

Company Registration No. 8866498

Safestay plc

Report and Financial Statements

31 December 2020



Safestay plc

Report and financial statements 2020

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Chief Finance Officer & Company Secretary
Non-Executive Director
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Chairman's statement

2020 Financial highlights

- Government enforced trading restrictions due to Covid-19, meant the Group's 18 hostels were closed for 56% of 2020, reflecting this, total revenues decreased by 74% to £4.8 million (2019: £18.4 million)
- 38% occupancy achieved over the period when the hostels were open (2019: 77%)
- Adjusted EBITDA loss of £2.0 million (2019: £6.1 million)
- Loss before tax of £10.1 million (2019: loss of £0.6 million)
- Loss per share 11.88p (2019: loss of 1.48p)
- In 2019, additions to goodwill were overstated by £368k due to a historic consolidation entry posted to correct an apparent error in opening reserves. This error has been provisionally corrected by restating opening retained earnings at 1 January 2019. This temporary correcting entry to reserves has resulted in a qualification of the 2020 audit report. There has been no impact on net assets reported in 2019, or the results reported for that year.

2020 Operational highlights

- Acquired and opened 3 properties in the tourist cities of Athens, Bratislava and Warsaw in January
- Completed the renovation of the Brussels property and increased the capacity to 185 beds in February
- Completed the conversion of the Glasgow hotel into a 251 bed hostel in March
- In response to the pandemic, hostel cost base was reduced by 50% by November
- Monthly cash burn reduced to £0.35 million since November 2020 to mitigate the impact of the latest lockdowns
- The £5 million overdraft agreed in March 2020 with HSBC was converted into a £5 million CBILS in December 2020

Post-year end – 2021 year to date highlights

- Leasehold in the Barcelona Sea hostel sold on 26 February 2021 for £0.8 million
- Completed sale of the 150-year lease interest in the Edinburgh hostel on 30 June 2021 for £16.0 million
- Combined hostel sales will enable the Group to reduce borrowings by 35% and have sufficient capital to support the Group's transition back to being fully operational
- In July, the bank debt was reduced to £18m, and the Group had cash balances of £6.3m
- Re-opening of the hostels began in May, currently 16 hostels are now trading with the remaining 2 hostels scheduled to open in the summer

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Chairman's statement

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

"2020 was an extraordinary year which brought the global travel industry to a near standstill. For Safestay, our hostels closed for more than seven months which is clearly reflected in our trading performance. Like others, our focus switched to first protecting the business and then securing the capital to enable the business to re-emerge strongly. In this we have been successful, through first substantially reducing our cost base, taking advantage of government grants and renegotiating rental terms with our landlords. As a result, our monthly fixed costs reduced from £1.0 million to £0.35 million. More recently, we completed the sale of two assets to raise £16.8 million giving us sufficient capital to compete strongly for when the market recovers, and new opportunities arise."

Introduction

Our results for the year to 31 December 2020 reflect the exceptional circumstances our industry has faced due to the COVID-19 pandemic. Our strategy at the outset of 2020 was to continue the expansion of our portfolio and capitalise on the economies of scale available from our growing network of hostels. We pursued this strategy successfully in the first 2 months of 2020 with the opening of 3 new properties in Athens, Bratislava and Warsaw and saw sales increase by 28%. However, from March 2020 onwards, the pandemic began to impact the business which necessitated a change in short term strategy.

Response to COVID-19

On average our hostels were open for just 44% of 2020. They were first closed in April 2020 when lockdowns began in the cities where Safestay operates. The Group re-opened in Berlin on 26 May 2020, in Vienna on 10 June 2020, and all other hostels re-opened by 28 August, except for London Kensington Holland Park and Barcelona Gothic hostels, locations where the Group operates more than one property.

Operational procedures were fully adapted to the new safety protocols and standards to keep both customers and employees safe. Occupancy gradually increased week after week in July and August. However, the second wave of lockdowns led to the commercial decision to close all hostels from November 2020 and only in May 2021 did the reopening programme begin.

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. In total the rental cash charge was reduced by £1.4 million in 2020. In addition, from October 2020 the directors and management agreed to reduce salaries by 40%. As a combined result of all these actions, the monthly fixed cost base of the Group has been significantly lowered from £1.0 million to approximately £0.6 million during the first lockdown and to £0.35m since November 2020.

The Company agreed an additional £5.0 million overdraft from HSBC in the first weeks of the crisis in April 2020. This overdraft was subsequently converted into a £5.0 million government backed CBILS loan in November 2020 providing a longer-term funding structure, reflecting the longer-term impact of the pandemic.

Our hostels commenced re-opening in May 2021 with the initial focus on serving individual domestic customers while demand from groups and international travel remain limited. Safety protocols which had

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Chairman's statement

already been successfully implemented and tested during the summer after the first lockdown, are still in place in compliance with local regulations in each country where Safestay operates.

Financial Results

AIM Regulation granted an extension to the 2020 annual reporting deadline beyond 30 June 2021. A delay occurred as additional time was required to complete audit work due to COVID related challenges, mainly resource availability, and completion of technical matters to finalise the audit.

During the audit of the 2020 accounts, it was highlighted that an error in goodwill, reported in 2019, had been identified which was associated with the 2015 Edinburgh hostel acquisition, just before we completed the disposal of the Hostel in June 2021, for a consideration in excess of the carrying value in the accounts. Management have temporarily posted the adjustment against opening retained earnings at 1 January 2019 and have restated the previously reported goodwill balance accordingly. Management will identify the source of this error during the year ended 31 December 2021 and will make any correcting accounting entries that may be required. However, management are satisfied that the error does not affect net assets reported at 31 December 2019 or the loss for that year.

Based on 5 years of audited accounts from Grant Thornton UK LLP, aside from the basis of qualification, the board are satisfied that the integrity of the underlying books and accounts of its subsidiary undertakings remain robust, and that the balances relating to the qualification arise from an error in the consolidation workings, that will be eliminated in 2021 with the accounting for the disposal of the Edinburgh Hostel.

Revenue

Group revenue for the financial year ended 31 December 2020, decreased by 74% to £4.8 million (2019: £18.4 million). The revenue in 2020 does not include the £0.8 million of grants received from governments and local authorities in all locations where Safestay operates, which are reported separately, in administrative expenses for the £0.4 million payroll grants and as exceptional income for the £0.4 million other grants. 49% of the revenue came from non-UK properties (2019: 49%). The reduction in revenue was similar in the UK (-74%) and non-UK properties (-74%).

The reduction in revenue was consistent across all revenue streams. Room revenue reduced by 76% to £3.6 million (2019: £15.1 million) and Food & Beverage revenue as well as ancillary revenue were both down 70%, to £0.7 million (2019: £2.5 million) and £0.1 million (2019: £0.4 million) respectively. The rental income, mainly coming from the rooms let to the University of Edinburgh during the academic year, was stable at £0.4 million.

Adjusted EBITDA

Adjusted EBITDA provides a key measure of performance. Adjusted EBITDA for the year to December 2020 was a £2.0 million loss (2019: £6.1 million profit). Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and rent charges in the period.

The Group implemented IFRS16 standard (Lease accounting) in 2019. Since the introduction, the charges relating to leaseholds changed where rental expenses were replaced with an interest charge and depreciation of the leased asset.

Safestay Edinburgh and Safestay Elephant and Castle leases were transitioned to IFRS16 along with other leaseholds and presented as such in the 2019 audited accounts. The accounting treatment of these leases

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Chairman's statement

were revisited as part of a review of the balance sheet, and it was identified the leases should be reclassified. In 2017, Safestay completed financing transactions on these two properties, raising gross cash proceeds of £12.6m. The sale was agreed with an institutional buyer in exchange for 150 year geared ground rent leases. The significant risks and rewards of ownership were retained, and the exercise to repurchase these properties is "almost certain". The contracts took the legal form of the sale and leasebacks. However, the economic substance of the original transactions in 2017 meant that both leases have historically been treated as owned by Safestay. Therefore, the transactions should continue to be accounted for as owned, and the liabilities reported as financial liabilities.

To reflect both Safestay Edinburgh and Safestay Elephant and Castle financing arrangements in the accounts correctly, there has been a reclassification from the Right of Use assets to leasehold land and buildings, and the Lease Liabilities to property refinancing transactions in Borrowings. On reclassification, there is nil impact on the Consolidated Income Statement and the key performance indicators of the Group. The Adjusted EBITDA below for 2019 was restated to reclassify the depreciation on Edinburgh and Elephant and Castle from Right of Use depreciation to assets under finance lease depreciation. Therefore, there is nil impact on the statement of changes in equity.

Adjusted EBITDA is as follows:

	Restated	
	2020	2019
	£'000	£'000
Operating Profit after exceptional expenses	(7,334)	1,923
<i>Add back:</i>		
Restated Depreciation	1,541	1,185
Restated Right of use depreciation	2,459	2,139
Amortisation	199	189
Impairment	1,491	-
Exceptional expenses	261	585
Rent forgiveness	(904)	-
Share based payment expense	280	34
Adjusted EBITDA	(2,007)	6,055
Rent	(2,844)	(3,242)
EBITDA	(4,851)	2,813

The exceptional expenses totalled £0.3 million and included costs in relation to acquisitions made in 2020, and debt fees write off due to re-financing.

Share-based provision was increased partly due to salary replacement with share options during COVID-19.

Following the acquisition of a leasehold in Berlin in 2019 and 3 leaseholds in Athens, Bratislava and Warsaw in 2020, the annual rent charge would have increased from £3.2 million in 2019 to £3.8 million in 2020 in absence of the £0.9 million rent reduction negotiated with the landlords between April and December 2020.

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Finance Costs

Finance costs in 2020 were £2.7 million (2019 (restated): £2.6 million) as follows:

	Restated	
	2020	2019
Lease interests	1,558	1,448
Property financing costs	343	337
HSBC debt facility interests	625	589
Other finance charges	224	184
Finance costs	2,750	2,558

2019 Finance Costs has been restated on reclass of the property finance liabilities on Edinburgh and Elephant and Castle from Lease liabilities resulting in a transfer from Lease interests to Property financing costs.

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 increase was secured against the re-valuation of the London Elephant & Castle property completed in September 2019 for £26.8 million versus £16.0 million when it was last valued in 2017. The terms are similar to the previous facility, with interest cost of 2.45% + LIBOR and the same covenants as before. The impact of the increase in the capital on the interest charge in 2020 was partly offset with the reduction in LIBOR from 0.82% in 2019 to 0.38% in 2020.

The £5.0 million government backed CBILS loan was secured for 6 years on 16 December 2020, to replace the £5.0 million overdraft which was temporarily agreed in April 2020 with HSBC at the start of the pandemic. It is interest free in the first year, increasing to 3.9% + base rate from year 2.

In addition, the Company received two government backed loans in Germany (£0.2 million) and Austria (£0.3 million).

Since the introduction of IFRS 16 from 1 January 2019, our hostel leases have been accounted for as lease liabilities. At the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The rental charge is replaced with interest and depreciation. In 2020, the finance costs include £1.5 million of lease interest (2019: £1.4 million), of which £0.1 million interest charge relates to the 3 additional leases signed in January 2020 (Athens, Bratislava and Warsaw). The £0.9 million reduction negotiated with our landlords in 2020 was treated as a rent forgiveness in administrative expenses in full in 2020.

Earnings per Share

Basic loss per share for the year ended 31 December 2020 was 11.88p (2019: loss 1.48p) based on the weighted number of shares, 64,679,014 (2019: 64,679,014) in issue during the year.

The Company made a £7.7 million net loss in 2020 (2019: £1.0 million).

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Cash flow, capital expenditure and debt

Net cash generated from operations was (£4.3) million (2019: £5.2 million). The £13.6 million reduction in income from the hostels was partly offset by a £5.9 million reduction in costs, net of grant income. The hostel and the majority of the central teams were furloughed during the lockdowns, and the head office cost structure has been significantly reduced since November 2020 when the directors and senior management agreed to reduce their salary by 40%. The rental charge was reduced by £1.4 million via a mix of reduction (£0.9 million) and deferments (£0.5 million). In addition, all capital expenditure has been stopped from March 2020.

The Group had cash balances of £2.1 million at 31 December 2020 (2019: £3 million).

Completed Acquisitions in 2020:

- £1.3 million was invested in January in the acquisition of a leasehold of an existing 132 bed hostel in Athens.
- £0.7 million was invested in January in the acquisition of two entities in Slovakia and Poland which owned the leaseholds of an existing 124 bed hostel in Bratislava and an existing 158 bed hostel in Warsaw respectively. These entities were both acquired from the same owner, Dream Management Group Ltd. As part of the transaction, the Company repaid 2 external debts for a total of £1.7 million.

The 3 leases are capitalised in our balance sheet under IFRS 16 and have increased the total lease liability by £3.2 million. All 3 hostels were in a good condition and could be converted to the Safestay brand immediately with no additional work.

The Group completed the renovation of the Brussel property in February 2020 for £0.3 million, taking the opportunity to increase its capacity to 185 beds.

The 51 bedroom hotel which was acquired in Glasgow in 2019 was renovated and converted into a 251 bed hostel in March 2020 for £0.4 million.

In 2019 the Group had started a programme of renovation, which included the renovation of our hostels in Lisbon, Barcelona Passeig de Gracia and Barcelona Gothic, all completed by March 2020. From March 2020, all investment projects were paused and will be reconsidered when the Group has clarity on the hostel re-opening dates, booking levels and availability of funding. This includes the conversion of the 32 Bedroom hotel in Berlin into a 200 bed hostel.

Outstanding bank debt as at 31 December 2020 was £28 million (2019: £17.7 million). This includes a £22.9 million loan with HSBC (2019: £17.9 million), minus the £0.3 million amortised loan fees (2019: £0.2 million), the £5.0 million government backed CBILS loan received in December 2020, and the 2 government backed loans received via our local entities in Germany and Vienna for £0.2 million and £0.3 million respectively. The lease liabilities amount to £38.6 million (2019: £35.9 million). The liabilities were increased by £3.2 million when the Company acquired 3 leases in Athens, Warsaw and Bratislava in January 2020, and by £1.3 million following the 5 year lease extension agreed for our hostel in Madrid. In addition, the Company benefited from rent forgiveness for £0.9 million in the period.

The gearing ratio (exclusive of lease liabilities and property financing transactions) has increased from 52% in 2019 to 99% in 2020 following the £10.3 million increase in loans and the £7.3 million decrease in Equity. Subsequent to the year end, following the sale of Edinburgh, the gearing ratio dropped to 73%. The HSBC debt covenants are waived until June 2021, and then adjusted until September 2022 to reflect the current trading performances of the Group.

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Net asset value per share reduced to 44p (2019: 55p) as a result of the net loss reported in 2020.

Despite the material uncertainty resulting from the impact of COVID-19 and the resulting travel restrictions and ability to meet bank covenants, the directors believe the existing cash and facilities in place and the £16.0 million proceeds from the Edinburgh disposal, will 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.

2020 Qualification

- In 2019, additions to goodwill were overstated by £368k due to a historic consolidation entry posted to correct an apparent error in opening reserves. The original goodwill related to the acquisition of Edinburgh hostel acquisition completed in 2015.
- Management have investigated this error and their findings, to date, and not yet identified sufficient evidence to support the correcting entries required. They have, however, determined that the error does not affect the net assets reported at the end of 2019 or the loss for the year either. Management has, therefore, concluded that the error must relate to earlier periods.
- Management have temporarily posted the adjustment against opening retained earnings at 1 January 2019 and have restated the previously reported goodwill balance accordingly. Management will identify the source of this error during the year ended 31 December 2021 and will make any correcting accounting entries that may be required.
- In view of the material nature of the temporary adjustment, our independent auditors, Grant Thornton UK LLP, have modified their audit opinion because of this.
- As a post balance sheet event, Safestay disposed of Edinburgh for £16m in consideration, significantly more than book value, and all balances relating to Safestay Edinburgh will be subsequently disposed of in 2021 financial statements.

Operational Review

2020 was a frustrating year in many respects especially considering the strong sales momentum being generated across the network up until February 2020 when COVID-19 started to impact the world economy and the travel industry even more so. Until then we had successfully demonstrated that the Safestay model, which was originally developed in the UK, is well suited to the whole of the European market and that we could establish a profitable site in multiple locations.

Safestay is positioned at the premium end of the hostel market and the service offer is of a high standard. In 2019, the Group began a renovation programme to maintain these standards. Once the business returns to normal we expect to re-commence this programme which supports our ability to maintain the Company's premium positioning and guest satisfaction scores in excess of 80 (out of 100).

We have reopened 16 out of 18 properties, and there is naturally a relatively gradual build up in activity. Fortunately, the business is flexible, and we have returned staff from furlough as momentum is building. Our main concern is that once the business reopens it remains open.

Critical to our re-opening plan was our digital marketing team and together with investment into our company website and booking engines, we are targeting individual travellers where we expect most of the initial demand to come from as larger Groups are unlikely to come back in the short term. Ultimately,

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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 last acquisitions in Bratislava, Athens and Warsaw, the Group has built a unique network in Europe which 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 and economic volatility.

The Board

Peter Harvey joined the board as CFO and Company secretary on 21 May 2021. Peter brings with him many years' experience in the retail, leisure and hospitality sectors, from both listed and private organisations. His extensive experience in our sector, not only as a CFO but also as a commercial and operational leader will be of great benefit to Safestay as we re-open our hostels and resume our expansion plans. Hervé Deligny has decided to step down from the position of Chief Financial Officer and Company Secretary and I would like to thank him, on behalf of the Board, for his contribution over the last 3 years to support the growth of the Company and secure its financial position during the Pandemic.

Outlook

Safestay has been at the forefront of the modernisation of the hostel market over the last 5 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 a bed rate of around just £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.

From a financial perspective, following the successful sale of the Barcelona and Edinburgh hostels, this has facilitated a 35% reduction in Group borrowings as well as providing us sufficient cash to reset our hostels and re-engage as restrictions lift. Our hostels are now nearly all open and while it is early days we can see a clear path to returning to normality.



