'000	2018 £'000
Acquisition and Development costs	451	474
Property costs	19	8
Legal and other	115	180
	585	662

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

5. Finance costs

	2019 £'000	2018 £'000
Interest on bank overdrafts and loans	589	593
Amortised loan arrangement fees	81	81
Other interest costs	(14)	-
Interest expense for leasing arrangements (note 16)	1,785	936
Unwinding of discount on deferred consideration	117	38
	2,558	1,648

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6. Loss for the financial year

	2019 £'000	2018 £'000
Loss for the financial period is arrived at after charging:		
Depreciation on owned assets	498	517
Depreciation of assets under finance lease	2,826	904
Amortisation of intangible assets	189	181
Loss on disposal of assets	–	74
Operating lease expense	–	1,714
Auditor's remuneration for audit services	105	99

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

	2019 £'000	2018 £'000
Fees payable to Company's auditors for the audit of the Parent Company and consolidated financial statements:		
The audit of the Company's annual accounts	75	69
The audit of the subsidiaries' annual accounts	30	30
	105	99

Fees payable to the Company's auditors and its associates for other services:

	2019 £'000	2018 £'000
Tax advice services	22	17
Taxation compliance services	25	22
Other consultancy Services for due diligence	-	89
	47	128

The audit fees disclosed in 2019 represent the fees payable for the audit for the period ended 31 December 2019 and the non-audit fees are those incurred in the period.

7. Tax

	2019 £'000	2018 £'000
Current tax		
Current tax on profits for the year	250	213
Adjustments for current tax on prior periods	75	90
Total current tax	325	303
Deferred tax	–	–
Total tax charge	325	303

Notes to the Consolidated Financial Statements continued
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The charge for the year can be reconciled to the loss per the consolidated income statement as follows:

	2019 £'000	2018 £'000
Loss before tax	(635)	(604)
Tax at the standard UK corporation tax rate of 19% (2018: 19%)	(120)	(115)
Adjustment for tax rate differences in foreign jurisdictions	28	37
Adjustments for current tax on prior periods	75	90
Factors affecting charge for the period		
Non-deductible items and other timing differences	155	64
Depreciation in excess of capital allowances	187	227
Group tax charge	325	303

8. Loss per share

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

	2019 £'000	2018 £'000
Loss for the period attributable to equity holders of the Company	(960)	(907)

	2019 £'000	2018 £'000
Weighted average number of ordinary shares for the purposes of basic loss earnings per share	64,679	35,387
Effect of dilutive potential ordinary shares	2,736	1,830
Weighted average number of ordinary shares for the purposes of diluted	67,415	37,217
Loss per share		
Basic loss per share	(1.48p)	(2.56p)
Diluted loss per share	(1.48p)	(2.56p)

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 2019 was 64,679,014.

9. Staff costs

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

	2019 Number	2018 Number
Hostel operation	222	178
Directors	5	5
	227	183

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

	2019 £'000	2018 £'000
Wages and salaries	4,992	3,515
Social security costs	638	446
Other employment costs	46	73
Total staff costs	5,676	4,034

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10. Property, plant and equipment

	Freehold land and buildings £'000	Right of use assets £'000	Leasehold land and buildings £'000	Fixtures, fittings and equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation						
At 1 January 2018	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
Transfer	–	–	2,062	–	(2,062)	–
Additions	–	–	717	696	–	1,413
Adjustment on transition to IFRS 16	–	72,534	(45,322)	–	–	27,212
Acquired in business combination	5,348	–	–	89	–	5,437
Disposals	–	–	–	–	–	–
Revaluation	–	9,253	–	–	–	9,253
Exchange movements	(51)	–	(23)	(73)	–	(147)
At 31 December 2019	7,998	81,787	1,448	3,225	–	94,458
Depreciation						
At 1 January 2018	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
Transfer	–	–	–	–	–	–
Adjustment on transition to IFRS 16		1,848	(1,848)			
Charge for the year	60	2,771	55	438	–	3,324
Released on disposal	–	–	–	–	–	–
At 31 December 2019	144	4,619	117	2,212	–	7,092
Net book value:						
At 31 December 2019	7,854	77,168	1,331	1,013	–	87,366
At 31 December 2018	2,617	–	42,104	739	2,062	47,522

The directors based the valuation of the freehold in York 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.

