

Company Registration No. 8866498

Safestay plc

Report and Financial Statements

31 December 2021

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Safestay plc

Report and financial statements 2021

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Safestay plc

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Larry Lipman
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Michael Hirst OBE
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Non-Executive Director
Non-Executive Director
Non-Executive Director
Alternate Non-Executive Director

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Chairman's statement

2021 Financial highlights

- Covid-19 meant the Group's hostels were only open for 44% of 2021 (2020: 43%) and international travel was both restricted and significantly reduced
- Reflecting this challenging environment, total revenues were £6.4 million, an increase on 2020 (2020: £4.8 million) but still significantly below 2019
- Adjusted EBITDA loss of £1.0 million (2020 loss: £1.9 million). Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation with non-recurring items and removes the profit on disposal of the properties
- EBITDA of £7.2 million including profit on property disposals (2020: loss of £3.0 million)
- Profit before tax of £0.7 million (2020: loss of £9.9 million)
- Loss per share of 0.93p (2020: loss of 11.88p)
- Available cash balances of £4.5 million, as at 31 December 2021, to support the ongoing recovery of the Group to pre-covid trading levels
- Completed the sale of Edinburgh and Barcelona Sea for £16.7 million and Safestay used this to reduce HSBC debt on 6 July 2021 by £10.2 million decreasing the debt to £12.7 million. The Group also has a £5.0 million government backed CBILS loan secured for 6 years on 16 December 2020, with repayment commencing 16 April 2022. Overall borrowings including property loans are £25 million as at 31 December 2021 (£40 million 31 December 2020)
- The gearing ratio (the ratio of debt to equity and is exclusive of lease liabilities) has decreased from 99% in 2020 to 56% in 2021 following the reduction in loans and property financing of £10.2 and £4.8 million respectively, plus the £3.3 million increase in equity. £3.6 million of this increase relates to property revaluations, £0.1 million to share based charges and £0.2 million to foreign exchange translation

2021 Operational highlights

- Beginning in April and by the end of July, all 16 hostels had re-opened as restrictions lifted and overall showed improved trading with demand initially focused on domestic customers but also gradually beginning to welcome back international visitors
- Throughout the portfolio the Company has maintained high levels of hygiene and sanitation to protect both staff and guests
- Organic and acquisition capital investment projects were on hold through 2021

Post-year end – 2022 year to date highlights

- Completed strategic review of the business and refocused the operational team on returning the business to pre-pandemic revenue levels. This has been achieved through improved marketing and revenue management strategies coupled with returning customer service to pre-pandemic levels
- Steady start over first 5 months of the year with revenue running at around 81% of pre-pandemic levels in-line with management's expectations
- Balance sheet remains strong with sufficient cash to support the business through to recovery

Chairman's statement

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

"We are seeing the steady recovery of our market with young travellers and schools once again visiting Europe's major cities. From our perspective, we always believed this would happen and that our hostels would again demonstrate their appeal to our target customers. Occupancy is increasing at an encouraging rate albeit from low levels and bookings for the summer are ahead of our internal budget plans. We expect momentum to increase as travel returns to normal conditions."

Introduction

2021 was another year of significant disruption. The year started with the global travel industry at a near standstill, it wasn't until April our hostels began to re-open, however the year ended with the new Omicron variant appearing, leading to further restrictions to trading, which meant our hostels were only able to open for 44% of the year.

These challenges were reflected in the Company's results for the year. However, unlike 2020, we entered 2021 with a much lower cost base and took the opportunity in the first half of the year to reduce debt and create liquidity with the disposal of our Edinburgh and Barcelona Sea hostels, which placed us in a good financial position to reset and prepare for when we were allowed to trade.

Our 2021 results show an improvement compared to 2020, but given the impact of the global pandemic, neither year reflects the true trading potential of the portfolio, and as such, for comparison, we have provided 2019 comparators to where appropriate.

Through the second half of 2021 the Board took the opportunity to review all strategic options with the business, including the potential for a sale, and whilst bids were received at a significant premium to share price at the time, they were conditional on our largest shareholders supporting an offer which they were not prepared to do as they are strong believers in the longer-term prospects of the Company. Consequently, the management are pleased to now focus solely on supporting the ongoing recovery of the business to pre-Covid levels and beyond.

The first five months of 2022, indicate Group trading is continuing to improve, in line with increasing demand and that bookings for the summer are in-line with management's expectations.