Larry Lipman
Chairman
30 July 2021

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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 leasehold.

The Business Model

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

- **Development:** Identifying potential properties in target cities, acquiring the leasehold or freehold in 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 and the need to act in a way the directors consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard, amongst other matters to:

- the likely consequences of any decisions in the long term;
- the interests of employees;
- the need to foster business relationships with suppliers, customers and others;
- the impact of operations on the community and environment;
- the desirability of maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

This duty underpins the Board's decision-making processes and the Group's strategic direction, with due consideration given to the long-term impact of its decisions on shareholders, employees, customers and wider stakeholders. Practical measures that the Board takes to ensure the interests of these stakeholders are reflected in the Board's decision-making process are as follows:

- **Customers**

Customer engagement 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. This communication channel was used throughout the pandemic to maintain a close connection with our customers when the hostels were closed during the Pandemic.

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As a result of engagement with customers, due to the impact of Covid-19, the decision was made that the period customers were able to re-book their stay would be extended. In addition the bookings were made more flexible and could be transferred to other hostels, if the hostel they had booked at remained closed.

- **Employees**

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. Except for the period when meetings are impacted with social distancing measures and travel restrictions, some board meetings would 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.

Particular consideration this year was given to the most effective way of engaging with employees in the home-working environment which resulted from the pandemic. Employees were provided with additional equipment and training to support effective online collaboration.

Social media is used amongst the teams to encourage regular communication across the Group. Weekly team meetings, which all happen remotely via video conferencing systems, have continued to take place with managers during the pandemic to maintain a strong level of engagement amongst the teams and make a smooth transition towards re-opening the hostels when restrictions end.

As a result of Covid-19 the Company engaged with employees to manage the liquidity of the business including the offering of share options in respect of salary replacement, with a one year vesting period.

- **Suppliers**

Where possible, the Company forms long-term relationships with suppliers, so that the Company and its suppliers have a more certain environment in which to operate. This also applies to landlords of the 15 hostels operated by the Group under lease agreements. The ability of the Company to build strong links with suppliers has been instrumental to successfully negotiating rent reductions and deferments during the pandemic and mitigate the closure of the hostels and the significant loss in income which has resulted.

- **Shareholders**

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

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Strategic Report

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 in between the lock downs 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, including discussions with and shareholder approval for the post year end sale of Safestay Edinburgh Hostel.

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/>

- **Engagement with the wider community**

The board ensures that decisions made are responsible and ethical by taking into consideration the wider society external to the organisation. The Group is committed to contributing to the community in which it operates as a business. The Company is using its footprint in each country to encourage local initiatives via the local management and staff.

- **Environment**

At Safestay, we are focussed on achieving a sustainable future and are aware of our impact on the environment by having socially responsible initiatives. We minimise the use of plastics wherever possible and reuse and recycle the plastic we do use. In the future, we aim to incorporate water-saving products in our showers to encourage our guests to be mindful of water wastage.

- **Anti-bribery**

The Company is committed to the prevention of bribery by those employed and associated with it and is committed to carrying out business fairly, honestly and openly, with zero-tolerance towards bribery. All employees have a responsibility to prevent, detect and report all instances of bribery as stated in our employee handbook.

Review of business and future prospects

Key Metrics

	2020	2019
Occupancy %	37.9%	77.3%
Average Bed Rate	£18.3	£21.4
Room Revenues (£'000)	3,570	15,115
Total Revenues (£'000)	4,831	18,379
Net cash (used in)/generated from operations (£'000)	(4,347)	5,228
Net assets per share	44p	55p

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The occupancy is calculated by dividing the number of beds sold over the period with the number of beds available when the hostels were opened during the same period. It means that in 2020 the occupancy was calculated specifically for those days when the hostels were not closed due to the COVID-19 pandemic. The underlying business generated revenues of £4.8 million (2019: £18.4 million).

Operating loss before exceptional costs was £7.5 million (2019: £2.5 million profit) and an underlying adjusted negative EBITDA, as defined in the Chairman's statement, of £2.0 million (2019: £6.1 million profit) for the year to 31 December 2020. Loss before Tax is £10.1 million (2019: £0.6 million). The business was severely impacted by the pandemic in 2020 and the loss does not reflect the underlying healthy business model which was cash generative in 2019 and was expected to break even in 2020 when the Company hit the critical mass of 18 hostels to absorb the central cost of managing the pan-European platform.

2020 was a challenging year which both impacted the results of the Group but also significantly slowed down our expansion plan. However, it was also an enriching year which demonstrated the resilience of the teams in the hostels and head office, and their ability to pivot under exceptional circumstances. It was also comforting to benefit from the support of our bank, landlords and shareholders, reflecting their confidence in the model developed so far, and the value of the Safestay brand.

In January 2020, the Group completed the acquisition of 3 leaseholds in line with the European expansion strategy started in 2017. £1.3 million was invested in the acquisition of a leasehold of an existing 132 bed hostel in Athens. £0.7 million was invested in January in the acquisition of two entities in Slovakia and Poland which owned the leaseholds of an existing 124 bed hostel in Bratislava and an existing 158 bed hostel in Warsaw respectively. These entities were both acquired from the same owner, Dream Management Group Ltd. As part of the transaction, the Company repaid 2 external debts for a total of £1.7 million. As a result, the network has grown to 18 hostels in 2020 comprising 3,937 beds at the end of 2020, which establishes its position as one of the leaders in the hostel arena. The Group is currently not committed to any future acquisition projects or development. However, the Group is hoping to capitalise on this position to seize opportunities and aggregate a fragmented market which will have become even more inclined to consolidate following the COVID-19 period.

The Group completed on the disposal of 2 hostels in 2021 to provide the Company with the necessary funding to meet the short-term and mid-term cash requirement. The Sea hostel was sold in February 2021 for a £0.8 million consideration, and the Edinburgh hostel was sold for £16 million in June 2021. The combination of these disposals and cost saving measures which have been implemented by management since March 2020, as detailed in the Going Concern section of the Director's report, will allow the Group to continue as a going concern.

Social matters

Safestay provided jobs for over 350 people pre COVID-19. This number has significantly reduced since March 2020 whilst the hostels were temporally closed, and most of the staff employed by the Company during this period were on furlough. We are expecting to progressively re-hire and take our staff off furlough from May 2021 when we start our re-opening plan.

The Company operates in 12 different countries and has established local operating entities in each of the countries where our hostels are located. This gives us the ability to hire employees locally and offer them employment contracts and social benefits in full compliance with each relevant jurisdiction. This also includes the relevant level of hospitality training as well as mandatory training courses.

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Maintaining a reputation for high standards of business conduct

The Board is mindful that the continued growth and success of the Group is dependent upon maintaining high standards of business conduct, including:

- The ability to successfully compete within the market, to attract and retain clients, and to service clients these to a high standard;
- The ability to attract and retain high quality employees;
- The ability to attract investors and to meet their expectations of good governance and sound business conduct;
- The ability to meet the Group's regulatory obligations, and to meet the expectations of relevant regulatory bodies.

This awareness underpins the formulation of the Group's strategy and is evident throughout the Board's decision-making process.

Ensuring that members of the Company are treated fairly

The Board ensures that the Group's shareholders are treated equally and fairly, regardless of the size of their shareholding or their status as a private or institutional shareholder. The Group provides clear and timely communications to all shareholders in their chosen communication medium, as well as via the Group's website and via a Regulatory News Service. All holders of Ordinary shares are to vote at general meetings of the Company.

Environment

The Company has several initiatives to achieve a sustainable future and plans to continuously increase its effort in this area in the future. As an example, in all Safestay properties, we minimise the use of plastics wherever possible and reuse and recycle the plastic we do use. We also currently incorporate methods to reduce our CO2 emissions in our hostels. In the future, we would like to incorporate water-saving products in our showers to encourage our guests to be mindful of water wastage.

We offer to our guests the opportunity to test their carbon impact by using an online carbon calculator on our website with the aim to increase the overall awareness and desire to act responsively during their journey.

More information is available on our website at <https://www.safestay.com/corporate-social-responsibility/>.

Employee diversity

The following table reports on the gender diversity of the Group's employees at 31 December 2020:

	Male	Female
Directors	6	0
Senior Managers	3	2

Employment of disabled people

It is the policy of the group to employ disabled persons in the job suited to their aptitudes, abilities and qualifications whenever practicable, endeavour to continue the those who become disabled whilst in the

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Group's employment and to provide disabled employees with the same opportunities for promotion, career development and training as those afforded to other employees.

Human rights

The Company is committed to respecting human rights within our business by complying with all relevant laws and regulations. We prohibit any form of discrimination, forced, trafficked or child labour and are committed to safe and healthy working conditions for all individuals, whether employed by the Company directly or by a supplier in our supply chain.

Legal and ethical conduct

The Company has comprehensive measures to meet its statutory requirements across all areas of its operation, and those expected by our customers and employees, as necessary, for the long-term success of the business. Risks in this area can occur from corruption, bribery, and human rights abuses, including discrimination, harassment, and bullying. The Company has training programmes for all employees. We take a zero-tolerance approach to bribery and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate and implementing and enforcing effective procedures to counter bribery as documented in the Company anti bribery policy signed by the directors.

Principal risks and uncertainties

Management has completed a full review of the risks which may arise from within or outside the business and may have an impact on the Company. The results are consolidated in a Risk assessment report shared with the Board. For each risk, the report sets the risk level, from "low" to "high", and the likelihood, from "extremely remote" to "present". It also describes the actions which have been implemented or will need to be introduced to reduce the risk level or mitigate the impact on the Company. This assessment report is regularly updated as the Company is growing and entering new jurisdictions, also taking into consideration new events affecting the macroeconomic environment, such as the COVID-19 pandemic.

COVID-19 was also identified as an emerging risk for the period ending 31 December 2019 as it arose as a post balance sheet event. The Group's operations have a relatively limited impact on the environment, and therefore climate change has not been identified as an emerging risk. No other emerging risks have been identified at this point. There has been no identified change in the principal risks and uncertainties.

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

- **COVID-19**

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

From an operational perspective, our safety protocols have already been tested during the summer 2020 after the first lockdown and our hostels and teams will be ready when we re-open from May 2021, focused on protecting employees and guests against the risk of the COVID-19. The Company website has been updated to inform guests of the new safety protocols.

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We have set out a *safety standard* that is being deployed across all Safestay properties and involves 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.

When a hostel re-opens, the following measures are implemented:

- Treatment of all high-touch areas with additional hospital grade disinfectant/sanitiser. 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.
- 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.

We expect that protocols will then be lifted progressively as the restrictions are removed, in line with local and international guidance and regulation.

• 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 in the UK had continued to increase until 2020 when full relief was introduced from April 2020 until June 2021 as part of the government support measures.

A proportion of Safestay's business in the UK comes from Europe, including several school groups. In addition, nearly half of the turnover is coming from hostels located in mainland Europe. The business is therefore highly vulnerable to changes in the source market, schools' education, travel policies and any fluctuations arising in the market from the 'Brexit' process and travel restrictions implemented by the governments, or the school governance bodies.

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, as we expect that the existing supply within the competitor set will temporarily reduce, until the industry expands again. However, provision of new supply will increase again with the opportunity for real estate owners to repurpose and convert existing buildings previously used for retail or offices. Safestay's defence to such threats is the combination of our premium locations and high standard of accommodation and operations.

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As supply increases, the business' focus on revenue, customer service, and sales and marketing activity is key to protect and grow market share, brand loyalty and reputation.

- **IT and system risks**

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 believes 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.

The Company contracts the maintenance of the IT infrastructure with an external provider. This is a more robust and flexible option compared to an in-house solution. In January 2020, the Company has introduced a cloud based back up system to secure all data which are not already covered via other SaaS suppliers. The Company has not suffered any major infrastructure issue in the last years.

- **Expansion and regulatory risks**

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, and the fact that the market should offer more real estate opportunities in the coming years, there is no guarantee that future opportunities can be secured, even if it is expected that the market will offer real estate opportunities when emerging the COVID-19 crisis and existing property owners look for alternative to office and retail asset classes.

Expansion in new jurisdictions and changes in regulation in countries where Safestay already operates is creating an environment where it is more likely to be in regulatory breach compared to a group which would only trade in one country. Safestay plc is a listed business and as such is bound to a very high level of compliance. The Board is composed of 6 experienced non-executive and executive directors who all have a proven experience in hospitality and strong understanding of regulatory and compliance topics. Moreover, the Group works with local law firms in each country where it operates to gain access to the local expertise and guarantee full local compliance, notably via the obtention of relevant licenses. As opposed to other hospitality sectors such as sharing economy or private rental, the hostel sector is built on strong regulation existing fundamentals and existing trade licenses which makes it less likely to introduction of more strict regulations.

- **Financial risk**

The main £22.9 million facility with HSBC ends in January 2025. In December 2020, the Group received a £5.0 million CBILS (Coronavirus Business Interruption Loan Scheme) via HSBC. The CBILS will be repaid at a rate of £1.0 million per year from March 2022 until December 2026. The main £22.9 million facility is interest only from July 2021 since the Company made a £10.0 million repayment following the completion of the Edinburgh hostel disposal on 30 June 2021. These loans provide an efficient base from which to grow the business at a reduced 2.95% margin over SONIA for the main facility and 3.9% margin over base rate from year 2 for the CBILS. The CBILS is interest free in the first year.

UK LIBOR is no longer used and has been replaced with SONIA plus a spread adjustment. Any increases in SONIA or base rate will increase the cost of these loans and therefore impact the net profit of the business

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(a 0.5% change in interest rate would impact the net profit before tax by £140,000). 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
30 July 2021

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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 2020.

Directors

The directors who have served in the year to 31 December 2020 were as follows:

Larry Lipman

Nuno Sacramento

Stephen Moss CBE

Michael Hirst OBE

Anson Chan

Paul Cummins (Alternate director for Anson Chan)

Hervé Deligny (resigned 25 May 2021)

Directors' and senior management biographies

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 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 sits 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.

Peter Harvey recently joined Safestay as our CFO and brings with him many years' experience in the retail, leisure and hospitality sectors, from both listed organisations including Whitbread Plc, Tatts Group (ASX), Domino's Pizza (Nordic) and Teva Pharmaceuticals (NASDAQ / TASE), as well as private organisations including Carlson Group, SH Pratt Group, Hummus Bros, and Nomura PFG's Threshers business. As well as being a finance professional, Peter has vast commercial and general leadership experience, most notably at Tatts Group, where he held both CFO and COO to transform the business and deliver a successful exit. A passionate believer in people to make a real difference, he creates successful environments by driving performance through people and making its customers the greatest advocates, Peter believes this winning team mentality comes from a legacy of early years sporting success as an International Schoolboy footballer and FA coach. Although golf is now his sporting passion, football remains a passion from a spectator perspective, but it's his family that provides his greatest joy.

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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 President, and its board and corporate partners include many of the UK's top hotel groups. He is now Chair of London Youth, 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 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. He is a non-executive Director of CP Holdings Ltd, a diversified industrial and services group, which includes hotels and thermal medical health spas in Central Europe. He is a former 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. In 2002 he was awarded the OBE for his service to tourism in Britain.

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 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' 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:

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Directors' report

	Ordinary shares of 1p each	
	Fully paid number	Percentage %
Larry Lipman	346,054	0.5
Stephen Moss	233,988	0.4
Herve 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 2020. 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 2020.

Directors' interests in options over the equity share capital of the Company at 31 December 2020 were as follows:

	Granted	Lapsed	At 31 Dec 2020	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
	400,000	-	400,000	33p	02/10/2023	01/01/2030
	37,100	-	37,100	9p	31/10/2021	30/10/2028
	20,900	-	20,900	16p	30/11/2021	29/11/2028
	25,700	-	25,700	13p	31/12/2021	30/12/2028
Hervé Deligny	500,000	-	500,000	34p	29/04/2022	28/04/2029
	300,000	-	300,000	33p	02/01/2023	01/01/2030
	61,200	-	61,200	9p	31/10/2021	30/10/2028
	34,400	-	34,400	16p	30/11/2021	29/11/2028
	42,400	-	42,400	13p	31/12/2021	30/12/2028
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
	300,000	-	300,000	33p	02/01/2023	01/01/2030
	46,300	-	46,300	9p	31/10/2021	30/10/2028
	26,100	-	26,100	16p	30/11/2021	29/11/2028
	32,100	-	32,100	13p	31/12/2021	30/12/2028
Michael Hirst	4,600	-	4,600	9p	31/10/2021	30/10/2028
	2,600	-	2,600	16p	30/11/2021	29/11/2028
	3,200	-	3,200	13p	31/12/2021	30/12/2028
Stephen Moss	11,200	-	11,200	9p	31/10/2021	30/10/2028
	6,300	-	6,300	16p	30/11/2021	29/11/2028
	7,700	-	7,700	13p	31/12/2021	30/12/2028

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The options granted in the last 3 months of 2020 were received by the directors in exchange for a 40% reduction in their salary to reduce the operating costs of the Group during the lockdown period.

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 30 April 2021.

	Ordinary shares of 1p each	
	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 Lansdowne 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 (2019: 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 Accounting Standards in conformity with the requirements of the Companies Act 2006. 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 International accounting standards in conformity with the requirements of the Companies Act 2006, 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.

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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 2020, the directors have authorised no such conflicts or potential conflicts in accordance with the above procedures.

Going concern

The Company is reporting a significant loss in 2020 when the business was severely impacted by the pandemic and the hostels on average have been open for just 44% of the year. Travel restrictions and local lockdowns are still impacting some of the countries where the Company operates in Europe. As a result of these events, a material uncertainty exists that may cast significant doubt regarding the Company's ability to continue as a going concern.

However, the Group's strategy to develop and expand the premium hostel offering provided by the Group within the UK and through its European acquisitions had proved successful until February 2020 and we expect that the Company will start generating cash from its operation when restrictions are lifted in 2021, and the travel industry recovers in 2022.