Notes to the Consolidated Financial Statements continued
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The freehold land and building acquired in business combination relate to:

- The freehold of the Glasgow property acquired in October 2019 for £3.2 million, and valued by Cushman and Wakefield for £3.2 million on behalf of HSBC as part of the security for the Group's bank financing in February 2020.
- The freehold of the Pisa acquired in June 2019 for £3 million.

The Edinburgh leasehold was independently valued on 14 March 2017 at £16 million and the London Elephant & Castle leasehold was independently valued on 31 July 2019 at £26.8 million. Both valuations were performed 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.

Leasehold land and buildings comprise the capitalised refurbishment costs incurred by the Company on the leased properties.

Right of use assets

The £79.9 million right of use assets all relate to properties operated by the Company as hostels.

	2019	2018
Finance leases held in Leasehold, Land and Buildings	–	–
Transfer from Leasehold, Land and Buildings to Right of use assets	43,474	–
Transition of Operating leases to Right of use assets	27,212	–
Revaluation of Elephant and Castle	9,253	
Right of use assets	79,939	–

11. Intangible assets and goodwill

	Website Development £'000	Leasehold rights £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2018	48	1,711	7,301	9,060
Additions	24	–	–	24
Arising in business combination	–	–	3,109	3,109
Exchange movements	–	15	96	111
At 31 December 2018	72	1,726	10,506	12,304
Additions	26	–	392	418
Arising in business combination (note 24)	–	–	1,705	1,705
Exchange movements	–	(21)	–	(21)
At 31 December 2019	98	1,705	12,603	14,406
Amortisation				
At 1 January 2018	4	345	–	349
Charge for the period	20	161	–	181
At 31 December 2018	24	506	–	530
Charge for the period	29	160	–	189
At 31 December 2019	53	666	–	719
Net book value:				
At 31 December 2019	45	1,039	12,603	13,687
At 31 December 2018	48	1,220	10,506	11,774

Notes to the Consolidated Financial Statements continued
31 December 2019

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. Amortisation is taken to the statement of comprehensive income within administrative expenses.

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.

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 8.7%
- 2019 average bed rate per property, increasing in line with a 2% annual inflation rate in following years
- Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR) margin of 2019 with an increase up to 4 basis points over 5 years

Two hostels, in Lisbon and Prague, show the lowest relative VIU headroom. However, the property in Lisbon benefited from a significant capex improvement program at the end of 2019 and the Management are confident this will reposition the occupancy and bed rate of the property so that it will not lead to any impairment in the future. Similarly, the demand and operation in the hostel in Prague have suffered from works on the adjacent site in the last years and is expected to resume trading as before in the next years.

No impairment has been identified for the year ended 31 December 2019.

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	Occupancy	WACC
Barcelona Gothic	300bps	500bps	300bps
Barcelona Sea	300bps	500bps	400bps
Barcelona Passeig De Gracia	400bps	800bps	900bps
Brussels	1800bps	3000bps	2000bps
Lisbon	100bps	100bps	100bps
Madrid	600bps	1100bps	700bps
Prague	100bps	200bps	100bps

Notes to the Consolidated Financial Statements continued
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12. Trade and other receivables

	2019 £'000	2018 £'000
Trade and other receivables	988	819
Other debtors	43	88
Prepayments and accrued income	377	293
	1,408	1,200

Other debtors represent deposit paid in the period for Athens acquisition completed after the reporting date.

Credit risk is the risk that a counterparty does not settle its financial obligation with the Company. At the year end, the Company has assessed the credit risk on amounts due from suppliers, based on historic experience, meaning that the expected lifetime credit loss was immaterial. Cash and cash equivalents are also subject to the impairment requirements of IFRS 9 – the identified impairment loss was immaterial.

13. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash and cash equivalents	2,954	9,859

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

	2019 £'000	2018 £'000
Due in less than one year		
Trade payables	784	683
Corporation tax	32	57
Social security and other taxes	277	208
Other creditors	306	202
Accruals and deferred income	1,203	740
	2,602	1,890
Due in more than one year		
Other payables	767	1,140
	3,369	3,030

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

Notes to the Consolidated Financial Statements continued
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15. Loans

	2019 £'000	2018 £'000
At amortised cost		
Bank Loan and other loans	17,860	18,389
Loan arrangement fees	(182)	(264)
	17,678	18,125
Loans repayable within one year	279	353
Loans repayable after more than one year	17,399	17,772
	17,678	18,125

16. Leases

Lease liabilities are presented in the statement of financial position as follows:

	Audited 31 December 2019 £000	Audited 31 December 2018 £000
Current	1,648	28
Non-current	46,483	21,176
Total	48,131	21,204

The Group has leases for hostels across Europe. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 10).

Leases of property generally have a lease term ranging from 7 years to 20 years. However, two leases for the hostels operated in Edinburgh and London Elephant & Castle, which were previously treated as finance lease under IAS 17, have terms of 150 years with option to buy back after the end of year 25. One lease for the hostel in London Kensington Holland Park, also previously treated as finance lease under IAS 17, has a term of 50 years.

Lease payments are generally linked to annual changes in an index (either RPI or CPI). However, the Group has one lease in Lisbon which a portion of the rentals are linked to revenue.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over hostels or hotels, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with variable payments linked to an index	No of leases with termination options
Hostel buildings – Operating leases	12	7 – 20 years	13 years	8	0	9	0
Hostel buildings – Long leases	3	50 – 150 years	13 years	0	2	3	0

Notes to the Consolidated Financial Statements continued
31 December 2019

Lease liabilities

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2019 is as follows:

	Minimum lease payments due						
2019	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years	Total
Lease payments	3,424	3,442	3,442	3,442	3,442	64,620	81,812
Finance charges	(1,776)	(1,720)	(1,662)	(1,601)	(1,540)	(25,382)	(33,681)
Net present values	1,648	1,722	1,780	1,841	1,902	39,238	48,131

	Minimum lease payments due						
2018	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years	Total
Lease payments	960	960	960	960	960	43,955	48,755
Finance charges	(932)	(931)	(1,005)	(848)	(923)	(22,912)	(27,551)
Net present values	28	29	(45)	112	37	21,043	21,204

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets.

17. Deferred income tax

CGU	Deferred tax assets £'000	Deferred tax liabilities £'000	Total £'000
Balance as at 1 January 2018	–	(105)	(105)
Recognised in the income statement	–	–	–
Recognised on acquisition	–	–	–
Balance at 31 December 2018	–	(105)	(105)
Recognised in the income statement	–	–	–
Balance at 31 December 2019	–	(105)	(105)

Deferred tax liabilities relate primarily to accelerated capital allowances.

18. Equity

Called up share capital

	£'000
Allotted, issued and fully paid	
64,679,014 Ordinary Shares of 1p each as at 1 January 2019	647
	647

At the 31 December 2019, the ordinary shares rank pari passu. There are no changes to the voting rights of the ordinary shares since the balance sheet date.