Financial Results**Revenue**

Group revenue for the financial year ended 31 December 2021, increased by 33% to £6.4 million, although this was still significantly below pre covid levels (2020: £4.8m; 2019: £18.4 million).

The revenue in 2021 does not include £0.9 million (2020: £0.8 million) of grants received from governments and local authorities. These are reported separately, in administrative expenses for the £0.4 million payroll grants and as exceptional income for the £0.5 million other grants. 62% of the revenue came from non-UK properties (2020: 49%). The increase in revenue was in the non-UK properties 68% and the decrease in revenue was in the UK properties 1%.

Room revenue grew by 37% to £4.9 million (2020: £3.6 million) and food & beverage revenue as well as ancillary revenue were up 48%, to £1.3 million (2020: £0.9 million). Rental income has reduced to £0.2 million (2020: £0.4 million) due to the disposal of the Edinburgh hostel.

Chairman's statement

Historically, management focus has been the sale of beds and drive accommodation revenue, with all other income streams significantly lower. In a bid to maximise the revenue potential beyond beds, we have outsourced, on a revenue share basis, our Madrid food and beverage operations to Casa Suecia, who are steadily investing in the customer proposition and experience. Safestay receives the higher of a minimum guaranteed rent or an agreed % of the food and beverage revenue in return for Casa Suecia receiving the profit from this income stream by managing this part of the operation with its own staff.

Adjusted EBITDA

The Directors consider that an adjusted EBITDA provides a key measure of performance since it removes the impact of the profit on disposal of the properties, which is not a trading activity, along with the benefit of rent concessions received. Adjusted EBITDA for the year to December 2021 was a £1.0 million loss (2020: £1.9m loss; 2019: £6.1 million profit). Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation, profit on disposal and rent charges in the period.

	2021 £'000	2020 As Restated £'000
Adjusted EBITDA is as follows:		
Operating Profit after exceptional expenses	3,393	(7,176)
<i>Add back:</i>		
Depreciation	1,434	1,541
Right of Use Depreciation	2,243	2,459
Amortisation	96	199
Actual EBITDA	7,166	(2,977)
Impairment	-	1,491
Profit on disposal - Edinburgh	(7,511)	-
Loss on disposal – Barcelona Sea	554	-
Exceptional expenses	-	261
Rent concessions	(1,275)	(904)
Share based payment expense	72	279
Adjusted EBITDA	(994)	(1,850)

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

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

Chairman's statement

Finance Costs

Finance costs in 2021 were £2.7 million (2020: £2.8 million) as follows:

	2021	2020
Lease finance	1,741	1,558
Property financing costs	197	343
HSBC debt facility interests	695	625
Other finance charges	68	224
Finance costs	2,701	2,750

Following the sale of our Edinburgh hostel at the end of June, Safestay reduced its HSBC debt on 6 July 2021 by £10.2m reducing bank debt to £12.7 million. The Group also has a £5.0 million government backed CBILS loan secured for 6 years on 16 December 2020, with repayment commencing 16 April 2022.

In addition, the Company has two government backed loans in Germany (£0.2 million) and Austria (£0.2 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 2021, the finance costs include £1.7 million of lease interest (2020: £1.6 million). The £1.28 million (2020: £0.9 million) reduction negotiated with our landlords was treated as rent concessions in administrative expenses in full in both the current and prior year.

Earnings per Share

Basic loss per share for the year ended 31 December 2021 was 0.93p (2020: loss 11.88p) based on the weighted number of shares, 64,679,014 (2020: 64,679,014) in issue during the year.

The Group made a £0.6 million net loss in 2021 (2020 loss: £7.5 million; 2019 loss: £1.0 million).

Cash flow, capital expenditure and debt

Net cash generated from operations was (£1.3) million (2020: (£4.3) million).

The £1.6 million increase in income from the hostels resulted in additional operating profit of £3.4 million, excluding the profit on disposal, due to the drive to reduce the cost structure. 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% in return for share options. The rental charge was reduced by £2 million via a mix of reduction (£1.3 million) and deferments (£0.9 million). In addition, all capital expenditure has been restricted from March 2020.

The Group had cash balances of £4.5 million at 31 December 2021 (2020: £2.1 million).

Following the measures implemented in 2020 to navigate the global pandemic to focus on preserving and managing cash, capital expenditure was restricted through 2021 to essential capital necessary to optimise revenues in our existing portfolio on re-opening, following a sustained period of being mothballed in line with legislative requirements.