The directors have reviewed the measures implemented by management to reduce the cash burn of the Company since the start of the outbreak. The monthly fixed cost base was reduced from £1.0 million to £0.6 million during the first lockdown in the second quarter of 2020, and further reduced to £0.35 million since the second wave of lockdowns were introduced in November 2020. These reductions are the results of the combined impact of the following actions implemented by management during this period:

- The Company has taken advantage of the employment support governmental schemes in all jurisdictions where they were available, including the job retention scheme in the UK and similar schemes in the 10 other countries where Safestay operates hostels.
- Variable operational costs in the hostels were mechanically reduced to zero with the absence of revenue. The fixed operational costs, exclusive of insurance, rent and property taxes, were reduced to £0.15 million during the first lockdown and to less than £0.1 million since November 2020 until the hostels reopened. The Company maintains a minimum level of spend in safety, utilities and maintenance to keep the properties in a good condition whilst they are closed.
- The Company has benefited from business rates reliefs for the 5 hostels operated in the UK since April 2020. This scheme is extended with full relief until end of June 2021 and will continue with a 66% relief until March 2022.
- The Company has liaised with landlords to obtain a £0.9 million rent reduction for the period April to December 2020. In addition, the landlords have agreed to defer £0.5 million in rent which will be repaid

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in majority after 2022. In total, the rental cash payments have reduced by 50% on average per month since April 2020.

- Operating costs in the head office have reduced by 50% to adjust the team and spend to this unprecedented context. This includes a 40% reduction in salaries for Directors and senior management in exchange for share options since October 2020.

The Company received £16.0 million proceeds from the disposal of the Edinburgh hostel which completed on 30 June 2021. Following completion, the £1 million overdraft facility was removed, and £10 million of HSBC debt was repaid. The cash in bank was £6.3 million on 19 July 2021.

Since the start of the Pandemic, management has continuously updated and adjusted the cash forecast for the next months. The most recent forecast prepared in April 2021 for the period to 31 December 2022, assumes as a base case that the hostels would start to operate again from June 2021 in the UK and from July 2021 in the other locations. Under the base case scenario, it is expected that the hostels will operate at a level which will be reduced by 57% in the second half of 2021 and 10% in 2022 when compared to the revenue achieved in similar periods pre-COVID 19. 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 the new safety requirements in the hostels were factored into the budget. Under such assumptions, the Company expects that the cash reserve will stay above £2.0 million until end of 2022 reflecting the Edinburgh sale that completed in June 2021. The sensitivity of the model is such that each 1% variation in the annual revenue versus the base case has a maximum impact of 130k on the annual cash flow, when assuming no reduction in the fixed costs in the same period.

Management has also prepared a worst-case scenario whereby hostels would not re-open. In this scenario, the Company would have a funding shortfall from July 2022.

Both the base case and the worst case scenarios were built on the assumption that the disposal of Edinburgh which completed in June 2021.

The covenants of the existing debt facility were waived since June 2020. From June 2021 they are adjusted and replaced with adjusted EBITDA targets reflecting the current performances of the hostels since the first lockdown in April 2020. They will revert to the contractual covenants from September 2022 when it is expected that the Group will have enough trading history from the re-opening of the hostels in July 2021 to meet the 12 month historic Interest Cover (ICR) and Debt Service Cover (DSCR) ratios. Although the Company will meet its adjusted EBITDA targets and covenants under the base case scenario, a reduction of 10% in the sales versus base case would trigger a breach in the adjusted EBITDA target test from June 2022 and the DSCR historic ratio from September 2022. A reduction of 20% in the revenue versus base case would trigger a breach in the adjusted EBITDA target test from December 2021. It is expected that the Company would be able to adjust the targets with the bank to prevent a contractual breach if the business continued to be impacted with the travel restrictions beyond the conservative assumptions used in the base case. However, the ability to renegotiate these covenants is not certain.

Despite the material uncertainty resulting from the impact of COVID-19 and the resulting travel restrictions and ability to meet bank covenants, the directors believe the existing cash and facilities in place and the £16.0 million proceeds from the Edinburgh disposal, will 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.

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Directors' report

Post balance sheet events

- On 2 March 2021, the Group completed the disposal of the smallest of its three hostels in Barcelona, called Barcelona Sea to Beds and Foods Barcelona s.l.u. The consideration for the leasehold site with 96 beds was £0.8 million. The sale proceeds were used to repay the majority of the final element of the acquisition consideration due to Equity Point Holding Empresarial totalling £1.0 million, for the purchase in 2018 of the Barcelona hostel located in the avenue of Passeig de Gràcia, a much larger hostel offering 351 beds.
- On 26 March 2021, the Group entered into a sale and purchase Agreement to sell the Edinburgh Hostel to A&O for a cash consideration of £16.0 million. The transaction involved the sale of the Safestay Edinburgh Holdings Ltd entity, which owns the 150 year lease interest in the building under a ground lease agreement with Imperial Tobacco, and the transfer of the Hostel business from Safestay Edinburgh Hostel Ltd. Part of the proceeds of the disposal will be used to reduce debt with HSBC by £10.0 million. The Transaction was conditional upon Shareholder approval which was obtained at a general meeting of the Company held on 30 April 2021. The agreement includes other conditions precedent which are listed in the General Meeting Notice released on 1 April 2021. The sale completed on 30th June 2021.
- The Group is currently not committed to any future acquisition projects or development.
- In March 2021, the Chancellor has confirmed an increase in the main CT rate from 19 to 25 percent with effect from 1 April 2023. This would have a £0.4 million positive impact on the amount of Company deferred tax.

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

Safestay plc

Directors' report

- 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.

Exposure to risks

The Strategic Report includes a section discussing the risks and uncertainties which could affect the Company and how the Directors respond to it.

Financial risk management

The Group's financial instruments comprise bank loans and overdrafts, Lease liabilities, cash and cash equivalents, 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.

The Group does not have a significant concentration of credit risk, as the majority of its revenue is in cash. At the balance sheet date, the Company was exposed to a maximum credit risk of £1.3m, of which £0.02m was overdue. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

The Group's policy is to write off trade receivables and other receivables when there is no reasonable expectation of recovery of the balance due. Indicators that there is no reasonable expectation of recovery depend on the type of debtor/customer and include a debt being over 12 months old, the failure of the debtor to engage in a repayment plan and the failure to recover any amounts through enforcement activity. Subsequent recoveries of amounts previously written off are credited against other net operating charges in the income statement.

If there is no independent rating, an assessment is made of the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of and adherence to credit limits is regularly monitored.

The financial assets of the Group which are subject to the expected credit loss model under IFRS 9 'Financial Instruments' comprise finance lease receivables, trade receivables and other receivables. Other cash deposits and cash and cash equivalents are also subject to the impairment requirements of IFRS 9 however the impairment loss is immaterial.

Cash deposits with financial institutions and derivative transactions are permitted with investment-grade financial institutions only. There have been no such significant increase in credit risk of financial instruments since initial recognition

Safestay plc

Directors' report

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.

As outlined in going concern note 1, the business has been severely impacted by the travel restrictions and ability to meet its banking covenants as a result of Covid-19. The company produces an annual cashflow forecasts based on agreed budgets, and as a result of Covid-19 have monitored the cashflow forecasts on a weekly basis.

The business continued to manage its liquidity risk with the renewal of its debt facility with HSBC on the 13th January 2020 with a new facility of £22.9m for 5 years until 2025. In addition, a £5.0m bank CBILs facility was secured for 6 years on 16th December 2020, which is interest free for the first year increasing to 3.9% + base rate from year 2.

The business continues to service its debt and make the interest payments as they fall due. There are no off balance sheet financing arrangements or contingent liabilities.

While liquidity remains closely monitored the Sea Hostel was sold February 2021 for a £0.8m consideration, and the group agreed to sell the Edinburgh Hostel for £16m. The monthly cost base was reduced from £1.0 million to £0.6 million during the first lockdown, and further reduced to £0.35 million since the second wave of lockdowns in November 2020. The Sea disposal and sale of Edinburgh would provide sufficient headroom to manage liquidity in the short term, through to the end of December 2022, even if the impact of Covid-19 continued or the hostels remained closed. See note 1 going concern accounting policy.

Foreign currency risk

The group is exposed to foreign currency risk from overseas subsidiaries with group transactions carried out in Euros. Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in Euros. This risk is mitigated by each hostel holding a denominated bank account in the country of operation. The group monitors cashflows and considers foreign currency risk when making intra-group transfers

Interest rate risk management

The Group is exposed to interest rate risk on its borrowings. The £22.9 million main facility has an interest rate of 2.45% above the London inter-bank offer rate (LIBOR). When LIBOR is made redundant in January 2022, it will be replaced with either base rate or SONIA. The £5 million CBILs is interest free in year 1 and has an interest rate of 3.9% above base rate from year 2 until it is fully repaid at the end of year 6. The Group carefully manages its interest rate risk on an ongoing basis.

Safestay plc

Directors' report

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 2020, if interest rates were 0.5% higher or (lower) and all other variables were held constant, the Group's net profit would increase or decrease by £140,000 (2019: £90,000). 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.

For more details, refer to note 22.

Future Developments

Details of the Group's future developments are provided within the Strategic Report.

Employees and social matters

The Strategic Report outlines the position of the Company with regard to regarding social, environmental matters and employment of disabled persons.

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
30 July 2021

Safestay plc

Directors' report

Introduction

A directors remuneration report has been voluntarily included to demonstrate good governance principles to which the company abides.

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. In 2019 and 2018 the directors did not receive a bonus. In February 2020 the directors each received a £10,000 in recognition of the results achieved in 2019 and the success in growing the network to 20 properties by 31 January 2020. The Remuneration committee generally 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 4,634,166 options are issued and not forfeited as at 31 December 2020, of which 3,572,721 for executive directors. 63% of the options issued are still vesting. The vesting period is 3 years from the date of grant and the average exercise price is 38p. 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.

From October 2020 the directors have agreed to reduce their salary by 40% to reduce the operating costs of the Company during the lockdown period. They have received in exchange share options with a one-year vesting period and an exercise price 20% lower than the average share price in the week preceding the payroll date in each month when the salary reduction arose. This scheme was originally introduced for 3 months and was subsequently extended in 2021, under recommendation of the executive directors to the remuneration committee.

Safestay plc

Directors' report

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 Herve 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 10.0p and 39.0p respectively and the market price of the shares at 31 December 2020 was 16p.

Directors' emoluments (audited)

The emoluments of the directors of the Company for the period ended 31 December 2020 were as follows:

Name	Salary and fees £'000	Pension £'000	Benefits in kind £'000	2020 Total £'000
Executive directors				
Larry Lipman	100	-	-	100
Nuno Sacramento	132	4	-	136
Herve Deligny	154	12	-	166
Non-executive directors				
Stephen Moss	27	-	-	27
Michael Hirst	31	-	-	31
Anson Chan	-	-	-	-
Total	444	16	-	460

Safestay plc

Directors' report

The comparative for the 31 December 2019 is as follows:

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

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

Larry Lipman

Larry Lipman
Chairman
30 July 2021

Safestay plc

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/>

Audit Committee report

The Committee provides support to the Board in meeting its statutory responsibilities as set out in the QCA Code. The Board's view is that the skills and experience of the Audit Committee members are very much relevant to the Group's business, as evidenced by the biographies within the Directors page in the Director's report. The Audit Committee also monitors the integrity of the financial statements of the Company and meets regularly with management and Grant Thornton UK LLP (the Company's external auditors) to review and monitor the financial reporting process, the statutory audit of the consolidated financial statements, audit procedures, risk management, internal controls and financial matters.

Grant Thornton UK LLP ('Grant Thornton') was re-appointed as external auditor of the Company to conduct the audit of the Company's financial statements for the financial year to 31 December 2020 and their re-appointment as auditor for the following financial year will be subject to approval by shareholders at the 2021 Annual General Meeting. External audit partners are rotated every five years (seven years for subsidiary companies). The current external audit partner is Sergio Cardoso. The external auditors present in advance of the year end their approach to the forthcoming audit and present their findings from the audit following the completion of their work. The Audit Committee assesses the performance of the external auditors on an annual basis and based on this review the Audit Committee recommends the appointment, re-appointment or removal of the Company's external auditors to the Board.

The Audit Committee meets at least annually with the Company's external auditors without the other Directors present. The Committee has a minimum of 2 meetings per year. They review the audit plan at the start of the annual audit. They review the audit findings and the draft annual accounts before they are submitted to the Board for approval. The Committee generally also meets to follow up the audit action plan and risk assessment report during the year. The external auditors have unrestricted access to the Audit Committee. Both the Committee and the Board keep the external auditor's independence under close scrutiny. The Group also receives a formal statement of independence and objectivity from the external auditors each year.

The Audit Committee's activities and areas of focus during the year were the following:

- Key assumptions used in the cash forecast prepared by the directors in relation to the Going Concern note;
- Review of the management paper with regards to the treatment of the rent reductions received from landlords, which were recognised as rent forgiveness under IFRS 16;
- Review of the management paper in relation to key assumptions used in the impairment test and the decision to impair 2 assets as at 31 December 2020 under IAS 36;
- Review of the management paper in relation to the valuation of the assets under IAS 16.

Safestay plc

Corporate governance

By order of the Board.

A handwritten signature in black ink that reads "Larry Lipman". The signature is written in a cursive, slightly slanted style.

Larry Lipman

Chairman

30 July 2021

Independent auditor's report to the members of Safestay plc

Our opinion on the financial statements is qualified

We have audited the financial statements of Safestay plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 31st December 2020 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 their preparation is applicable law and international financial reporting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion except for the matter described in the basis for qualified opinion section of our report:

- 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 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 qualified opinion

As explained in note 11, additions to goodwill in 2019 were overstated by £368k due to an erroneous consolidation entry posted to correct an apparent error in opening reserves. Management have investigated the error and are yet to conclude on how it has originated and, therefore, what the appropriate correcting accounting entries are and have posted the correcting entry as an adjustment to opening retained earnings at 1 January 2019. As such we were unable to obtain sufficient appropriate audit evidence to substantiate the debit to reserves of £368k that results from the correction.

Independent auditor's report to the members of Safestay plc

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 qualified opinion.

Material uncertainty related to going concern

We draw attention to the going concern disclosure in note 1 to the financial statements, which discusses the impact of the Covid-19 virus on the Group's and Company's continuing operations. Due to the continuing global travel restrictions and the uncertainty surrounding the recovery of the tourism market, there is uncertainty over whether the Group and Company will be able to meet their covenant tests after September 2022 and whether further waivers will be agreed by lenders.

As stated in note 1, these events and conditions, along with the other matters as set out in 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.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of management's assessment of the entity's ability to continue as a going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included procedures by which we:

- Obtained management's base case forecast for the period to the 31st December 2022 and corroborated to supporting evidence for all key trading, working capital and cash flow assumptions;
- Obtained management's worst case scenario, which reflect management's assessment of further uncertainties, and which management consider to be severe but plausible. We evaluated the assumptions regarding the forecast period of closure and reduced trading levels under each of these scenarios. We considered whether assumptions are consistent with our understanding of the business obtained during the course of the audit and the changing external circumstances arising from government Covid-19 interventions;
- Robustly challenged the process that management has undertaken to conclude on the appropriateness of the going concern basis of preparation, including challenging and applying sensitivities to the key assumptions made by management in preparing the forecasts;
- Agreed key inputs into the model, such as base forecast costs, revenue and margin assumptions and numbers of staff furloughed to underlying budgets and forecasts approved by the board;
- Tested the accuracy of forecasts prepared by comparison to forecasts made in prior periods and in the light of our understanding of the group's operations.
- Tested the adequacy of the supporting evidence for the cash flow forecast, under each scenario prepared by management, considering key inputs including occupancy, average room rate, forecast

Independent auditor's report to the members of Safestay plc

cash position, EBITDA, and performing arithmetical checks on the forecasts and considering the impact on the forecast covenants;

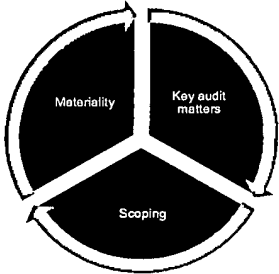
- Obtained correspondence including Sale and Purchase agreement, board minutes and shareholder approval for the disposal of Edinburgh hostel, as well as subsequent completion documents and cash receipt of the disposal proceeds of £16.0m;
- Considered the reasonableness of any further mitigating actions identified by management, which included an assessment of the feasibility and quantification of such mitigative measures available to management; and
- Assessed the disclosures made within the financial statements for consistency with management's assessment of going concern.

Our responsibilities

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

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Our approach to the audit

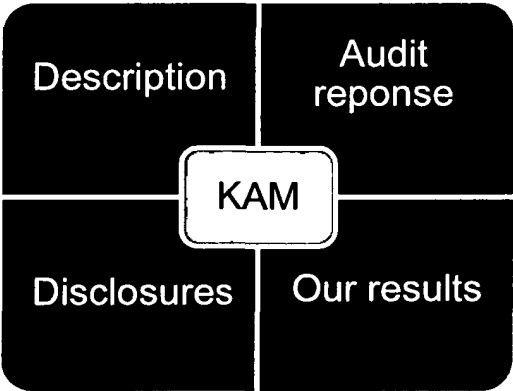
 Grant Thornton 	Overview of our audit approach
	Overall materiality: Group: £226,000 (2019: £319,000), which represents 1.75% of the Group's 3-year average revenue. Company: £165,000 (2019: £239,000), which is approximately 0.2% of total assets.
	In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report: • Impairment of goodwill – same as previous year; and • Acquisition accounting – same as previous year. Our auditor's report for the year ended 31 December 2019 included two key audit matters that have not been reported as key audit matters in our current year's report. These relate to the impact of IFRS 16 Leases which is not a new standard in the year, and risk of fraud in revenue

Independent auditor’s report to the members of Safestay plc

	recognition, which was deemed to be of less significance on the basis of work performed in prior years.
	We performed an audit of the financial information of the Company and on the financial information of the seven UK entities, as well as one overseas component using component materiality (full-scope). We performed an audit of one or more account balances, classes of transactions or disclosures of the component (specific-scope audit) of four further overseas components to gain sufficient appropriate audit evidences at the Group level. We performed analytical procedures on the financial information on the remaining sixteen components in the Group during the year.