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Share premium

	£'000
At 1 January 2019	23,904
At 31 December 2019	23,904

Other components of equity

	Merger reserve £'000	Share based payment reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Total £'000
Cost					
At 1 January 2018	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
Share based payment charge	–	34	–	–	34
Property revaluation	–	–	9,253	–	9,253
Exchange differences on translating foreign operations	–	–	–	(47)	(47)
At 31 December 2019	1,772	159	13,471	59	15,461

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	2019	Number of share options outstanding 2018
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	38,550	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	100,000
1 January 2019	34p	01/01/2022 to 31/12/2028	500,000	
29 April 2019	34p	29/04/2022 to 28/04/2029	500,000	
26 June 2019	40p	26/06/2022 to 25/06/2029	100,000	
05 Sept 2019	34p	05/09/2022 to 04/09/2029	100,000	
			3,013,766	1,907,389

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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 options issued since 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:

	2019		2018	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Brought forward 1 January	1,907,389	50p	1,807,389	50p
Forfeited in the period	(93,623)	50p		
Issued in the period	1,200,000	35p	100,000	42p
Outstanding at 31 December	3,013,766	44p	1,907,389	50p
Exercisable at end of the period	963,766	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 (2018: £34,000) is included with administrative expenses.

The inputs are as follows:

	2019	2018
Closing price of Safestay Plc	32.50p	33.50p
Weighted average share price	34.50p	45.30p
Weighted average exercise price	43.60p	49.60p
Expected volatility	37.00%	18.00%
Expected life	7.2 years	6.8 years
Risk free rate	0.50%	0.50%
Expected dividend yield	0.00%	0.00%

The expected volatility percentage was derived from 12 quoted share prices to 1 January 2020.

20. Notes to the cash flow statement

	2019 £'000	2018 £'000
Loss before tax	(635)	(604)
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangible assets	3,512	1,602
Loss on sale of property, plant & equipment	–	74
Finance cost	2,440	1,648
Share based payment charge	34	34
Exchange movements	(2)	(112)
Changes in working capital:		
Decrease/(Increase) in inventory	(39)	(14)
(Increase) in trade and other receivables	(170)	(295)
(Decrease) in trade and other payables	305	(277)
Net cash from operating activities	5,445	2,056

Notes to the Consolidated Financial Statements continued
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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.

	2019 £'000	2018 £'000
Directors' emoluments	432	381
Benefits in kind	–	–
Pension	14	7
Share based payment charges	34	34
	480	422

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.

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.

	2019 £'000	2018 £'000
Share capital	647	647
Share premium account	23,904	23,904
Merger reserve	1,772	1,772
Retained earnings	(3,795)	(2,836)
Share based payment reserve	159	125
Revaluation reserve	13,471	4,218
Translation reserve	59	106
Bank loans	17,860	18,389
Finance lease obligations	48,131	21,204

The Group has no externally imposed capital requirements.

Notes to the Consolidated Financial Statements continued
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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 2019, the Group held the following financial assets:

	2019 £'000	2018 £'000
Trade and other receivables (note 12)	1,031	907
Cash and cash equivalents	2,954	9,859
	3,985	10,766

At 31 December 2019, the Group held the following financial liabilities:

	2019 £'000	2018 £'000
Bank loans (note 15)	17,860	18,389
Finance leases (note 16)	48,131	21,204
Trade and other payables (note 14)	2,134	2,233
	62,790	41,826

All financial liabilities are measured at amortised cost.

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

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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 2019	17,772	353	21,204	39,329
Cash flows				
Repayment of bank loans	(94)	(353)	–	(447)
Repayment of lease liabilities	–	–	(3,239)	(3,239)
Proceeds received	–	–	1,180	1,180
Loan and refinancing fees	–	–	–	–
Non-cash				
Reclassification	(360)	360	27,212	27,212
Imputed interest and amortisation of fees	81	(81)	1,774	1774
At 31 December 2019	17,399	279	48,131	65,809

Financial risk management

The Group's financial instruments comprise bank loans and overdrafts, finance leases, cash and cash equivalents, available-for-sale investments, 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.

Notes to the Consolidated Financial Statements continued
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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 2019, if interest rates (LIBOR) were 0.5% higher or (lower) and all other variables were held constant, the Group's net profit would increase or decrease by £90,000 (2018: £91,000). 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	938	926	17,280	–	19,144
Fixed interest rate borrowings	–	–	–	–	–
Finance leases payments	3,424	3,424	10,326	64,712	81,884
	4,362	4,350	27,606	64,712	101,028

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

Notes to the Consolidated Financial Statements continued
31 December 2019

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
2019				
Freehold Property	–	–	7,854	7,854
Leasehold Property	–	–	77,168	77,168
	–	–	85,022	85,022

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 2019 no adjustment to the fair value of leasehold properties was required.