Chairman's statement

Outstanding bank debt as at 31 December 2021 was £18 million (2020: £28 million). This includes a £12.7 million loan with HSBC (2020: £22.9 million), minus the £0.1 million amortised loan fees (2020: £0.3 million), the £5.0 million government backed CBILS loan received in December 2020, and the two government backed loans received via our local entities in Germany and Vienna for £0.2 million each. The lease liabilities amount to £33 million (2020: £39 million).

The gearing ratio (exclusive of lease liabilities) has decreased from 99% in 2020 to 56% in 2021 following the reduction in loans and property financing of £10.4 and £5.2 million respectively, plus the £3.3 million increase in Equity.

The HSBC debt covenants were waived until June 2021, and then adjusted and waived covenants are agreed until December 2022.

Net asset value per share increased to 47p (2020: 42p) as a result of an improved net profit position in 2021.

The Directors believe the existing cash and facilities in place, the increase in occupancy forecast and the reduction in the cost base will allow them to continue as a going concern, despite the lingering impact of COVID-19 and travel restrictions. For these reasons, they continue to adopt the going-concern basis in preparing the Company's financial statements.

2020 Qualification Elimination

In 2020 Grant Thornton provided a qualified opinion on the financial statements because they were unable to obtain sufficient appropriate audit evidence to substantiate historic accounting entries on goodwill and reserves in relation to the acquisition of Edinburgh. This qualification became redundant following the sale of Edinburgh in June 2021, as the subsequent accounting treatment for the disposal pushes the final accounting entries through reserves which is consistent with the approach taken in 2020.

Operational Review

Like 2020, 2021 was another unusual year, operating under the restrictions for parts of the year imposed by the pandemic. The hospitality industry was more affected than most and Safestay was no exception.

We entered 2021 with all hostels closed, and at the end of April tentatively started to re-open initially in Edinburgh with all hostels finally open by the end of July. Whilst hostels were allowed to be open, travel, although possible, was restricted and barriers to travel made it hard for customers to move outside of their own country.

Operational procedures were reset and fully adapted to the new safety protocols and standards to keep both customers and employees safe. Week after week, occupancy gradually increased with October and November seeing our hostels return to a positive hostel EBITDA before rent, before Omicron hit in December and a return to further travel restrictions and some countries into lockdown.

The travel restriction had a particular impact on group bookings, with the majority of schools and clubs deferring a return until 2022, but our policy of focusing our marketing activity in the digital space, our own web site investment and booking platforms meant that individual travellers have been attracted to our hostels.

Going into 2022, we are reverting to 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').

Chairman's statement

Thereby spreading our revenue generation beyond OTAs to the higher margin direct and group bookings.

Safestay continues to be positioned at the premium end of the hostel market. 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 high guest satisfaction scores.

The Group has 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

Paul Hingston joined the board as CFO and Company secretary on 21 February 2022. Paul has extensive leisure and travel sector experience, most recently he was Group Finance Director for Starboard Hotels Ltd. Peter Harvey decided to step down from the position of Chief Financial Officer and Company Secretary on 21 February 2022 and I would like to thank him, on behalf of the Board, for his contribution through what we trust has been the final stages of the pandemic and the re-opening of our hostel estate. Additionally, Nuno Sacramento resigned from his position as Chief Operating Officer on 17 June 2022.

Outlook

Utilising our unique portfolio, our longer-term strategy remains focused on offering 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 representing outstanding value for money. Ultimately, we believe the appeal of our offer combined with the proven appeal of visiting Europe's ancient leading cities will underpin the full recovery of our business. Bookings for the summer period are ahead of our internal budgets and we are looking forward to delivering a much-improved summer trading period.


Larry Lipman (Aug 12, 2022 21:04 GMT+2)

Larry Lipman
Chairman
12 August 2022

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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, 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. 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.

As a result of engagement with customers, due to the impact of Covid-19, the decision was made that the period in which customers were able to re-book their cancelled stay would be extended. In addition,

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the bookings were made more flexible and could be transferred to other Safestay hostels, if the hostel they had booked 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, employees' 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.

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.

- **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 12 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 deferrals 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. In addition, the executive directors have participated in shareholder conferences to present their business and strategy and obtain live and direct feedback from non-institutional shareholders. The Company website includes an investor section where shareholders can find all relevant information and reports.

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

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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.