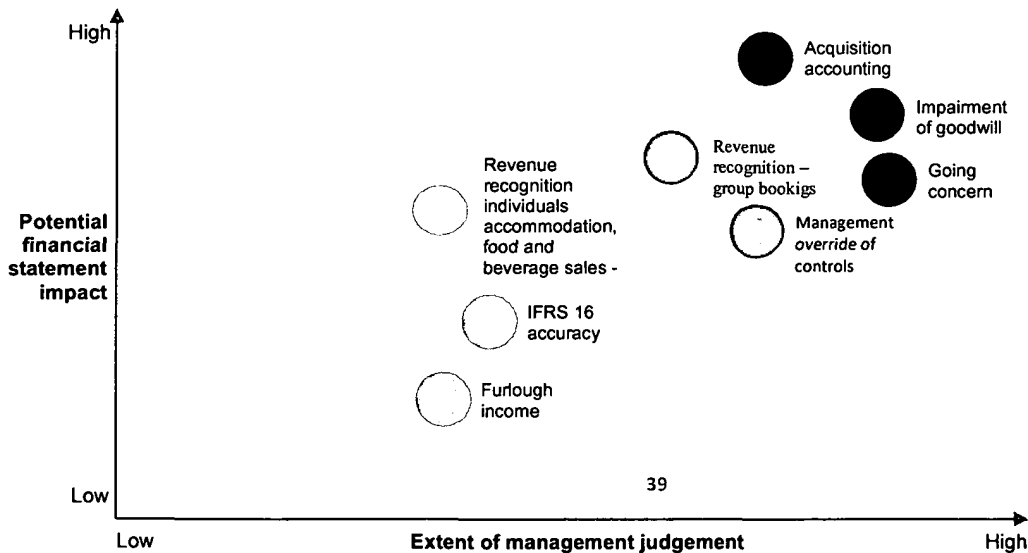
Key audit matters

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



in our significance in the current assessed risks not due to included those overall audit the audit; and team. These our audit of the forming our separate

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Independent auditor's report to the members of Safestay plc

☒	Key audit matter	☐	Significant risk	☐	Other risk
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Key Audit Matter – Group	How our scope addressed the matter – Group
Impairment of goodwill We identified impairment of goodwill subject to annual impairment review as one of the most significant assessed risks of material misstatement due to error. Management are required to perform an annual impairment review of goodwill with indefinite useful lives. The process for measuring and recognised impairment under IAS 36: "Impairment of Assets" is complex and requires significant judgement, and the valuation relies on forecasts of trading activity made by management, and the use of discount rates.	In responding to the key audit matter, we performed the following audit procedures: • Assessing the accounting policy and disclosures for compliance with international accounting standards; • Assessing the design effectiveness of controls, including the methodology applied by management when performing their impairment test for each of the relevant hostel; • Testing the arithmetical accuracy and integrity of management's impairment model, by checking the internal consistency of the formulae; • Challenging the model prepared by management for the assessment of the impairment of each hostel, including assessment of the impact of Coronavirus on both short-term trading and the longer term growth rate; • Agreeing inputs to supporting documentation, including lease agreements and historic profit figures and the fixed asset register and goodwill schedule; • Assessing the reasonableness of the discount rate applied to cash flows, which included benchmarking to comparator companies and other market information; • Performing sensitivity analysis on the various assumptions used in the model and the risks and

Independent auditor's report to the members of Safestay plc

Key Audit Matter – Group	How our scope addressed the matter – Group
Relevant disclosures in the Annual Report and Accounts 2020 The Group's accounting policy on impairment is shown in note 1 and related disclosures are included in respect of goodwill in note 11.	uncertainties surrounding Coronavirus; • Testing the accuracy of management's forecasting through a comparison of budget to actual data and historical trends. • Considering the accounting policy for compliance with IAS 36 and that the application by the company is consistent with the stated policy; and • Assessing whether disclosures in respect of the accounting policy and disclosures made in the financial statements relating to impairment are appropriate.
Acquisition accounting We identified acquisition accounting as one of the most significant assessed risks of material misstatement due to error. During the year, the Group acquired three European hostels. As a result of acquisition accounting being applied, an assessment of the allocation of the purchase price was required, including goodwill arising in the consolidated accounts. Management judgement is involved in determining the appropriate accounting treatment, including whether the	Key observation Management concluded that additional impairments were required having considered our audit findings in relation to the impairment of goodwill. In addition to this, as a result of our work, a prior period adjustment was identified in respect of the valuation of goodwill that has been adjusted for by management, as disclosed in note 11. In responding to the key audit matter, we performed the following audit procedures: • Assessing the accounting policy and disclosures for compliance with International Accounting Standards; • Assessing the design effectiveness of controls, including the methodology applied by management when performing acquisition accountings; • Obtaining management's assessment of the transactions and corroborating the fact pattern with reference to the Sale and Purchase Agreements;

Independent auditor's report to the members of Safestay plc

Key Audit Matter – Group	How our scope addressed the matter – Group
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.	• Considering and testing the appropriateness of the allocation of the purchase price to assets and liabilities acquired, recognition and measurement of intangibles and goodwill and the application of any fair value adjustments; • Considering evidence obtained from other audit procedures which would indicate any requirement to amend the accounting; • Obtaining supporting documentation for transaction costs incurred as part of the acquisition, and consider the appropriateness of the accounting treatment, including their treatment as exceptional costs; and • Assessing management's disclosures for the transaction in the financial report, ensuring that these are complete and fulfil the requirements of IFRS 3 Business Combinations.
Relevant disclosures in the Annual Report and Accounts 2020 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.	Our results 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.'

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

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Independent auditor's report to the members of Safestay plc

Materiality was determined as follows:

Materiality measure	Group	Company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£226,000 (2019: £319,000) which is 1.75% of 3-year average revenue (2019: 1.75% of revenue for the year).	£165,000 (2019: £239,000) which is approximately 0.2% (2019: 0.5%) of total assets.
Significant judgements made by auditor in determining the materiality	Revenue is considered the most appropriate benchmark to reflect the Group's stage of development as it is currently loss-making. It was determined that in order to reflect the impact of Covid-19 on trading operations, it was appropriate to normalise the benchmark over a three year period. Revenue was abnormally deflated during the year due to government imposed closures, and using a consistent approach with the previous year would result in a threshold that was too low and would not appropriately reflect the identification of misstatements that would influence the understanding of users. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2019 to reflect the above mentioned change.	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 as the principal activity of that of a holding company. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2019 to ensure that Company materiality did not exceed 75% of Group materiality.
Performance materiality used to	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of	

Independent auditor's report to the members of Safestay plc

Materiality measure	Group	Company
drive the extent of our testing	uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£169,500 which is 75% of financial statement materiality.	£123,750 which is 75% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgements: • Whether there were any significant adjustments made to the financial statements in prior years. • Whether there were any significant control deficiencies identified in prior years. • Whether there were any changes in senior management during the period. • Whether there were any significant changes in business objectives/strategy.	In determining performance materiality, we made the following significant judgements • Whether there were any significant adjustments made to the financial statements in prior years. • Whether there were any significant control deficiencies identified in prior years. • Whether there were any changes in senior management during the period. • Whether there were any significant changes in business objectives/strategy.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality threshold	We determined a lower level of specific materiality for certain specific areas, being directors' remuneration and related party transactions.	
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	

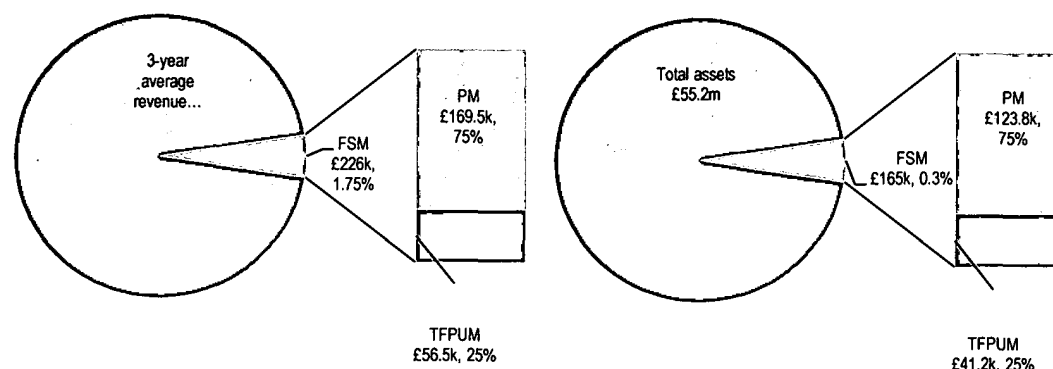
Independent auditor's report to the members of Safestay plc

Materiality measure	Group	Company
Threshold for communication	£11,300 (2019: £15,950) and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£8,300 (2019: £11,950) and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group

Overall materiality –Company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the group's and the Company's business and in particular matters related to:

Understanding the group, its components, and their environments, including group-wide controls

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.

Identifying significant components

The components 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 cash,

Independent auditor's report to the members of Safestay plc

borrowings, goodwill and grant income to assess the significance of the component and to determine the planned audit response.

Type of work to be performed on financial information of the Company and other components (including how it addressed the key audit matters)

For those components that we determined to be significant components, we performed an 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-nine reporting components, we performed an 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.

Significant components were identified as Safestay plc, Safestay (Elephant and Castle) Limited, Safestay (Edinburgh Hostel) Limited, Safestay (Edinburgh) Limited and Safestay Espana S.L.

Safestay (York) Limited, Safestay (York) Hostel Limited, Safestay (Edinburgh) Limited and Safestay (HP) Limited were not identified as a significant component for group purposes however require statutory audits under the Companies Act 2006 and are audited to a lower level of materiality. All work in relation to these components was performed by the group audit team.

An audit of one or more classes of transactions, account balances, or disclosures over certain balances and transactions were performed on a further four companies, to give appropriate coverage of all material balances at reporting and company level.

Performance of our audit

Together, the reporting units subject to audit procedures, being full scope and specified procedures, were responsible for 82% of the Group's revenues, 55% of the Group's Loss Before Tax and 85% of the Group's total assets, 98% of bank loans and 100% of cash and cash equivalents.

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. In addition there is revenue reported in respect of grant income and rental income for sublease of certain assets.

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 an audit of one or more classes of transactions, account balances, or disclosures 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 sixteen 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.

Independent auditor's report to the members of Safestay plc

Audit approach	No. of components	% coverage (revenue)	% coverage (LBT)	% coverage (total assets)	% Coverage (Cash and cash equivalents)
Full-scope audit	9	51	55	85	100
An audit of one or more classes of transactions, account balances, or disclosures	4	31	0	0	0
Analytical procedures	16	18	45	15	0

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.

As described in the basis for qualified opinion section above, we were unable to obtain sufficient appropriate evidence about the release of £368k to the reserves.

Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

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

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

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

Independent auditor's report to the members of Safestay plc

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

Except for the matter described in the basis for qualified opinion, 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

In respect solely to the issue described in the basis for qualified opinion section of our report:

- adequate accounting records have not been kept by the Company
- we have not received all the information and explanations we require for our audit

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:

- 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.

Responsibilities of directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the 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.

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk

Independent auditor's report to the members of Safestay plc

that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (IFRS and the Companies Act 2006).
- We understood how the company and the Group is complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures and management. We corroborated our inquiries through our review of board minutes and walkthroughs performed with management.
- We assessed the susceptibility of the company's and Group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. Audit procedures performed by the Group engagement team included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - challenging assumptions and judgments made by management in its significant accounting estimates;
 - identifying and testing journal entries, in particular any journal entries posted with large values or those posted at the year end;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item; and
 - held discussions with those outside the finance team including human resources, key management and operations personnel.
- The engagement team collectively had the appropriate competence and capabilities, including consideration of the engagement team's understanding of and practical experience with audit engagements of a similar nature and complexity, knowledge of the industry in which the client operates, and understanding of the legal and regulatory requirements specific to the entity.
- In assessing the potential risks of material misstatement, we obtained an understanding of the entity's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

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

Independent auditor's report to the members of Safestay plc

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.

Handwritten signature of Sergio Cardoso in black ink, followed by the text "UK LLP".

Sergio Cardoso
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

30 July 2021

Safestay plc**Consolidated Income Statement****Year ended 31 December 2020**

	Note	2020 £'000	2019 £'000
Revenue	2	4,831	18,379
Cost of sales	3	(892)	(2,875)
Gross profit		3,939	15,504
Administrative expenses	4	(11,460)	(12,996)
Operating profit before exceptional items		(7,521)	2,508
Exceptional items – other operating income	4	448	-
Exceptional items - costs	4	(261)	(585)
Operating profit after exceptional items		(7,334)	1,923
Finance costs	5	(2,750)	(2,558)
Loss before tax		(10,084)	(635)
Tax	7	2,403	(325)
Loss for the financial year attributable to owners of the parent company		(7,681)	(960)
 Basic and diluted loss per share	8	 (11.88p)	 (1.48p)

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.

Safestay plc**Consolidated Statement of Comprehensive Income****Year ended 31 December 2020**

	2020	Restated
	£'000	2019
		£'000
Loss for the year	(7,681)	(960)
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss		
Exchange differences on translating foreign operations	(4)	(47)
Property revaluation	-	9,253
Total comprehensive (loss)/profit for the year		
attributable to owners of the parent company	(7,685)	8,246

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

The £9.253m property revaluation relates to the leasehold land and buildings in relation to the London Elephant & Castle hostel which was revalued for £9.253m in 2019. The revaluation adjustment was accounted for in revaluation reserve as at 31 December 2019 but was incorrectly not included in the statement of comprehensive Income in 2019. As such the 2019 statement of comprehensive income has been restated in respect of this amount. There is a corresponding adjustment in the statement of changes in equity to reflect the correct classification of the £9.253m in other comprehensive income.

Safestay plc**Consolidated Statement of Financial Position****31 December 2020**

	Note	2020 £'000	Restated 2019 £'000	Restated 1 Jan 2019 £'000
Non-current assets				
Property, plant and equipment (including right of use asset)	10	89,735	87,366	47,522
Intangible assets	11	921	1,084	1,268
Goodwill	11	13,569	12,235	10,506
Deferred tax asset	17	2,159	-	-
Total non-current assets		106,384	100,685	59,296
Current assets				
Stock		47	85	45
Trade and other receivables	12	1,884	1,408	832
Current tax asset		289	-	1
Cash and cash equivalents	13	2,125	2,954	9,859
Total current assets		4,345	4,447	10,737
Total assets		110,729	105,132	70,033
Current liabilities				
Restated Borrowings	15	311	267	343
Restated Lease liabilities	16	1,932	1,660	38
Trade and other payables	14	3,008	2,602	1,890
Current liabilities		5,251	4,529	2,271
Non-current liabilities				
Restated Borrowings	15	40,043	29,638	28,825
Restated Lease liabilities	16	36,648	34,244	10,123
Deferred tax liabilities	17	-	105	105
Trade and other payables due in more than one year	14	336	767	1,140
Total non-current liabilities		77,027	64,754	40,193
Total liabilities		82,278	69,283	42,464
Net assets		28,451	35,849	27,569
Equity				
Share capital	18	647	647	647
Share premium account	18	23,904	23,904	23,904
Other components of equity	18	16,387	16,104	6,864
Retained earnings		(12,487)	(4,806)	(3,846)
Total equity attributable to owners of the parent company		28,451	35,849	27,569

Safestay plc

Consolidated Statement of Financial Position

31 December 2020

2018 and 2019 have been restated to reflect the reclassification of the Safestay Edinburgh and Safestay Elephant and Castle property financing transactions from Lease liabilities to Borrowings. Please see note 15 and 16 for details of the impact on the statement of financial position.

The impact on 2018;

- A increase in current lease liabilities of £10k and an decrease in current borrowings of £10k
- A reduction in non-current lease liabilities of £11.053m and an increase in non-current borrowings of £11.053m
- There is nil impact on the statement of comprehensive income, statement of changes in equity or net asset position

The impact on 2019;

- A increase in current lease liabilities of £12k and an decrease in current borrowings of £12k
- A reduction in non-current lease liabilities of £12.239m and an increase in non-current borrowings of £12.239m
- There is nil impact on the statement of comprehensive income, statement of changes in equity or net asset position

Restatement of goodwill

In 2019, additions to goodwill were overstated by £368k due to a historic consolidation entry posted to correct an apparent error in opening reserves. Please refer to note 11 for more information.

These financial statements were approved by the Board of Directors and authorised for issue on 30 July 2021.