24. Business combinations

See accounting policy in note 1.

On 12th June 2019, the Group acquired Pisa hostel for a total consideration of €3.4m paid in full at acquisition. The consideration included 100% interest in HPISA Srl, acquisition of the freehold property and the operating hostel business.

On 29th October 2019, Safestay (Edinburgh) Hostel Limited acquired the Best Western Glasgow hotel from the Crown Group prop co for the property and Crown Group op co for the business. Total consideration paid on acquisition was £3.2m.

On 14th November 2019, the Group purchased 100% of the shares of Hotel Auberge GmbH, an entity incorporated in Germany. Consideration paid for the trading business was £1.2m.

	Pisa	Glasgow	Berlin	2019	2018
Number of sites purchased				3	3
	£'000	£'000	£'000	£'000	£'000
Provisional fair value					
Property, plant & equipment	2,130	3,286	21	5,437	578
Intangible assets	–	–	2	2	–
Current assets	–	–	40	40	128
Cash	86	–	106	192	–
Debt	–	–	–	–	(189)
Deferred revenue, trade & other payables	(33)	–	(71)	(104)	(263)
Deferred tax	–	–	–	–	–
Goodwill	790	–	957	1,747	3,109
Consideration					
Net cash paid on acquisition	2,973	3,286	1,055	7,314	1,791
Deferred payments	–	–	–	–	1,572
Total Consideration	2,973	3,286	1,055	7,314	3,363

Notes to the Consolidated Financial Statements continued
31 December 2019

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 equipment – 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 £0.101 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 2019 from the date of acquisition:

	Pisa £'000	Glasgow £'000	Berlin £'000
Revenue	514	100	90
Operating profit	159	10	15

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 2019.

25. Post reporting date events

On 13 January 2020, the Group completed the renewal of its debt facility with HSBC. The £17.9 million facility which was agreed for 5 years in April 2017 for an original amount of £18.4 million, was replaced with a new facility of £22.9 million for 5 years until 2025. The terms are similar to the previous facility, with interests of 2.45% + LIBOR and same covenants as before.

On 15 January 2020 announced the completion for £1.3 million of the leasehold acquisition of the 132 bed hostel in Athens.

On 30 January 2020 Safestay completed for £2.4 million the acquisition of the 2 Leaseholds hostels in Warsaw (158 beds) and Bratislava (124 beds), both acquired from Dream Management Group Ltd.

From March 2020 Safestay was impacted by the COVID-19 outbreak. Bookings and stays have started to fall in the first weeks of March, until all hostels were closed by 1 April 2020. We have elaborated on the impact of this COVID-19 in the Chairman's statement, the Directors' Report and Strategic Report. COVID-19 is a non-adjusting event but would have had some impact on the balance sheet had it been an adjusting event:

- Due to current closure of the hostels and the slow recovery expected from re-opening, as explained in the Going concern note, cash flows from operation will be reduced, which will reduce the recoverable amount from each hostel. As a consequence, has this been taken in consideration within these financial statements, an impairment charge could have arisen. Note 11 includes a sensitivity analysis for each hostel.
- Payments from guests take place at the time of booking or check in, except for groups which may occasionally benefit from partial credit facility. Trade debtors amount to as at 31 December 2019. There would therefore be no risk of significant trade bad debt resulting from COVID-19.