- **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

	2021	2020	2019
Occupancy %	35.4%	37.9%	77.3%
Average Bed Rate	£19.7	£18.3	£21.4
Room Revenues (£'000)	4,901	3,570	15,115
Total Revenues (£'000)	6,423	4,831	18,379
Net cash (used in)/generated from operations (£'000)	(1,323)	(4,347)	5,228
Net assets per share	47p	42p	55p

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 and 2021 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 £6.4 million (2020: £4.8 million; 2019: £18.4 million).

Operating profit was £3.4 million (2020: £7.2 million loss) and an underlying adjusted negative EBITDA, as defined in the Chairman's statement, of £1.0 million (2020: £1.9 million loss) for the year to 31 December 2021. Actual EBITDA profit is £7 million (2020: £3 million loss) and Profit before Tax is £0.7 million (2020: Loss of £9.9 million). The business was severely impacted by the pandemic in 2021 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.

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2021 was another challenging year which both impacted the results of the Group and arrested our expansion plan. However, it continued to demonstrate the sustained 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.

The Group completed on the disposal of two hostels in 2021 to provide the Company with the necessary funding to meet the short-term and mid-term cash requirement. The Barcelona Sea hostel was sold in February 2021 for a £0.7 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, ensuring the Company has sufficient financial liquidity to support the business in its recovery following the pandemic.

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.

Social matters

Safestay provided jobs for over 200 people pre COVID-19. This number did reduce during COVID whilst the hostels were temporarily closed, and most of the staff employed by the Company during this period were on furlough.

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.

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 these clients 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 mindset underpins the formulation of the Group's strategy and is evident throughout the Board's decision-making process.

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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 able to vote at general meetings of the Company.

Environment

The Company is mindful of the importance of reducing environmental impact wherever possible and has implemented several initiatives to achieve a sustainable future. The Company intends to continuously review and increase its efforts in this area. As an example, in all Safestay properties, we minimise the use of plastics wherever possible seeking more sustainable alternatives. This enables us to reduce our environmental footprint and helps us build a reputation with our guests as it meets their environmental expectations. We reuse and recycle the plastic we do use. We are also constantly reviewing our CO2 emissions. We are committed to reducing Scope 1 and 2 emissions - for example, 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 will also look to reduce Scope 3 emissions working only with trusted suppliers.

We have a unique carbon impact tool which we offer to our guests. This gives them 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 Company is committed to diverse representation at all levels. We are mindful that there is still work to be done to achieve these goals and are looking to make significant progress in our recruitment, retention and promotion strategies as we emerge from the pandemic.

The following table reports on the gender diversity of the Group's employees at 31 December 2021:

	Male	Female
Directors	5	0
Senior Managers	1	3

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

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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.

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 were ready for the initial re-opening 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 and ongoing expectations.

As set out in last year's report we have set out a safety standard that continues to be deployed across all Safestay properties and involves the release of an internal certification to hostels each time they re-open. This is being closely monitored and accessed by our management team to ensure a safe space in public and private areas.

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

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Strategic Report

• 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, foreign exchange rate fluctuations and the hangovers from the UK's departure from the European Union and the consequences of that. 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, over 60% 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 has strengthened, 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. As supply increases, the business's 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 and has a cloud based back up system to secure all data which are not already covered via other SaaS suppliers. This is a more robust and flexible option compared to an in-house solution.

Safestay plc

Strategic Report

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 from the COVID-19 crisis and existing property owners look for alternatives 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 seven 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 plus existing fundamentals and trade licences, which makes it less likely to require the introduction of more strict regulations.

Financial risk

The main £12.7 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 April 2022 until April 2027. The main £12.7 million facility is interest only from July 2021 following a £10.2 million repayment after 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 3.99% margin over base rate from year 2 for the CBILS. The CBILS was interest free in the first year.

Any increases in SONIA or base rate will increase the cost of these loans and therefore impact the net profit of the business (a 0.5% change in interest rate would impact the net profit before tax by £89,000). 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 (Aug 12, 2022 21:04 GMT+2)

Larry Lipman

Chairman

12 August 2022

Safestay plc

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 2021.

Directors

The directors who have served in the year to 31 December 2021 were as follows:

Larry Lipman

Nuno Sacramento (resigned 17 June 2022)

Stephen Moss CBE

Michael Hirst OBE

Anson Chan

Paul Cummins (Alternate director for Anson Chan)

Peter Harvey (appointed 21 May 2021, resigned 21 February 2022)

Hervé Deligny (resigned 28 May 2021)

Paul Hingston was appointed as Chief Financial Officer and Company Secretary of Safestay Plc on 21 February 2022.