Signed on behalf of the Board of Directors



Larry Lipman

Safestay plc**Consolidated Statement of Changes in Equity****31 December 2020**

	Share Capital	Share premium account	Other Components of Equity Re-stated	Retained earnings Restated	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2019 as previously reported	647	23,904	6,221	(2,836)	27,936
Restatement (adjustment 1)	-	-	643	(642)	1
Restatement goodwill adjustment (adjustment 2)	-	-	-	(368)	(368)
Balance as at 1 January 2019 Restated	647	23,904	6,864	(3,846)	27,569
Comprehensive income					
Loss for the year	-	-	-	(960)	(960)
Other comprehensive income					
Restated revaluation reserve (adjustment 3)	-	-	9,253	-	9,253
Movement in translation reserve	-	-	(47)	-	(47)
Total comprehensive income	-	-	9,206	(960)	8,246
Transactions with owners					
Share based payment charge for the period	-	-	34	-	34
Balance at 31 December 2019 restated	647	23,904	16,104	(4,806)	35,849
Balance at 31 December 2019 as previously reported	647	23,904	15,461	(3,795)	36,217
Effect of errors	-	-	643	(1,011)	(368)
Balance at 31 December 2019 restated	647	23,904	16,104	(4,806)	35,849
Loss for the year	-	-	-	(7,681)	(7,681)
Other comprehensive income					
Movement in translation reserve	-	-	4	-	4
Total comprehensive loss	-	-	4	(7,681)	(7,677)
Transactions with owners					
Share based payment charge for the period	-	-	279	-	279
Balance at 31 December 2020	647	23,904	16,387	(12,487)	28,451

Safestay plc

Consolidated Statement of Changes in Equity

31 December 2020

Adjustment 1

In 2015, the Group acquired the trade and assets of the Smart City hostel in Blackfriars Street in Edinburgh, currently trading as Smart City Hostel by Safestay, Edinburgh. Transaction costs of £643k were incorrectly capitalized as part of the cost of the property, plant and equipment acquired rather than recognised as an expense through the application of the guidance set out in paragraph 53 of IFRS 3, 'Business Combinations'.

The effect of this error was to understate both the reported loss and total comprehensive expense for the period attributable to the owners of the parent for the year ended 31 December 2015 by £643k and overstate property, plant and equipment by the same amount.

In 2016, the property acquired in the above-mentioned business combination was revalued. The effect of the uncorrected error above meant that the revaluation movement reported in other comprehensive income and the corresponding increase in the revaluation reserve was understated by £643k for the year ended 31 December 2016.

This error has been corrected in these financial statements by a restatement of prior year balances. The effect of the correction has been to increase previously reported retained losses by £643k with a corresponding increase to the previously reported revaluation reserve.

Adjustment 2

In 2019, additions to goodwill were overstated by £368k due to a historic consolidation entry posted to correct an apparent error in opening reserves. Please refer to note 11 for more information.

Adjustment 3

The Statement of Comprehensive Income for the year has been restated above in respect of the property revaluation in 2019. This was included directly in the statement of changes in equity, as opposed to other comprehensive income. This has led to an increase in the total comprehensive income statement in respect of 2019 of £9.253m. This was incorrectly included in Transactions with owners and therefore has been restated above in 2019. This results in a decrease of £9.253m in the amounts included in transactions with owners and an increase in the other comprehensive income of £9.253m.

Safestay plc**Consolidated Statement of Cash Flows****Year ended 31 December 2020**

	Note	2020	2019
		£'000	£'000
			Restated
Operating activities			
Cash generated from operations	20	(4,228)	5,445
Income tax paid		(119)	(217)
Net cash (used in)/generated from operations		(4,347)	5,228
Investing activities			
Purchases of property, plant and equipment		(985)	(1,413)
Purchases of intangible assets		(36)	(24)
Acquisitions, net of cash acquired	24	(2,003)	(7,122)
Payment of deferred consideration		(509)	(395)
Net cash outflow from investing activities		(3,533)	(8,954)
Financing activities			
Proceeds from refinancing transaction		5,681	-
Fees relating to financing transaction		(161)	-
Proceeds from property financing transaction		-	1,180
Proceeds from Coronavirus Business Interruption Loan Scheme		5,000	-
Bank loans redeemed		-	(528)
Principal elements of lease payments (restated)		(2,514)	(2,917)
Property financing payments		(331)	(321)
Interest paid		(624)	(593)
Net cash generated from financing activities		7,051	(3,179)
Cash and cash equivalents at beginning of year		2,954	9,859
Net increase /(decrease) in cash and cash equivalents		(829)	(6,905)
Cash and cash equivalents at end of year	13	2,125	2,954

As a result of the retrospective restatements of Elephant and Castle and Edinburgh lease liabilities to property financing transactions in borrowings the property financing payments have been separated, and the principal lease payments in 2019 restated to reflect this.

Safestay plc

Notes to the Consolidated Financial Statements

31 December 2020

1. ACCOUNTING POLICIES FOR THE GROUP AND COMPANY FINANCIAL STATEMENTS

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

The Group and Company financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Company Act 2006.

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

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 2020.

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:

- IFRS16

The Group has adopted the amendment to IFRS 16 which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

Applying the practical expedient, the Group has recognised the rent forgiveness as a variable lease payment in accordance with IFRS 16. There is a corresponding adjustment to the lease liability, derecognising the part of the lease liability that has been forgiven, with the corresponding adjustment to operating expenses.

Where amounts have been deferred they do not extinguish the lessee's liability or substantially change the consideration of the lease. These have been accounted for as an increase in the accrual for the rent outstanding.

- IFRS 3: Business combination – amendment effective 1 January 2020

IFRS 3 establishes different accounting requirements for a business combination as opposed to the acquisition of an asset or a group of assets that does not constitute a business. Business combinations are accounted for by applying the acquisition method, which, among other things, may give rise to goodwill. In contrast, when accounting for asset acquisitions, the acquirer allocates the transaction price to the individual identifiable assets acquired and liabilities assumed based on their relative fair values and no goodwill is recognised. Therefore, whether an acquired set of activities and assets is a business, is a key consideration in determining how the transaction should be accounted for. The amendments made to the IFRS 3 are set out to clarify the definition of a business. The amendment also adds an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business.

Acquisitions made in the 12 months to December 2020 have been treated as business combinations under the amended IFRS 3 standard (Note 24)

Safestay plc

Notes to the Consolidated Financial Statements

31 December 2020

Going concern

The Company is reporting a significant loss in 2020 when the business was severely impacted by the pandemic and the hostels on average have been open for just 44% of the year. Travel restrictions and local lockdowns are still impacting some of the countries where the Company operates in Europe. As a result of these events, a material uncertainty exists that may cast significant doubt regarding the Company's ability to continue as a going concern.

However, the Group's strategy to develop and expand the premium hostel offering provided by the Group within the UK and through its European acquisitions had proved successful until February 2020 and we expect that the Company will start generating cash from its operation when restrictions are lifted in 2021, and the travel industry recovers in 2022.

The directors have reviewed the measures implemented by management to reduce the cash burn of the Company since the start of the outbreak. The monthly fixed cost base was reduced from £1.0 million to £0.6 million during the first lockdown in the second quarter of 2020, and further reduced to £0.35 million since the second wave of lockdowns were introduced in November 2020. These reductions are the results of the combined impact of the following actions implemented by management during this period:

- The Company has taken advantage of the employment support governmental schemes in all jurisdictions where they were available, including the job retention scheme in the UK and similar schemes in the 10 other countries where Safestay operates hostels.
- Variable operational costs in the hostels were mechanically reduced to zero with the absence of revenue. The fixed operational costs, exclusive of insurance, rent and property taxes, were reduced to £0.15 million during the first lockdown and to less than £0.1 million since November 2020 until hostels reopened. The Company maintains a minimum level of spend in safety, utilities and maintenance to keep the properties in a good condition whilst they are closed.
- The Company has benefited from business rates reliefs for the 5 hostels operated in the UK since April 2020. This scheme is extended with full relief until end of June 2021 and will continue with a 66% relief until March 2022.
- The Company has liaised with landlords to obtain a £0.9 million rent reduction for the period April to December 2020. In addition, the landlords have agreed to defer £0.5 million in rent which will be repaid in majority after 2022. In total, the rental cash payments have reduced by 50% on average per month since April 2020.
- Operating costs in the head office have reduced by 50% to adjust the team and spend to this unprecedented context. This includes a 40% reduction in salaries for Directors and senior management in exchange for share options since October 2020.

The Company received £16.0 million proceeds from the disposal of the Edinburgh hostel which completed on 30 June 2021. Following completion, the £1 million overdraft facility was removed, and £10 million of HSBC debt was repaid. The cash in bank was £6.3 million on 19 July 2021.

Since the start of the Pandemic, management has continuously updated and adjusted the cash forecast for the next months. The most recent forecast prepared in April 2021 for the period to 31

Safestay plc

Notes to the Consolidated Financial Statements

31 December 2020

December 2022, assumes as a base case that the hostels would start to operate again from June 2021 in the UK and from July 2021 in the other locations. Under the base case scenario, it is expected that the hostels will operate at a level which will be reduced by 57% in the second half of 2021 and 10% in 2022 when compared to the revenue achieved in similar periods pre-COVID 19. 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 the new safety requirements in the hostels were factored into the budget. Under such assumptions, the Company expects that the cash reserve will stay above £2.0 million until end of 2022 reflecting the Edinburgh sale that completed in June 2021. The sensitivity of the model is such that each 1% variation in the annual revenue versus the base case has a maximum impact of 130k on the annual cash flow, when assuming no reduction in the fixed costs in the same period.

Management has also prepared a worst-case scenario whereby hostels would not re-open. In this scenario, the Company would have a funding shortfall from July 2022.

Both the base case and the worst-case scenarios were built on the assumption that the disposal of Edinburgh which completed in June 2021.

The covenants of the existing debt facility were waived since June 2020. From June 2021 they are adjusted and replaced with adjusted EBITDA targets reflecting the current performances of the hostels since the first lockdown in April 2020. They will revert to the contractual covenants from September 2022 when it is expected that the Group will have enough trading history from the re-opening of the hostels in July 2021 to meet the 12 month historic Interest Cover (ICR) and Debt Service Cover (DSCR) ratios. Although the Company will meet its adjusted EBITDA targets and covenants under the base case scenario, a reduction of 10% in the sales versus base case would trigger a breach in the adjusted EBITDA target test from June 2022 and the DSCR historic ratio from September 2022. A reduction of 20% in the revenue versus base case would trigger a breach in the adjusted EBITDA target test from December 2021. It is expected that the Company would be able to adjust the targets with the bank to prevent a contractual breach if the business continued to be impacted with the travel restrictions beyond the conservative assumptions used in the base case. However, the ability to renegotiate these covenants is not certain.

Despite the material uncertainty resulting from the impact of COVID-19 and the resulting travel restrictions and ability to meet bank covenants, the directors believe the existing cash and facilities in place and the £16.0 million proceeds from the Edinburgh disposal, will 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.

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 (CODM), 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. An additional geographical area has been identified in respect of Spain as disclosed in note 2.

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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.

Revenue is stated net of VAT and comprises revenues from overnight hostel accommodation, 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.

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. In accordance with IFRS 16, the group accounts for its subleases as operating leases as they do not transfer substantially all the risks and rewards of ownership to the lessee.

The group recognises income from lease payments from operating leases as income on a straight-line basis over the term of the contract.

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.

Government Grants

Monetary resources transferred to the Company by government, government agencies or similar bodies are recognised at fair value, when the Company is certain that the grant will be received. Grants will be recognised in the profit and loss account on a systematic basis, over the same period during which the expenses, for which the grant was intended to compensate, are recognised.

Grants relating to employee costs are disclosed in Staff Costs, note 9 of the accounts. Other grants are disclosed in Exceptional Items shown in note 4 of the accounts.

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.

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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 based on 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.

Foreign currency translation

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

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

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

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

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

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- 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.

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.

Deferred Consideration

Deferred payments made in relation to acquisitions of subsidiaries and business are accounted for their discounted value in trade and other payable. Any difference between the discounted value and the cash consideration at the time of the payment, is recognised as an interest charge in the income statement.

Property, plant and equipment

Freehold property and Lease assets are 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. All other property, plant and equipment are recognised at historical 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
Land is not depreciated.	

Leasehold land and buildings relate to Property from financing transactions in relation to Safestay Elephant and Castle and Safestay Edinburgh Hostel. In 2017, Safestay completed financing transactions on these two properties, raising gross cash proceeds of £12.6m. The sale was agreed with an institutional buyer in exchange for 150 year geared ground rent leases. The significant risks and rewards of ownership were retained, and the exercise to repurchase these properties is "almost certain". The contracts took the legal form of the sale and leasebacks. However, the economic substance of the original transactions in 2017 meant that both leases have historically been treated as owned by Safestay. Therefore, the transactions are classified as leasehold land and buildings.

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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 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.

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.

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. The Directors consider each individual hostel to be a separate cash generating unit for impairment purposes and, as explained in note 11 to the financial statements, 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 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.

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Intangible assets

Costs that are directly attributable to a project's development phase, including capitalised internally developed software, are recognised as intangible assets using the cost model, provided they meet all of the following recognised:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Group intends to and has sufficient resources to complete the project
- the Group has the ability to use or sell the software, and
- the software will generate probable future economic benefits.

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date, which is deemed to be the cost going forward.

The leasehold rights and tenancy subleases relate to intangible assets acquired in a business combination as outlined in note 11.

Assets with a finite useful life 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.

The following useful lives are applied:

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

Residual values and useful lives are reviewed at each reporting date.

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.

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.

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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 transaction price 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.

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.

Where there are extension options, management have made an accounting policy choice that these are loan commitments from the holder of the debt instrument that does not need to be separately accounted for.

Property from financing transactions includes the borrowings for Safestay Elephant and Castle and Safestay Edinburgh Hostel. In 2017, Safestay completed financing transactions on these two properties, raising gross cash proceeds of £12.6m. The sale was agreed with an institutional buyer in exchange for 150 year geared ground rent leases. The significant risks and rewards of ownership were retained, and the exercise to repurchase these properties is "almost certain". The contracts took the legal form of the sale and leasebacks. However, the economic substance of the original transactions in 2017 meant that both leases have historically been treated as owned by Safestay. Therefore, the transactions for as financial liabilities.

- **Loan arrangement fees**

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

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- **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.

- **Leases**

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. Leases of property generally have a lease term ranging from 5 years to 19 years.

For any new property asset contracts entered 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.

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.

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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.

Measurement of the Right-of-use Assets

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group as a lessor

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.

The group accounts for its subleases as operating leases as they do not transfer substantially all of the risks and rewards of ownership to the lessee.

The group recognises income from lease payments from operating leases as income on a straight-line basis over the term of the contract.

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.

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- **Revaluation reserve**

Revaluation reserves represent the increase in fair value of freehold property and leasehold assets 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.

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.

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 Group has identified certain costs and income as exceptional in nature in that, without separate disclosure, would distort the reporting of the underlying business. A degree of

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judgement is required in determining whether certain transactions merit separate presentation to allow shareholders to better understand financial performance in the year, when compared with that of previous years and trends 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. Management generally includes extensions when the option to extend can be unilaterally exercised by the tenant provided the hostel under lease is expected to continue to be profitable for the Group after the extension is exercised.

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 23.
- 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. A Pre-tax discount rate of 11.1% (2019: 8.7%) has been calculated using weighted average cost of capital. An assessment was made on the differing risks between countries in which the hostels operate based on country risks. Based on the assessment it was concluded that the differences between discount rates between each CGU is not material. The assets are similar in nature, with all CGUs providing the provision of hostel accommodation and therefore similar cashflows and therefore the risk associated with the assets is considered to be consistent between CGUs. As such one discount rate has been utilised for the purposes of performing an impairment review.
- As outlined in the accounting policy, the financial statements have been prepared under the historical cost convention except for the revaluation of the freehold properties and lease assets (in respect of Elephant and Castle and Edinburgh Hostel). The Group is required to value property on a sufficiently regular basis by using open market values to ensure that the carrying value does not differ significantly from the fair value. The valuation, performed by qualified valuers is based on market observations and estimates on the selling price in an arms-length transaction, and includes estimates of future income levels and trading potential for each hostel as other factors including location and tenure. See note 10. The Group has used external valuations on freehold properties and leased assets under financing transactions, as outlined in note 10. Based on the market data assessed and internal assessment of each property, Management does not consider that the fair value differs materially from the carrying value. Management is confident that the carrying value is deemed reasonable at 31st December 2020.
- The Group has incurred tax losses, and therefore a material deferred tax asset has been recognised as these can be carried forward indefinitely and offset against probable future taxable profits after the market recovers in 2022 and the Company is expected to generate net profits from 2023 under his forecast model.

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2. SEGMENTAL ANALYSIS

An analysis of the Group's revenue from external customers for each major product and service category (excluding revenue from discontinued operations) is as follows:

	2020	2019
	£'000	£'000
Hostel accommodation	3,570	15,115
Food and Beverages sales	744	2,492
Other income	120	363
Rental income	397	409
Total Income	4,831	18,379
Like-for-like income	4,002	17,596

Included within revenue is £397k of rental income accounted for as operating lease income in accordance with IFRS 16 (2019: £409k).

The group accounts for its subleases as operating leases as they do not transfer substantially all of the risks and rewards of ownership to the lessee.

The group recognises income from lease payments from operating leases as income on a straight-line basis over the term of the contract.

Operating segments are reporting in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODMs, who monitor the performance of these operating segments as well as deciding on the allocation of resources to them, have been identified as the executive directors. Currently the operating segments are the operation of hostel accommodation in the UK and Europe.

An additional material geographical area has been identified in respect of Spain to meet the disclosure requirements of IFRS 8 due to its significance to group.

Management considers the like-for-like income only for acquisitions and continuing operations that have been operational 12 consecutive months in the prior year. Due to the ongoing impact of Covid-19 the hostels on average our hostels have been open for just 44% of 2020. Different hostels were open for different periods of time throughout the year based on the individual circumstances, responses and policies to the ongoing coronavirus pandemic and as such the period of results is not comparable to the prior period and therefore no changes to geographical areas have been identified.

The Group provides a shared services function to its operating segments and reports these activities separately. Management does not consider there to be any other material reporting segments. Management revisits this at each period end.

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.

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Pre-IFRS 16 EBITDA was calculated in the prior period segmental analysis such that the accounts can be understood on a comparable basis and included for information purposes. As this is the second year since transition, pre-IFRS 16 adjusted EBITDA is not considered in the current year.