Company Statement of Financial Position
31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	2	12,341	12,658
Intangible assets	3	46	-
Investments	4	6,625	6,591
Total non-current assets		19,012	19,249
Current assets			
Trade and other receivables	5	29,973	24,947
Cash at bank and in hand		1,364	8,706
Total current assets		31,337	33,653
Total Assets		50,349	52,902
Current Liabilities			
Loans and overdrafts	7	279	279
Finance lease obligations	8	41	38
Trade and other payables	6	9,636	8,643
Current Liabilities		9,956	8,960
Non-current liabilities			
Bank loans and convertible loan notes	7	17,399	17,677
Lease obligations	8	10,081	10,122
Total non-current liabilities		27,480	27,799
Total liabilities		37,436	36,759
Net assets		12,913	16,143
Equity			
Share capital	9	647	647
Share premium account	10	23,904	23,904
Merger reserve		1,772	1,772
Share based payment reserve		159	125
Profit and loss account		(13,569)	(10,305)
Equity attributable to the owners of the parent company		12,913	16,143

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 £3,264,000 (2018: £4,034,000)

These financial statements were approved by the Board of Directors and authorised for issue on 28 May 2020.

Larry Lipman
Chairman
28 May 2020

Company Statement of Changes in Equity
31 December 2019

	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 2018	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
Comprehensive income						
Loss for the year	–	–	–	–	(3,264)	(3,264)
Total comprehensive loss	–	–	–	–	(3,264)	(3,264)
Transactions with owners						
Issue of shares	–	–	–	–	–	–
Share based payment charge for period	–	–	–	34	–	34
At 31 December 2019	647	23,904	1,772	159	(13,569)	12,913

Company Statement of Cash Flows
31 December 2019

	2019 £'000	2018 £'000
Loss before tax	(3,264)	(4,034)
Adjustments for:		
Finance cost	1,295	1,278
Finance income	(118)	(59)
Share based payment charge	34	34
Depreciation	319	310
Loss on sale of property, plant & equipment	–	23
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(5,026)	2,077
(Decrease)/increase in trade and other payables	993	1
Net cash used in operating activities	(5,767)	(370)
Investing activities		
Interest received	115	59
Investment in subsidiaries	(34)	(90)
(Loans to)/received from subsidiaries	–	–
Purchase of tangible fixed assets	(21)	(15)
Purchase of intangible assets	(26)	(24)
Net cash (outflow) / inflow from investing activities	34	(70)
Financing activities		
Proceeds from new loans	–	–
Loan repayments	(360)	(180)
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	(589)	(572)
Net cash generated / (outflow) from financing activities	1,609	8,292
Cash and cash equivalents at beginning of year	8,706	854
Net decrease in cash and cash equivalents	(7,342)	7,852
Cash and cash equivalents at end of year	1,364	8,706

Notes to the Company Financial Statements
31 December 2019

1. Staff costs

	2019	2018
Administration	15	12
Directors	5	5
	20	17

2. Property, plant and equipment

	Leasehold Investment in Property £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 1 January 2018	13,448	141	13,589
Additions	–	39	39
Disposals	–	(48)	(48)
As at 31 December 2018	13,448	132	13,580
Additions	–	21	21
Disposals	–	–	–
Reclass to intangible assets	–	(72)	(72)
At 31 December 2019	13,448	81	13,529
Depreciation			
At 1 January 2018	591	46	637
Charge for the year	272	38	310
Released on disposal	–	(25)	(25)
At 31 December 2018	863	59	922
Charge for the year	272	18	290
Released on disposal	–	–	–
Reclass to intangible assets		(24)	(24)
At 31 December 2019	1,135	53	1,188
Net book value			
At 31 December 2019	12,313	28	12,341
At 31 December 2018	12,587	95	12,952

Notes to the Company Financial Statements continued
31 December 2019

3. Intangible assets

	Website Development £'000	Total £'000
Cost		
At 1 January 2018	–	–
Additions	–	–
Disposals	–	–
As at 31 December 2018	–	–
Additions	26	26
Disposals	–	–
Reclass from tangible fixed assets	72	72
At 31 December 2019	98	98
Depreciation		
At 1 January 2018	–	–
Charge for the year	–	–
Released on disposal	–	–
At 31 December 2018	–	–
Charge for the year	28	28
Released on disposal	–	–
Reclassed from tangible fixed assets	24	24
At 31 December 2019	52	52
Net book value		
At 31 December 2019	46	46
At 31 December 2018	–	–