	UK	Europe	Shared services	TOTAL
	£'000	£'000	£'000	£'000
2020				
Revenue	2,455	2,376	-	4,831
Loss before tax	(3,321)	(6,259)	(504)	(10,084)
Finance costs	963	1,001	786	2,750
Operating Loss after exceptional items	(2,358)	(5,258)	282	(7,334)
Depreciation, Amortisation & disposals	1,465	4,225	-	5,690
Exceptional & Share based payment expense	-	-	541	541
Rent forgiveness	(495)	(409)	-	(904)
Adjusted EBITDA	(1,388)	(1,442)	823	(2,007)
Total assets	57,744	42,115	10,870	110,729
Total liabilities	22,959	31,242	28,077	82,278

	UK	Europe	Shared services	TOTAL
	£'000	£'000	£'000	£'000
2019				
Revenue	9,401	8,978	-	18,379
Loss before tax	3,347	111	(4,093)	(635)
Finance costs	338	989	1,231	2,558
Operating Profit after exceptional items	3,685	1,100	(2,862)	1,923
Depreciation & Amortisation	1,265	2,247	-	3,512
Exceptional & Share based payment expense	-	-	619	619
Adjusted EBITDA	4,950	3,347	(2,243)	6,054
Rental charges (IFRS 16)	-	(2,248)	-	(2,248)
Adjusted EBITDA (pre-IFRS 16)	4,950	1,099	(2,243)	3,806
Total assets	47,597	31,080	26,455	105,132
Total liabilities	12,255	28,979	28,049	69,283

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The Group's non-current assets (other than financial instruments, investments accounted for using the equity method, deferred tax assets and post-employment benefit assets) are located into the following geographic regions:

	31 December 2020 £'000	31 December 2019 £'000
UK	59,478	59,894
Spain	21,976	22,558
Rest of Europe	24,088	18,187
Shared services	842	46
Total	106,384	100,685

Non-current assets are allocated based on their physical location.

Revenues from external customers in the Group's domicile, United Kingdom, as well as its major markets, Spain and the Rest of Europe, have been identified on the basis of the customer's geographical location and are disclosed as follows:

	31 December 2020 £'000	31 December 2019 £'000
UK	2,455	9,401
Spain	835	4,909
Rest of Europe	1,541	4,069
Shared services	-	-
Total	4,831	18,379

3. COST OF SALES

	2020 £'000	2019 £'000
Food and drinks	311	794
Direct room supplies and sales commissions	581	2,081
	892	2,875

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4. ADMINISTRATIVE EXPENSES

	2020	2019
	£'000	£'000
Staff costs (see note 9)	3,823	5,676
Legal and professional fees	521	1,148
Property costs	362	825
Depreciation and amortisation	4,199	3,512
Impairment of goodwill	1,491	-
Share option expenses	279	34
Other expenses	598	2,386
	11,273	13,581
<u>Add back:</u>		
Exceptional items – other operating income	(448)	585
Exceptional items – costs	261	-
	11,460	12,996

Administrative expenses include £(187,000) (2019: £585,000) of exceptional items broken down as follows:

	2020	2019
	£'000	£'000
Exceptional items – other operating income		
Grant income	(448)	-
Exceptional items - costs		
Acquisition and Development costs	74	451
Property costs	4	19
Legal and other	82	115
Refinance related fees write off	101	-
	261	585

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

The group received £448,000 in grant income from national, regional, and local governmental organisations in 2020 to support the business. This does not include grants relating to employee costs which are disclosed in Staff Costs (Note 9).

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5. FINANCE COSTS

	Restated	
	2020	2019
	£'000	£'000
Interest on bank overdrafts and loans	625	589
Amortised loan arrangement fees	92	81
Other interest costs	75	(14)
Interest expense for lease arrangements (note 16)	1,558	1,448
Property financing costs	343	337
Unwinding of discount on deferred consideration	57	117
	2,750	2,558

2019 has been restated to separate out the property financing costs from lease interest expense for lease arrangements as disclosed in note 16.

Included within borrowings is £5.0 million CBILS (Coronavirus Business Interruption Loan Scheme) obtained via HSBC. The government provide lenders with a guarantee on each loan. This was secured for 6 years on 16th December 2020, which is interest free for the first year increasing to 3.9% + base rate from year 2.

6. LOSS FOR THE FINANCIAL YEAR

	Restated	
	2020	2019
	£'000	£'000
Loss for the financial period is arrived at after charging:		
Depreciation on owned assets	1,541	1,185
Depreciation of assets under lease liabilities	2,459	2,139
Amortisation of intangible assets	199	189
Impairment of goodwill	1,491	-
Auditor's remuneration for audit services	92	105
Fees payable to the Company's auditors and its associates for other services	5	47

2019 has been restated to reflect the reclass of Safestay Edinburgh and Safestay Elephant and Castle from right of use assets to lease assets due to the nature of the lease where the risks and rewards lie with Safestay and should be treated as owned. The restated amounts above show the transfer of depreciation of assets under lease liabilities and owned assets.

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31 December 2020

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

	2020 £'000	2019 £'000
Fees payable to Company's auditors for the audit of the Parent Company and consolidated financial statements:		
The audit of the Group and Company's annual accounts	70	75
The audit of the subsidiaries' annual accounts	22	30
	92	105
Fees payable to the Company's auditors and its associates for other services:		
Tax advice services	5	22
Taxation compliance services	-	25
	5	47

The audit fees disclosed in 2020 represent the fees payable for the audit for the period ended 31 December 2020 and the non-audit fees are those incurred in the period.

7. TAX

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

	2020 £'000	2019 £'000
Current tax		
Corporation tax on profits for the year	-	250
Adjustments for corporation tax on prior periods	(271)	75
Total current tax	(271)	325
Deferred tax	(1,682)	-
Adjustments for deferred tax on prior periods	(450)	
Total tax charge	(2,403)	325

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

	2020 £'000	2019 £'000
Loss before tax	(10,084)	(635)
Tax at the standard UK corporation tax rate of 19% (2019: 19%)	(1,916)	(120)
Adjustment for tax rate differences in foreign jurisdictions	(167)	28
Adjustments for tax on prior periods	(720)	75
Factors affecting charge for the period		
Non-deductible items and other timing differences	344	155
Depreciation in excess of capital allowances	56	187
Group tax charge	(2,403)	325

The Group has incurred tax losses, and therefore a material deferred tax asset has been recognised as these can be carried forward indefinitely and offset against probable future taxable profits after the market recovers in 2022 and the Company is expected to generate net profits from 2023 under his forecast model. This has resulted in the recognition of deferred tax asset of £2.159m as disclosed in note 16. Amounts in respect of prior period represents deferred tax on brought forward losses.

Included within current tax are adjustments for corporation tax on prior periods of £271k. Of this this £192k is due to an adjustment to the 2018 tax provision in line with the revised tax returns. The remaining balance relates to payments made in 2020 relating to 2019, which was subsequently reimbursed when filing the 2019 tax return.

8. LOSS PER SHARE

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

	2020 £'000	2019 £'000
Loss for the period attributable to equity holders of the Company	(7,681)	(960)

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	2020 '000	2019 '000
Weighted average number of ordinary shares for the purposes of basic loss earnings per share	64,679	64,679
Effect of dilutive potential ordinary shares	4,250	2,736
Weighted average number of ordinary shares for the purposes of diluted	68,929	67,415

Loss per share

Basic loss per share	(11.88p)	(1.48p)
Diluted loss per share	(11.88p)	(1.48p)

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 2020 was 64,679,014.

9. STAFF COSTS

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

	2020 Number	2019 Number
Hostel operation	197	222
Directors	5	5
	202	227

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

	2020 £'000	2019 £'000
Wages and salaries	3,854	4,992
Social security costs	499	638
Pension costs	36	46
Government grants	(566)	-
Total staff costs	3,823	5,676

Government grants disclosed above are amounts claimed by the company under coronavirus job retention schemes across the Group.

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

Safestay plc**Notes to the Consolidated Financial Statements****31 December 2020**

	2020	2019
	£'000	£'000
Short term employee benefits	444	432
Pension	16	14
Share based payment charges	257	34
	717	480

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.

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10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Restated Right of use assets buildings £'000	Restated Leasehold, land and buildings £'000	Restated Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation							
At 1 January 2019 as restated	2,701	-	44,014	-	2,513	2,062	51,290
Transfer (restated)	-	-	614	1,448	-	(2,062)	-
Additions	-	-	717	-	696	-	1,413
Adjustment on transition to IFRS 16 (restated)	-	37,512	(13,449)	3,149	-	-	27,212
Acquired in business combination	5,348	-	-	-	89	-	5,437
Revaluation (restated)	-	-	9,253	-	-	-	9,253
Exchange movements	(51)	-	(23)	-	(73)	-	(147)
At 31 December 2019 (restated)	7,998	37,512	41,126	4,597	3,225	-	94,458
Additions	362	1,326	-	106	517	-	2,311
Transfer	-	-	-	-	-	-	-
Acquired in business combination	-	3,210	-	711	175	-	4,096
Exchange movements	51	-	-	(119)	30	-	(38)
At 31 December 2020	8,411	42,048	41,126	5,295	3,947	-	100,827
Depreciation							
At 1 January 2019 as restated	84	-	1,910	-	1,774	-	3,768
Transfer (restated)	-	-	(62)	62	-	-	-
Adjustment on transition to IFRS 16 (restated)	-	286	(864)	578	-	-	-
Charge for the year (restated)	60	2,139	632	55	438	-	3,324
At 31 December 2019 (restated)	144	2,425	1,616	695	2,212	-	7,092
Transfer	-	-	-	-	-	-	-
Charge for the year	141	2,459	804	102	494	-	4,000
At 31 December 2020	285	4,884	2,420	797	2,706	-	11,092
Net book value:							
At 31 December 2020	8,126	37,164	38,706	4,498	1,241	-	89,735
At 31 December 2019 (restated)	7,854	35,087	39,510	3,902	1,013	-	87,366

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Freehold properties

The Freehold values relates to the 3 following hostels:

- The £2.7 million value of the freehold in **York** is based on the external valuations as at 31 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. The historic cost carrying value is £2.4 million which is the acquisition price in 2014.
- The freehold of the **Glasgow** property acquired in October 2019 for £3.2 million and which has undergone renovation for £0.4 million. The total carrying value is consistent with the £3.7 million valuation performed by Cushman and Wakefield on behalf of HSBC as part of the security for the Group's bank financing in December 2019.
- The hostel in **Pisa** was acquired in June 2019 for £3 million, of which £2.1 million for the freehold.

Covid-19 rent concessions

The International Accounting Standards Board (IASB) has published 'Covid-19-Related Rent Concessions (Amendment to IFRS 16)' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The £42 million right of use assets all relate to properties operated by the Company as hostels.

Right of use assets as at 31 December 2019 (restated)	37,512
New leases (Athens, Bratislava, Warsaw)	3,210
Lease extension in Madrid	1,326
Right of use assets	42,048

Leasehold, land and buildings

The Group has used external valuations on Edinburgh and Elephant & Castle. The Edinburgh leasehold was independently valued on 31 March 2020 at £14.8 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.

Leasehold improvements (prior period adjustment 1)

Leasehold improvements comprise the capitalised refurbishment costs incurred by the Company on the leased properties.

Included within the transition adjustment in 2019 to Right of Use Assets is £3.2 million relating to the works completed by the Company in the Kensington Holland Park hostel in 2015. It was incorrectly included in right of use asset buildings until 31 December 2019 and related to leasehold improvements. As such, in 2019, the balance with the accumulated depreciation of £578k has been retrospectively restated in respect of this amount.

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Right of use assets (prior period adjustment 2)

In 2019, the Safestay Edinburgh and Safestay Elephant and Castle leases were incorrectly transitioned to IFRS16 along with other leaseholds. In 2017, Safestay completed financing transactions on these two properties, raising gross cash proceeds of £12.6m. The sale was agreed with an institutional buyer in exchange for 150 year geared ground rent leases. The significant risks and rewards of ownership were retained, and the exercise to repurchase these properties is "almost certain". The contracts took the legal form of the sale and leasebacks. However, the economic substance of the original transactions in 2017 meant that both leases have historically been treated as owned by Safestay. Therefore, the transactions should continue to be accounted for as owned, and should have been accounted for as financial liabilities as opposed to finance leases.

To reflect both Safestay Edinburgh and Safestay Elephant and Castle long leases in the accounts correctly, there has been a reclass from the Right of use assets to Leasehold, land and buildings, and the Lease Liabilities to Borrowings.

The impact is disclosed below. The amount remaining transferred to IFRS 16 on transition of £13.449m relates to Kensington Holland Park which was correctly included as a finance lease.

Retrospective 2019 restatements

	As previously stated at 31 December 2019	Prior- period adjustment 1	Prior-period adjustment 2	As at 31 December 2019 (restated)
	£'000	£'000	£'000	£'000
Right-of-use asset cost	81,787	(3,149)	(41,126)	37,512
Leasehold, land and buildings cost	-	-	41,126	41,126
Leasehold improvements cost	1,448	3,149	-	4,597
Accumulated depreciation right-of-use asset	4,619	(578)	(1,616)	2,425
Accumulated depreciation leasehold land and buildings	-	-	1,616	1,616
Accumulate depreciation leasehold improvements	117	578	-	695

2019 restatement reflects the reclass of Edinburgh and Elephant & Castle properties from Right of use asset to Leasehold, land and buildings as discussed above.

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Notes to the Consolidated Financial Statements

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11. INTANGIBLE ASSETS AND GOODWILL

	Website Development £'000	Leasehold rights £'000	Restated Goodwill £'000	Total £'000
Cost				
At 1 January 2019	72	1,726	10,506	12,304
Restated Additions	26	-	24	50
Arising in business combination (note 24)	-	-	1,705	1,705
Exchange movements	-	(21)	-	(21)
At 31 December 2019	98	1,705	12,235	14,038
Additions	36	-	172	208
Disposals	-	-	(94)	(94)
Arising in business combination (note 24)	-	-	2,747	2,747
Exchange movements	-	(8)	-	(8)
At 31 December 2020	134	1,697	15,060	16,891
Amortisation and Impairment				
At 1 January 2019	24	506	-	530
Charge for the period	29	160	-	189
At 31 December 2019	53	666	-	719
Charge for the period	39	160	-	199
Impairment	-	-	1,491	1,491
Exchange movements	-	(8)	-	(8)
At 31 December 2020	92	818	1,491	2,401
Net book value:				
At 31 December 2020	42	879	13,569	14,490
At 31 December 2019	45	1,039	12,235	13,687

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.

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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.

Retrospective-restatement

In 2019, additions to goodwill were overstated by £368k due to an erroneous consolidation entry posted to correct an apparent error in opening reserves. The original goodwill related to the Edinburgh hostel acquisition completed in 2015 and the goodwill arising has been correctly stated in all annual reports until 2019. Management have investigated the error and are yet to conclude on how it has originated and, therefore, what the appropriate correcting accounting entries are. However, management have determined that the error neither affects net assets at 31 December 2019 nor the previously reported loss of £960k for the year. Management have temporarily posted the correcting entry as an adjustment to opening retained earnings at 1 January 2019 and will determine the correct accounting entries during the year ending 31 December 2021.

As a result of this adjustment, brought forward goodwill from 2019 is reduced from £12.603m to £12.235m and the additions to goodwill from £392k to £24k.

Impairment

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.

Goodwill carrying values as at the 31 December 2020 are shown below.

CGU	Goodwill pre-impairment £'000	Impairment £'000	Goodwill carrying value £'000
Edinburgh	577	-	577
Madrid	2,234	-	2,234
Paris	11	-	11
Barcelona Sea	846	-	846
Gothic	1,611	(891)	720
Lisbon	1,365	-	1,365
Prague	805	(600)	205
Barcelona Passeig De Gracia	1,699	-	1,699
Vienna	5	-	5
Brussels	1,375	-	1,375
Pisa	770	-	770
Berlin	1,015	-	1,015
Athens	1,210	-	1,210
Bratislava	917	-	917

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Warsaw	620	-	620
	15,008	(1,491)	13,569

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

- A Pre-tax discount rate of 11.1% (2019: 8.7%) was calculated using weighted average cost of capital. An assessment was made on the differing risks between countries in which the hostels operate. Based on the assessment it was concluded that the differences between discount rates between each CGU is not material. The assets are similar in nature, with all CGUs providing the provision of hostel accommodation and therefore similar cashflows and therefore the risk associated with the assets is considered to be consistent between CGUs. As such one discount rate has been utilised for the purposes of performing an impairment review.
- Estimated 2021 average bed rate per property, discounted against 2019 to reflect post covid-19 recovery transaction, and increasing in line with a 2% annual inflation rate in following years.
- Earnings before interest, tax, depreciation, amortisation, and rent (EBITDAR) margin of 2019, adjusted to reflect the post covid-19 transition, an increase up to 2 basis points over 5 years two hotels, the Barcelona Gothic and Prague, show a shortfall between the recoverable value and carrying value.
- Gothic has a recoverable value of £2.7 million against a carrying value of £3.6 million. Management considers that this site has some real estate potential which could be released in the coming years to increase the bed capacity and therefore the income from F&B and accommodation. However, management believes that these development plans have become more uncertain due to the COVID-19 context and therefore decided to post a £0.9 million impairment as at 31 December 2020.
- Prague has a recoverable value of £1.3 million against a carrying value of £1.9 million. The performance of this hostel in 2020 in 2021 is impacted by the COVID-19 pandemic like all other hostels of the Group. However, this property is operated under a lease agreement which terminates in 2029, with no option to extend further. It will be therefore too short to fully recover the £1.9 million carrying value allocated to this asset by the end of the term, unless management can negotiate a further extension, which is currently considered too uncertain. As a result, it was decided to post a £0.6 million impairment in line with the £1.3 million recoverable value as at 31 December 2020.

No impairment has been identified for the other assets for the year ended 31 December 2020.

Sensitivity analysis

Athens, Bratislava and Warsaw were acquired in January 2020, and were subsequently converted to the Safestay brand. Management have reviewed these properties and do not consider there to be an impairment.

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Edinburgh is the only UK CGU with goodwill. Management have agreed there is no need to review impairment as there is sufficient headroom in the cashflows. Sale of Edinburgh Hostel has also been agreed for a higher value than book value as at 31 December 2020, and more information can be found in post balance sheet events.

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 occupancy, 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 Sea	400bps	900bps	300bps
Barcelona Passeig De Gracia	100bps	100bps	100bps
Brussels	1100bps	2900bps	1100bps
Lisbon	100bps	200bps	100bps
Madrid	400bps	1500bps	500bps
Vienna	200bps	500bps	200bps
Berlin	500bps	900bps	600bps
Pisa	700bps	2200bps	700bps

The table above demonstrates the change in assumption required for an impairment to occur. As such, Barcelona Gothic and Prague are excluded above, but included in the analysis below.

A change of 1% in the WACC would have an overall impact of £1.5m in the recoverable value of the CGU tested and would increase impairment needed for Gothic and Prague by £0.13 million.

A change of 1% in the occupancy level would have an overall impact of £0.5m in the recoverable value of the CGU tested and would increase impairment needed for Gothic and Prague by £0.03 million.

A change of 1% in the Operating margin would have an overall impact of £1.1m in the recoverable value of the CGU tested and would increase impairment needed for Gothic and Prague by £0.12 million.

Safestay plc**Notes to the Consolidated Financial Statements****31 December 2020****12. TRADE AND OTHER RECEIVABLES**

	2020 £'000	2019 £'000
Trade and other receivables	1,653	988
Other debtors	26	43
Prepayments and accrued income	205	377
	1,884	1,408

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

	2020 £'000	2019 £'000
Cash and cash equivalents	2,125	2,954

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

	2020 £'000	2019 £'000
Due in less than one year		
Trade payables	686	784
Corporation tax	-	32
Social security and other taxes	158	277
Other creditors	563	306
Accruals and deferred income	1,601	1,203
	3,008	2,602
Due in more than one year		
Other payables	336	767
	3,344	3,369

Payables due in more than one year represents remainder of the discounted present value of deferred consideration due in April 2022 in relation to the Barcelona Passeig de Gracia which was acquired for €3 million in 2017.

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15. BORROWINGS

	2020	Restated 2019	Restated 1 Jan 2019
	£'000	£'000	£'000
At amortised cost			
Bank Loan	28,380	17,860	18,389
Property financing loans	12,240	12,227	11,043
Loan arrangement fees	(266)	(182)	(264)
	40,354	29,905	29,168
Loans repayable within one year	311	267	343
Loans repayable after more than one year	40,043	29,638	28,825
	40,354	29,905	29,168

Safestay Edinburgh and Safestay Elephant and Castle leases were transitioned to IFRS16 along with other leaseholds and presented as such in the 2019 audited accounts. Following review of the balance sheet, it was identified the leases should be reclassified. In 2017, Safestay completed financing transactions on these two properties, raising gross cash proceeds of £12.6m. The sale was agreed with an institutional buyer in exchange for 150 year geared ground rent leases. The significant risks and rewards of ownership were retained, and the exercise to repurchase these properties is "almost certain". The substance of the original transactions in 2017 meant that both leases have historically been treated as owned by Safestay. Therefore, the transactions should continue to be accounted for as owned, and the liabilities reported as financing transactions.

To reflect both Safestay Edinburgh and Safestay Elephant and Castle long leases in the accounts correctly, there has been a reclass from the Right of use assets to Leasehold, land and buildings, and the Lease Liabilities to Borrowings. The Edinburgh Hostel lease has been subsequently sold as a post balance sheet event. Please see statement of financial position of explanation of total impact.

Included within borrowings is £5.0 million CBILS (Coronavirus Business Interruption Loan Scheme) obtained via HSBC. The government provide lenders with a guarantee on each loan, and it may be possible that there is a government grant in the form of the lower rate of interest than would likely have been payable in the absence of the government guarantee. However, in the absence of further information the total amounts are disclosed within finance costs.

At 31st December 2020 HSBC bank loans were secured against the freehold property, York hostel and subsidiary investments.

Safestay plc**Notes to the Consolidated Financial Statements****31 December 2020****16. LEASES**

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

	2020	Restated 2019	Restated 1 Jan 2019
	£'000	£'000	£'000
Restated Current	1,932	1,660	38
Restated Non-current	36,648	34,244	10,123
Total	38,580	35,904	10,161

Retrospective 2019 restatements

	As at 31 December 2019	Prior-period adjustment	As at 31 December 2019 (restated)
	£'000	£'000	£'000
Lease liabilities	48,131	(12,227)	35,904

Retrospective 2018 restatements

	As at 31 December 2018	Prior-period adjustment	As at 31 December 2018 (restated)
	£'000	£'000	£'000
Lease liabilities	21,204	(11,043)	10,161

As described in Note 15, the prior period adjustment represents the reclass of Edinburgh and Elephant and Castle leases to Property Finance Loans within Borrowings. Please see statement of financial position for explanation of total impact. The adjustment made is in respect of prior period adjustment 2 as per note 10.

Lease Liabilities as at 31 December 2019 (restated)	35,904
New leases (Athens, Bratislava, Warsaw)	3,210
Payments under lease obligations	(2,514)
Rent forgiveness	(904)
2020 Lease interest charge	1,558
Lease extension in Madrid	1,326
Lease Liabilities as at 31 December 2020	38,580

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31 December 2020

The International Accounting Standards Board (IASB) has published 'Covid-19-Related Rent Concessions (Amendment to IFRS 16)' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The impact on the current period was a £0.9 million reduction in lease liability included as rent forgiveness in administrative expenses in 2020, reflecting the temporary reduction in rent agreed with the landlords in the 12 months ending 31 December 2020.

Total cash outflow for leases for the year ended 31 December 2020 was £2.5m (2019: £3.2m).

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 (Note 10).

The hostel in London Kensington Holland Park has a term of 50 years. There is no such purchase option in this lease.

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. The variable portion of the lease in Lisbon is accounted for as a variable rent over the period it relates to.

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 good 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	5 - 19 years	12 years	11	0	12	0

In addition to the above, there is the London Kensington Holland Park lease which ends in 2064. There are no such options as above.

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Notes to the Consolidated Financial Statements

31 December 2020

Lease liabilities

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2020 is as follows:

31-Dec-20

	Minimum lease payments due						
	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	After 5 years	Total
Lease payments	3,466	3,466	3,466	3,467	3,368	47,138	64,371
Finance charges	(1,534)	(1,467)	(1,398)	(1,327)	(1,255)	(18,810)	(25,791)
Net present values	1,932	1,999	2,068	2,140	2,113	28,328	38,580

31-Dec-19

	Minimum lease payments due						
	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	After 5 years	Total
Lease payments	3,093	3,111	3,111	3,111	3,111	46,310	61,847
Finance charges	(1,433)	(1,377)	(1,319)	(1,257)	(1,195)	(19,362)	(25,943)
Net present values	1,660	1,734	1,792	1,854	1,916	26,948	35,904

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

	Deferred tax assets £'000	Deferred tax liabilities £'000	Total £'000
Balance as at 1 January 2019	-	(105)	(105)
Recognised in the income statement	-	-	-
Balance at 31 December 2019	-	(105)	(105)
Recognised in the income statement	2,159	105	2,264
Balance at 31 December 2020	2,159	-	2,159

The company has recognised deferred tax assets of £2.2m (2019: £0), which are expected to offset against future profits, in respect of tax losses. This is on the basis that it is probable that profits will arise in the foreseeable future, enabling the assets to be utilised.

Safestay plc**Notes to the Consolidated Financial Statements****31 December 2020****18. EQUITY****CALLED UP SHARE CAPITAL****£'000****Allotted, issued and fully paid**

64,679,014 Ordinary Shares of 1p each as at 1 January 2020	647
	647

At the 31 December 2020, the ordinary shares rank pari passu. There are no changes to the voting rights of the ordinary shares since the balance sheet date.

SHARE PREMIUM**£'000**

At 1 January 2020	23,904
At 31 December 2020	23,904

OTHER COMPONENTS OF EQUITY

	Merger reserve	Share based payment reserve	Revaluation reserve Restated	Translation reserve	Total Restated
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2019	1,772	125	4,861	106	6,864
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	14,114	59	16,104
Share based payment charge	-	279	-	-	279
Exchange differences on translating foreign operations	-	-	-	4	4
At 31 December 2020	1,772	438	14,114	63	16,387

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In 2015, the Group acquired the trade and assets of the Smart City hostel in Blackfriars Street in Edinburgh, currently trading as Smart City Hostel by Safestay, Edinburgh. Transaction costs of £643k were incorrectly capitalized as part of the cost of the property, plant and equipment acquired rather than recognised as an expense through the application of the guidance set out in paragraph 53 of IFRS 3, 'Business Combinations'.

The effect of this error was to understate both the reported loss and total comprehensive expense for the period attributable to the owners of the parent for the year ended 31 December 2015 by £643k and overstate property, plant and equipment by the same amount.

In 2016, the property acquired in the above mentioned business combination was revalued. The effect of the uncorrected error above meant that the revaluation movement reported in other comprehensive income and the corresponding increase in the revaluation reserve was understated by £643k for the year ended 31 December 2016.

This error has been corrected in these financial statements by a restatement of prior year balances. The effect of the correction has been to increase previously reported retained losses by £643k with a corresponding increase to the previously reported revaluation reserve.

19. SHARE BASED PAYMENTS

The Company operates a share-based payments scheme for Directors as outlined in the Directors Remuneration Report. Share options were awarded as part of longer-term incentives.

The option holder may only exercise the option if, on the date of exercise, the market value targets are achieved.

1,620,400 share options were granted in the period (2019: 1,200,000). In addition to those granted to Directors in January 2020, Directors and 2 persons discharging managerial responsibilities were awarded in lieu of a 40% reduction of salary in 2020. In 2021, the Directors and 1 person discharging managerial responsibility have continued to receive share options in lieu of salary up until June 2021.

The average share price target for options issued in 2020 was 19p (2019: 50p).

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

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31 December 2020

Grant date	Exercise price per share (pence)	Period within which options are exercisable	Number of share options outstanding	
			2020	2019
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	38,550
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	500,000
29 April 2019	34p	29/04/2022 to 28/04/2029	500,000	500,000
26 June 2019	40p	26/06/2022 to 25/06/2029	100,000	100,000
05 Sept 2019	34p	05/09/2022 to 04/09/2029	100,000	100,000
02 Jan 2020	33p	02/01/2023 to 01/01/2030	1,200,000	
31 Oct 2020	9p	31/10/2021 to 30/10/2028	186,400	
30 Nov 2020	16p	30/11/2021 to 29/11/2028	104,900	
31 Dec 2020	13p	31/12/2021 to 30/12/2028	129,100	
			4,634,166	3,013,766

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, and the options issued in 2020 in exchange for salary reduction, which have a 1 year vesting period and no target price. 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:

	2020 Number of share options	2020 Weighted average exercise price	2019 Number of share options	2019 Weighted average exercise price
Brought forward 1 January	3,013,766	44p	1,907,389	50p
Forfeited in the period			(93,623)	50p
Issued in the period	1,620,400	28p	1,200,000	35p
Outstanding at 31 December	4,634,166	38p	3,013,766	44p
Exercisable at end of the period	1,713,766	50p	963,766	50p

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Notes to the Consolidated Financial Statements

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No options were exercised in the period.

The fair value of the share options was calculated using the Black Scholes model. There is a charge of £279,756 taken through the income statement (2019: £34,000).

The inputs are as follows:

	2020	2019
Closing price of Safestay Plc	16.0p	32.5p
Weighted average share price	18.8p	34.5p
Weighted average exercise price	38.0p	43.6p
Expected volatility	40%	37%
Average vesting period	3 years	3 years
Risk free rate	0.50%	0.50%
Expected dividend yield	0.00%	0.00%

The expected volatility percentage was derived from the quoted share prices since flotation.

20. NOTES TO THE CASH FLOW STATEMENT

	2020 £'000	2019 £'000
Loss before tax	(10,084)	(635)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment and amortisation and impairment of intangible assets	5,690	3,512
Finance cost	2,693	2,440
Share based payment charge	279	34
Exchange movements	(8)	(2)
Rent forgiveness	(904)	-
<i>Changes in working capital:</i>		
Decrease/(Increase) in inventory	39	(39)
(Increase) in trade and other receivables	(244)	(170)
(Decrease) in trade and other payables	(1,689)	305
Net cash from operating activities	(4,228)	5,445

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.

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Notes to the Consolidated Financial Statements

31 December 2020

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

	2020	2019
	£'000	£'000
Short term employee benefits	444	432
Pension	16	14
Share based payment charges	257	34
	717	480

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 on page 30 and has been audited.

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.

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Notes to the Consolidated Financial Statements

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	2020	Restated 2019	Restated 1 Jan 2019
	£'000	£'000	£'000
Share capital	647	647	647
Share premium account	23,904	23,904	23,904
Retained earnings	(12,487)	(4,806)	(3,846)
Merger reserve	1,772	1,772	1,772
Share based payment reserve	438	159	125
Revaluation reserve	14,114	14,114	4,861
Translation reserve	63	59	106
Bank loans	28,380	17,860	18,389
Property financing loans	12,240	12,227	11,043
Lease liabilities	38,580	35,904	10,161

The Group has no externally imposed capital requirements.

In 2015, the Group acquired the trade and assets of the Smart City hostel in Blackfriars Street in Edinburgh, currently trading as Smart City Hostel by Safestay, Edinburgh. Transaction costs of £643k were incorrectly capitalized as part of the cost of the property, plant and equipment acquired rather than recognised as an expense through the application of the guidance set out in paragraph 53 of IFRS 3, 'Business Combinations'.

The effect of this error was to understate both the reported loss and total comprehensive expense for the period attributable to the owners of the parent for the year ended 31 December 2015 by £643k and overstate property, plant and equipment by the same amount.

In 2016, the property acquired in the above-mentioned business combination was revalued. The effect of the uncorrected error above meant that the revaluation movement reported in other comprehensive income and the corresponding increase in the revaluation reserve was understated by £643k for the year ended 31 December 2016.

This error has been corrected in these financial statements by a restatement of prior year balances. The effect of the correction has been to increase previously reported retained losses by £643k with a corresponding increase to the previously reported revaluation reserve.

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:

Safestay plc**Notes to the Consolidated Financial Statements****31 December 2020****Categories of financial instruments**

At 31 December 2020, the Group held the following financial assets:

	2020	2019
	£'000	£'000
Trade and other receivables (note 12)	1,679	1,031
Cash and cash equivalents	2,125	2,954
	3,804	3,985

At 31 December 2020, the Group held the following financial liabilities:

	2020	Restated 2019	Restated 1 Jan 2019
	£'000	£'000	£'000
Bank loans (note 15)	28,114	17,678	18,125
Property financing loans (note 15)	12,240	12,227	11,043
Lease liabilities (note 16)	38,580	35,904	10,161
Trade and other payables (note 14)	1,386	2,134	2,233
	80,320	67,943	41,562

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.

Safestay plc**Notes to the Consolidated Financial Statements****31 December 2020****Financial Liability Movements**

	Restated Long term borrowings £'000	Short term borrowings £'000	Restated Lease liabilities £'000	Total £'000
At 1 January 2019 (restated)	28,825	343	10,161	39,329
Cash flows				
Repayment of bank loans	(94)	(353)	-	(447)
Repayment of property finance loans (restated)	(331)	10	-	(321)
Repayment of lease liabilities (restated)	-	-	(2,917)	(2,917)
Proceeds received for property financing transaction	1,180	-	-	1,180
Non-cash				
Reclassification	(348)	348	27,212	27,212
Imputed interest and amortisation of fees (restated)	406	(81)	1,448	1,773
At 31 December 2019 (restated)	29,638	267	35,904	65,809
At 1 January 2020	29,638	267	35,904	65,809
Cash flows				
Repayment of lease liabilities	-	-	(2,514)	(2,514)
Repayment of property finance loans	(331)	-	-	(331)
Proceeds received	10,361	159	-	10,520
Loan and refinancing fees	(174)	(102)	-	(276)
Non-cash				
Reclassification	130	(130)	-	-
Refinance related fees write off	76	25	-	101
New leases and extension	-	-	4,536	4,536
Imputed interest and amortisation of fees	343	92	1,558	1,993
Rent forgiveness	-	-	(904)	(904)
At 31 December 2020	40,043	311	38,580	78,934

The 2019 movements have been restated to reflect the reclass of the property finance transactions relating to Edinburgh and Elephant and Castle to borrowings from lease liabilities.

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As outlined in note 16 and statement of financial position leases have been retrospectively restated as at 31st December 2018 and 31st December 2019 to reflect the restatement of leases on Edinburgh Hostel and Elephant and Castle property financing to borrowings.

Repayment of property finance loans of £331k have been separated from the payment of lease liabilities in 2019. This has resulted in a reduction of repayment of lease liabilities from (£3.239m) to (£2.917m), with the corresponding difference included within repayment of property finance Loans in 2019.

	2020 £'000	2019 £'000
Total liabilities	(78,934)	(65,809)
Cash and cash equivalents	2,125	2,954
Net Debt	76,809	62,855

Financial risk management

The Group's financial instruments comprise bank loans and overdrafts, Lease liabilities, cash and cash equivalents, 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.

The Group does not have a significant concentration of credit risk, as the majority of its revenue is in cash. At the balance sheet date, the Company was exposed to a maximum credit risk of £1.7m, of which £0.02m was overdue. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

The Group's policy is to write off trade receivables and other receivables when there is no reasonable expectation of recovery of the balance due. Indicators that there is no reasonable expectation of recovery depend on the type of debtor/customer and include a debt being over 12 months old, the failure of the debtor to engage in a repayment plan and the failure to recover any amounts through enforcement activity. Subsequent recoveries of amounts previously written off are credited against other net operating charges in the income statement.

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If there is no independent rating, an assessment is made of the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of and adherence to credit limits is regularly monitored.