4. Fixed asset investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2018	7,756
Additions	90
Designation as an intercompany loan	(1,255)
As at 31 December 2018	6,591
Additions	34
Designation as an intercompany loan	–
At 31 December 2019	6,625
Net book value	
At 31 December 2019	6,625
At 31 December 2018	6,591

Notes to the Company Financial Statements continued
31 December 2019

Shares in subsidiary undertakings

The subsidiaries at 31 December 2019 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	Property owning activities and 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
GELS BVBA	Holding company (Belgium)	Av. Louise 209A, 1050 Brussels
SSD Safestay Deutshcland Gmbh	Holding Company (Germany)	Bayreuther Str. 10 in 10789 Berlin
Safestay Italia Srl	Holding Company (Italy)	Via Privata Maria Teresa 4, 20123 Milano
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
Arcadie SA	Hotel operation (Belgium)	Rue Grétry 53, 1000 Bruxelles
Safestay Hostel GmbH	Hotel operation (Austria)	Schubertring 6, 1010 Wien
Hotel Auberge Gmbh	Hostel operation (Germany)	Bayreuther Str. 10 in 10789 Berlin
Hpisa srl	Hostel operation (Italy)	Via Filippo Corridoni No 29, Pisa, CAP 56125

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 2019

5. Trade and other receivables

	2019 £'000	2018 £'000
Due within one year:		
Amounts due from subsidiary undertakings	29,872	24,910
Other debtors	43	–
Other receivables and prepayments	58	37
	29,973	24,947

Credit risk is the risk that a counterparty does not settle its financial obligation with the Company. At the year end, the Company has assessed the credit risk on amounts due from suppliers, based on historic experience, meaning that the expected lifetime credit loss was immaterial. Cash and cash equivalents are also subject to the impairment requirements of IFRS 9 – the identified impairment loss was immaterial.

6. Trade and other payables

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

	2019 £'000	2018 £'000
Trade payables	129	134
Amounts due to subsidiary undertakings	9,327	8,503
Other payables	180	6
	9,636	8,643

7. Bank and other finance loans

	2019 £'000	2018 £'000
Bank Loan	17,860	18,220
Loan arrangement fees	(183)	(264)
	17,677	17,956

The loan is secured on properties owned by the Group with interest of 2.45% plus Libor over a term of 5 years ending March 2022.

The bank loan is repayable as follows:

	2019 £'000	2018 £'000
Within one year	279	279
After more than one year	17,398	17,677
	17,677	17,956

Notes to the Company Financial Statements continued
31 December 2019

8. 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 2019				
Lease payments	660	2,640	26,400	29,700
Finance charges	(619)	(2,450)	(16,509)	(19,578)
Net present values	41	190	9,891	10,122
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

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.

9. Share capital

	£'000
Allotted, issued and fully paid	647
64,679,014 Ordinary Shares of 1p each as at 1 January 2019 and 31 December 2019	647

At the 31 December 2019, the ordinary shares rank pari passu. There are no changes to the voting rights of the ordinary shares since the balance sheet date.

10. Share premium

	£'000
Brought forward at 1 January 2019 and 31 December 2019	23,904
	23,904

Notes to the Company Financial Statements continued
31 December 2019

11. 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	Number of share options outstanding 2019	2018
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	38,550	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	100,000
1 January 2019	34p	01/01/2022 to 31/12/2028	500,000	
29 April 2019	34p	29/04/2022 to 28/04/2029	500,000	
26 June 2019	40p	26/06/2022 to 25/06/2029	100,000	
05 Sept 2019	34p	05/09/2022 to 04/09/2029	100,000	
			3,013,766	1,907,389

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 options issued since 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:

	2019		2018	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Brought forward 1 January	1,907,389	50p	1,807,389	50p
Forfeited in the period	(93,623)	50p		
Issued in the period	1,200,000	35p	100,000	42p
Outstanding at 31 December	3,013,766	44p	1,907,389	50p
Exercisable at end of the period	963,766	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 (2018: £34,000) is included with administrative expenses.