The financial assets of the Group which are subject to the expected credit loss model under IFRS 9 'Financial Instruments' comprise finance lease receivables, trade receivables and other receivables. Other cash deposits and cash and cash equivalents are also subject to the impairment requirements of IFRS 9 however the impairment loss is immaterial.

Cash deposits with financial institutions and derivative transactions are permitted with investment-grade financial institutions only. There have been no such significant increase in credit risk of financial instruments since initial recognition

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.

As outlined in going concern note 1, the business has been severely impacted by the travel restrictions and ability to meet its banking covenants as a result of Covid-19. The company produces an annual cashflow forecasts based on agreed budgets, and as a result of Covid-19 have monitored the cashflow forecasts on a weekly basis.

The business continued to manage its liquidity risk with the renewal of its debt facility with HSBC on the 13th January 2020 with a new facility of £22.9m for 5 years until 2025. In addition, a £5.0m bank CBILs facility was secured for 6 years on 16th December 2020, which is interest free for the first year increasing to 3.9% + base rate from year 2.

The business continues to service its debt and make the interest payments as they fall due. There are no off balance sheet financing arrangements or contingent liabilities.

While liquidity remains closely monitored the Sea Hostel was sold February 2021 for a £0.8m consideration, and Edinburgh Hostel was sold for £16m. The monthly cost base was reduced from £1.0 million to £0.6 million during the first lockdown, and further reduced to £0.35 million since the second wave of lockdowns in November 2020. The Sea disposal and sale of Edinburgh would provide sufficient headroom to manage liquidity in the short term, through to the end of December 2022, even if the impact of Covid-19 continued or the hostels remained closed. See note 1 going concern accounting policy.

However, the covenants of the existing debt facility were waived since June 2020. From June 2021 they are adjusted and replaced with adjusted EBITDA targets reflecting the current performances of the hostels since the first lockdown in April 2020. They will revert to the contractual covenants from

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September 2022 when it is expected that the Group will have enough trading history from the re-opening of the hostels in July 2021 to meet the 12 month historic Interest Cover (ICR) and Debt Service Cover (DSCR) ratios. Although the Company will meet its adjusted EBITDA targets and covenants under the base case scenario, a reduction of 10% in the sales versus base case would trigger a breach in the adjusted EBITDA target test from June 2022 and the DSCR historic ratio from September 2022. See note 1 going concern accounting policy.

Foreign currency risk

The group is exposed to foreign currency risk from overseas subsidiaries with group transactions carried out in Euros. Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in Euros.

This risk is mitigated by each hostel holding a denominated bank account in the country of operation. The group monitors cashflows and considers foreign currency risk when making intra-group transfers.

Foreign transactions are translated into the functional currency at the exchange rate ruling when the transaction is entered. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates, of monetary assets and liabilities are recognised in the income statement.

Interest rate risk management

The Group is exposed to interest rate risk on its borrowings. The £22.9 million main facility has an interest rate of 2.45% above the London inter-bank offer rate (LIBOR). When the £10 million from Edinburgh sale proceeds is used to reduce the debt in July 2021, LIBOR will be replaced with 2.95% SONIA. The £5 million CBILS in interest free in year 1 and has an interest rate of 3.9% above base rate from year 2 until it is fully repaid at the end of year 6. 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 2020, if interest rates were 0.5% higher or (lower) and all other variables were held constant, the Group's net profit would increase or decrease by £140,000 (2019: £90,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

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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 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		Later than		
	1 year	1-2 years	3-5 years	5 years	Total
	£'000	£'000	£'000	£'000	£'000
Variable interest rate borrowings	389	1,624	4,453	21,914	28,380
Property financing borrowings	331	331	993	18,016	19,671
Trade and other payables	1,407	336	-	-	1,743
Lease liabilities	3,466	3,466	10,301	47,138	64,371
	5,593	5,757	15,747	87,068	114,165

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

The repayment of the £5 million CBILS will start in April 2022. The repayment under 1 year relates to the £22.9 million debt facility for £57,500 per quarter, and the repayment of the government backed loan in Vienna for £80,000 per semester. It was however agreed with HSBC that the main debt facility would be interest only from July 2021 after the disposal of Edinburgh which involves a £10.0 million debt repayment to HSBC.

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31 December 2020

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
2019				
Freehold Property	-	-	7,998	7,998
Leasehold Property	-	-	41,126	41,126
	-	-	49,124	49,124
2020				
Freehold Property	-	-	8,411	8,411
Leasehold Property	-	-	41,126	41,126
	-	-	49,537	49,537

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 2020 no adjustment to the fair value of leasehold properties was required.

24. BUSINESS COMBINATIONS

See accounting policy in note 1.

- On 14th January 2020, the Group acquired the leasehold of an existing 132 bed hostel in Athens via a newly registered Greek subsidiary of Safestay plc, for a consideration of €1.5m paid in full at acquisition.
- On 30th January 2020, the Group acquired an existing entity registered in Poland which owned the leasehold of a 158 bed hostel in Warsaw. At the same date, the Group acquired an existing entity registered in Slovakia which owned the leasehold of a 124 bed hostel in Bratislava. Both entities were acquired from the same party, Dream Management Group Ltd, for a consideration with €0.6m paid at completion and the outstanding amount in November 2020 for €0.3m.

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31 December 2020

	Athens	Warsaw	Bratislava	2020	2019
Number of sites purchased				3	3
Fair value	£'000	£'000	£'000	£'000	£'000
Property, plant & equipment	2,092	1,179	825	4,096	5,437
Intangible assets	-	-	-	-	2
Current assets	1	233	-	234	40
Cash	-	64	4	68	192
Debt	(1,964)	(732)	(515)	(3,211)	-
Deferred revenue, trade & other payables	(9)	(1,351)	(503)	(1,863)	(104)
Goodwill	1,210	620	917	2,747	1,747
Consideration					
Net cash paid on acquisition	1,330	13	728	2,071	7,314
Total Consideration	1,330	13	728	2,071	7,314

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:

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

The Group incurred acquisition costs of £0.1 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 2020 from the date of acquisition.

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Notes to the Consolidated Financial Statements

31 December 2020

	Athens	Warsaw	Bratislava
	£'000	£'000	£'000
Revenue	115	129	31
Operating profit	(179)	(201)	(151)

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 especially in the context of the Covid-19 pandemic.

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 and updated internal processes.

25. POST REPORTING DATE EVENTS

- On 2 March 2021, the Group completed the disposal of the smallest of its three hostels in Barcelona, called Barcelona Sea to Beds and Foods Barcelona s.l.u. The consideration for the leasehold site with 96 beds was £0.8 million. The sale proceeds were used to repay the majority of the final element of the acquisition consideration due to Equity Point Holding Empresarial totalling £1.0 million, for the purchase in 2018 of the Barcelona hostel located in the avenue of Passeig de Gràcia, a much larger hostel offering 351 beds.
- On 26 March 2021, the Group entered into a sale and purchase Agreement to sell the Edinburgh Hostel to A&O for a cash consideration of £16.0 million. The transaction involved the sale of the Safestay Edinburgh Holdings Ltd entity, which owns the 150 year lease interest in the building under a ground lease agreement with Imperial Tobacco, and the transfer of the Hostel business from Safestay Edinburgh Hostel Ltd. Part of the proceeds of the disposal will be used to reduce debt with HSBC by £10.0 million. The Transaction was conditional upon Shareholder approval which was obtained at a general meeting of the Company held on 30 April 2021. The agreement includes other conditions precedent which are listed in the General Meeting Notice released on 1 April 2021. The sale completed on 30th June 2021.
- The Group is currently not committed to any future acquisition projects or development.
- In March 2021, the Chancellor has confirmed an increase in the main CT rate from 19 to 25 percent with effect from 1 April 2023. This would have a £0.4 million positive impact on the amount of Company deferred tax.

Safestay plc**Company Statement of Financial Position****31 December 2020**

	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	2	12,112	12,341
Intangible assets	3	41	46
Investments	4	8,852	6,625
Deferred tax asset		801	-
Total non-current assets		21,806	19,012
Current assets			
Trade and other receivables	5	33,512	29,973
Cash at bank and in hand		1,080	1,364
Total current assets		34,592	31,337
Total Assets		56,398	50,349
Current Liabilities			
Loans and overdrafts	7	163	279
Lease liabilities	8	43	41
Trade and other payables	6	6,141	9,636
Current Liabilities		6,347	9,956
Non-current liabilities			
Bank loans and convertible loan notes	7	27,430	17,399
Lease liabilities	8	10,038	10,081
Total non-current liabilities		37,468	27,480
Total liabilities		43,815	37,436
Net assets		12,583	12,913
Equity			
Share capital	9	647	647
Share premium account	10	23,904	23,904
Merger reserve		1,772	1,772
Share based payment reserve		438	159
Profit and loss account		(14,178)	(13,569)
Equity attributable to the owners of the parent company		12,583	12,913

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 £609,466 (2019: £3,264,000)

These financial statements were approved by the Board of Directors and authorised for issue on 30 July 2021.

Larry Lipman

Director

Larry Lipman

Safestay plc**Company Statement of Changes in Equity****31 December 2020**

	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	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
Comprehensive income						
Loss for the year	-	-	-	-	(609)	(609)
Total comprehensive loss	-	-	-	-	(609)	(609)
Transactions with owners						
Issue of shares	-	-	-	-	-	-
Share based payment charge for period	-	-	-	279	-	279
At 31 December 2020	647	23,904	1,772	438	(14,178)	12,583

Safestay plc**Company Statement of Cash Flows****31 December 2020**

	2020	2019
	£'000	£'000
Loss before tax	(1,396)	(3,264)
Adjustments for:		
Finance cost	1,305	1,295
Finance income	(335)	(118)
Share based payment charge	279	34
Depreciation	276	319
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(3,537)	(5,026)
(Decrease)/increase in trade and other payables	(3,495)	993
Net cash used in operating activities	(6,903)	(5,767)
Investing activities		
Interest received	334	115
Investment in subsidiaries	(2,227)	(34)
Purchase of tangible fixed assets	(6)	(21)
Purchase of intangible assets	(36)	(26)
Net cash (outflow) / inflow from investing activities	(1,935)	34
Financing activities		
Proceeds from refinancing transaction	5,000	-
Proceeds from Coronavirus Business Interruption Loan Scheme	5,000	
Loan repayments	-	(360)
Lease principal payments	(660)	(660)
Fees on refinancing	(161)	
Interest paid	(625)	(589)
Net cash generated / (outflow) from financing activities	8,554	(1,609)
Cash and cash equivalents at beginning of year	1,364	8,706
Net decrease in cash and cash equivalents	(284)	(7,342)
Cash and cash equivalents at end of year	1,080	1,364

Safestay plc**Notes to the Company Financial Statements****31 December 2020****1. STAFF COSTS**

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

	2020	2019
Administration	8	15
Directors	5	5
	13	20

2. PROPERTY, PLANT AND EQUIPMENT

	Restated Right of use assets buildings £'000	Restated Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2019	13,448	-	132	13,580
Additions	-	-	21	21
Reclass	-	-	(72)	(72)
Reclass (restated)	(3,149)	3,149	-	-
At 31 December 2019	10,299	3,149	81	13,529
Additions	-	-	6	6
Reclass	-	-	-	-
At 31 December 2020	10,299	3,149	87	13,535
Depreciation				
At 1 January 2019	863	-	59	922
Charge for the year	272	-	18	290
Reclass (restated)	(578)	578	(24)	(24)
At 31 December 2019	557	578	53	1,188
Charge for the year	216	-	19	235
At 31 December 2020	773	578	72	1,423
Net book value				
At 31 December 2020	9,526	2,571	15	12,112
At 31 December 2019	9,742	2,571	28	12,341

Safestay plc

Notes to the Company Financial Statements

31 December 2020

Leasehold improvements comprise the capitalised refurbishment costs incurred by the Company on the leased properties.

Included within the transition adjustment in 2019 to Right of Use Assets is £3.2 million relating to the works completed by the Company in the Kensington Holland Park hostel in 2015. It was incorrectly included in right of use asset buildings until 31 December 2019 and related to leasehold improvements. As such, in 2019, the balance with the accumulated depreciation of £578k has been retrospectively restated in respect of this amount.

3. INTANGIBLE ASSETS

	Website Development £'000	Total £'000
Cost		
At 1 January 2019		
Additions	26	26
Reclass from tangible fixed assets	72	72
At 31 December 2019	98	98
 Additions	 36	 36
At 31 December 2020	134	134
 Depreciation		
At 1 January 2019		
Charge for the year	28	28
Reclassified from tangible fixed assets	24	24
At 31 December 2019	52	52
Charge for the year	41	41
At 31 December 2020	93	93
 Net book value		
At 31 December 2020	41	41
At 31 December 2019	46	46

Safestay plc**Notes to the Company Financial Statements****31 December 2020****4. FIXED ASSET INVESTMENTS**

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2019	6,591
Additions	34
As at 31 December 2019	6,625
Additions	2,227
At 31 December 2020	8,852
Net book value	
At 31 December 2020	8,852
At 31 December 2019	6,625

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Notes to the Company Financial Statements

31 December 2020

Shares in subsidiary undertakings

The subsidiaries at 31 December 2020 and their principal activities are as follows:

Direct ownership

WXZY22 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 Deutschland GmbH	Holding Company (Germany)	Bayreuther Str. 10 in 10789 Berlin
Safestay Italia Srl	Holding Company (Italy)	Via Privata Maria Teresa 4, 20123 Milano
Safestay Athens Hostel	Hostel operation (Greece)	Ag.Theklas 10, Monastiraki, 10554 Athens
Dream Hostel SK sro	Hostel operation (Slovakia)	Leškova 4932/9A, Bratislava 81104
Dream Hostel SP zoo	Hostel operation (Poland)	55 Krakowskie Przedmieście Str, Warsaw 00-071

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.

Safestay plc**Notes to the Company Financial Statements****31 December 2020****5. TRADE AND OTHER RECEIVABLES**

	2020	2019
	£'000	£'000
Due within one year:		
Amounts due from subsidiary undertakings	33,455	29,872
Other debtors	-	43
Other receivables and prepayments	57	58
	33,512	29,973

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 subsidiary undertakings. The company has considered the 12 months expected credit losses on the amounts outstanding and consider that there are sufficient liquid assets to settle the amounts that are due. Therefore, the Company has considered 12 months expected credit losses and the expected credit losses are 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.

	2020	2019
	£'000	£'000
Trade payables	17	129
Amounts due to subsidiary undertakings	5,700	9,327
Other payables	424	180
	6,141	9,636

7. BANK AND OTHER FINANCE LOANS

	2020	2019
	£'000	£'000
Bank Loan	27,860	17,860
Loan arrangement fees	(267)	(183)
	27,593	17,677

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Notes to the Company Financial Statements

31 December 2020

The loan is secured on properties owned by the Group with interest of 2.45% plus Libor over a term of 5 years ending January 2025 for the £22.9 million main facility and interest of 3.9% over base rate from year 2 over a term of 6 years ending December 2026 for the £5 million CBILS received in 2020.

The bank loan is repayable as follows:

	2020	2019
	£'000	£'000
Within one year	163	279
After more than one year	27,430	17,398
	27,593	17,677

8. OBLIGATIONS UNDER LEASE LIABILITIES

	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 2020				
Lease payments	660	2,640	25,740	29,040
Finance charges	(617)	(2,437)	(15,905)	(18,959)
Net present values	43	203	9,835	10,081

The Company has treated the Holland Park lease as a lease liability in accordance with IFRS 16.

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 lease liabilities disclosed above are in sterling.

Safestay plc**Notes to the Company Financial Statements****31 December 2020****9. SHARE CAPITAL**

	£'000
Allotted, issued and fully paid	
64,679,014 Ordinary Shares of 1p each as at 1 January 2020 and 31 December 2020	647
	<u>647</u>

At the 31 December 2020, 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 2020 and 31 December 2020	23,904
	<u>23,904</u>

11. SHARE BASED PAYMENTS

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

Safestay plc

Notes to the Company Financial Statements

31 December 2020

Grant date	Exercise price per share (pence)	Period within which options are exercisable	Number of share options outstanding	
			2020	2019
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	38,550
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	500,000
29 April 2019	34p	29/04/2022 to 28/04/2029	500,000	500,000
26 June 2019	40p	26/06/2022 to 25/06/2029	100,000	100,000
05 Sept 2019	34p	05/09/2022 to 04/09/2029	100,000	100,000
02 Jan 2020	33p	02/01/2023 to 01/01/2030	1,200,000	
31 Oct 2020	9p	31/10/2021 to 30/10/2028	186,400	
30 Nov 2020	16p	30/11/2021 to 29/11/2028	104,900	
31 Dec 2020	13p	31/12/2021 to 30/12/2028	129,100	
			4,634,166	3,013,766

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, and the options issued in 2020 in exchange for salary reduction, which have a 1 year vesting period and no target price. 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:

	2020 Number of share options	2020 Weighted average exercise price	2019 Number of share options	2019 Weighted average exercise price
Brought forward 1 January	3,013,766	44p	1,907,389	50p
Forfeited in the period			(93,623)	50p
Issued in the period	1,620,400	28p	1,200,000	35p
Outstanding at 31 December	4,634,166	38p	3,013,766	44p
Exercisable at end of the period	1,713,766	50p	963,766	50p

No options were exercised in the period.

Safestay plc

Notes to the Company Financial Statements

31 December 2020

The fair value of the share options was calculated using the Black Scholes model. There is a charge of £279,756 taken through the income statement in exceptional items in 2020 (2019: £34,000 charge in administrative expenses).

The inputs are as follows:

	2020	2019
Closing price of Safestay Plc	16.0p	32.5p
Weighted average share price	18.8p	34.5p
Weighted average exercise price	38.0p	43.6p
Expected volatility	40%	37%
Expected life	7.1 years	7.2 years
Risk free rate	0.50%	0.50%
Expected dividend yield	0.00%	0.00%

The expected volatility percentage was derived from the quoted share prices since flotation.

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.