Notes to the Company Financial Statements continued
31 December 2019

The inputs are as follows:

	2019	2018
Closing price of Safestay Plc	32.50p	33.50p
Weighted average share price	34.50p	45.30p
Weighted average exercise price	43.60p	49.60p
Expected volatility	37.00%	18.00%
Expected life	7.2 years	6.8 years
Risk free rate	0.50%	0.50%
Expected dividend yield	0.00%	0.00%

The expected volatility percentage was derived from 12 months quoted share prices to 1 January 2020.

12. 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.

Austria
Vienna

Belgium
Brussels

Czech Republic
Prague

France
Paris

Germany
Berlin

Greece
Athens

Italy
Pisa
Venice

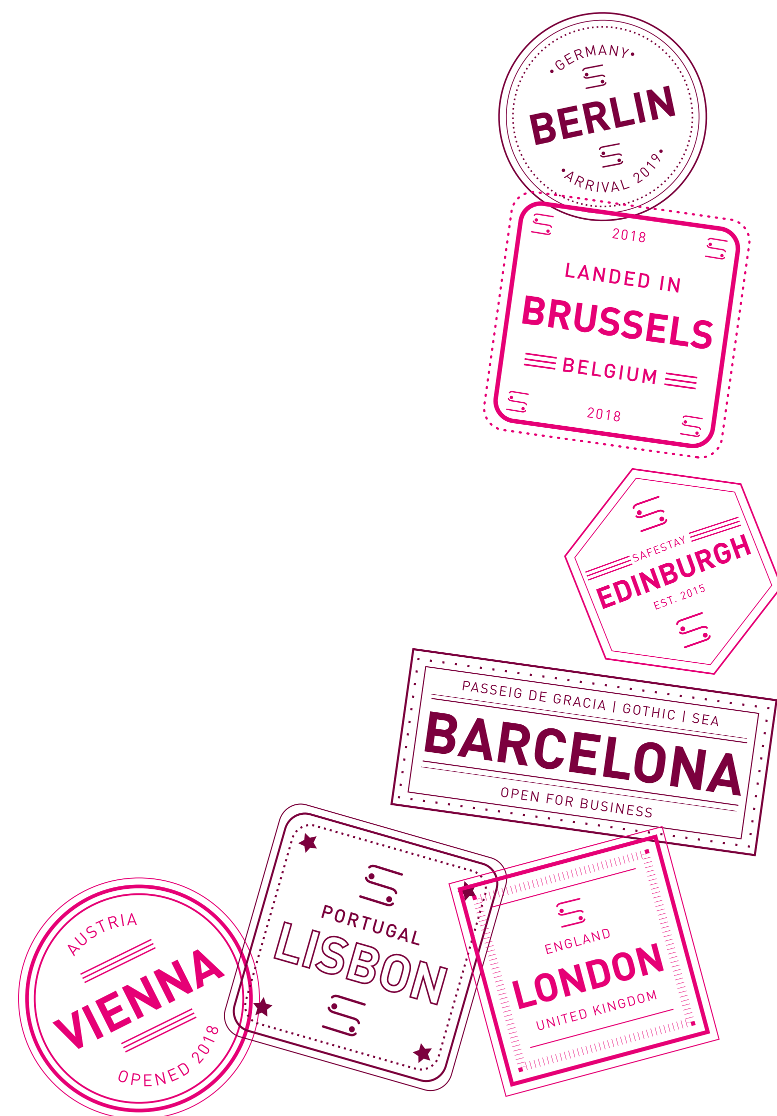
Portugal
Lisbon

Poland
Warsaw

Slovakia
Bratislava

Spain
Barcelona Sea
Barcelona Gothic
Barcelona Passeig de Gràcia
Madrid

UK
London Elephant & Castle
London Kensington Holland Park
Edinburgh
York
Glasgow



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