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 BizSpace 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 and resigned on 17th June 2022. He was 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-profit organisations 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. Nuno formally resigned his position on 17th June 2022.

Safestay plc

Directors' Report

Paul Hingston is a KPMG qualified FCA Finance Director with an MBA.

Significant board level experience in the UK and overseas has involved operating in a wide variety of sectors including Leisure, Travel, Hospitality, Aviation and Construction. He was most recently Group Finance Director of Starboard Hotels Ltd.

In addition to working with operational teams to optimise business performance, often during periods of rapid growth, Paul has worked extensively on financing strategy with corporate finance advisers, banks, private equity funds and other city investors. Paul's expertise in optimising value from the interaction of Finance with the other functions of the business has been applied across a variety of corporate structures including PLCs, privately owned and private equity backed businesses. Additionally, he is the Business Members Representative on the Management Committee for the Beds, Bucks and Herts Society of Chartered Accountants.

Peter Harvey was the CFO and has many years of 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. Peter formally resigned his position in February 2022, as the requirements of Safestay did not suit his personal circumstances long term.

Stephen Moss is Chairman of Grosvenor Securities Limited, a Central London commercial property investment and development company. 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 the former Chairman of the UK Events Industry Board, advising Ministers on how to increase the value of international business events held in the UK. He serves on the Tourism Industry Council, a collaboration between the UK Government and the tourism industry focusing on improving the tourism sector. He is an Executive Committee member and past Chairman of the Business Visits & Events Partnership, representing Britain's Events Industry and a director of The Tourism Alliance, bringing together all the major tourism organisations in the UK.

He is a Director of CP Holdings Ltd, a diversified industrial and services group, which includes hotels and thermal spas in Central Europe and a service office business in the UK.

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.

Safestay plc

Directors' Report

Michael Hirst was appointed an OBE for services to tourism in Britain and awarded the Joint Meetings Industry Council Unity Award, for his significant contribution to the advancement of the international Meetings Industry. He was awarded a Lifetime Achievement Award for his distinguished career in hospitality, leisure and tourism by the International Hotel Investment Forum and recently awarded a Fellowship by the Event and Visual Communications Association.

He was a board member of the Ladbroke Group Plc where he was Chairman and CEO of Hilton International and voted "Corporate Hotelier of the World" by HOTELS Magazine.

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 a proprietary investments group for the 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 adviser 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:

	Ordinary shares of 1p each	
	Fully paid number	Percentage %
Larry Lipman	346,054	0.5
Stephen Moss	233,988	0.4
Hervé Deligny	44,117	0.1
Nuno Sacramento	37,160	0.1
Michael Hirst	97,142	0.2

Safestay plc

Directors' Report

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 2021. 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 2021. Anson Chan is not considered to be independent due to 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 2021.

Safestay plc

Directors' Report

Directors' interests in options over the equity share capital of the Company at 31 December 2021 were:

	Granted	Lapsed	At 31 December 2021	Exercise price	Exercisable From	Exercisable To
Herve Deligny	61,200	-	61,200	9 p	31/10/21	30/10/28
	34,400	-	34,400	16 p	30/11/21	29/11/28
	42,400	-	42,400	13 p	31/12/21	30/12/28
	42,400	-	42,400	13 p	31/01/22	30/01/29
	39,300	-	39,300	14 p	28/02/22	27/02/29
	36,700	-	36,700	15 p	31/03/22	30/03/29
Larry Lipman	396,521	-	396,521	50 p	12/05/17	11/05/24
	250,000	-	250,000	50 p	14/07/20	13/07/27
	300,000	-	300,000	34 p	01/01/22	31/12/28
	400,000	-	400,000	33 p	02/01/23	01/01/30
	37,100	-	37,100	9 p	31/10/21	30/10/28
	20,900	-	20,900	16 p	30/11/21	29/11/28
	25,700	-	25,700	13 p	31/12/21	30/12/28
	25,700	-	25,700	13 p	31/01/22	30/01/29
	23,900	-	23,900	14 p	28/02/22	27/02/29
	22,300	-	22,300	15 p	31/03/22	30/03/29
	22,300	-	22,300	15 p	30/04/22	29/04/29
	19,700	-	19,700	17 p	31/05/22	30/05/29
	18,600	-	18,600	18 p	30/06/22	29/06/29
	20,900	-	20,900	16 p	31/07/22	30/07/29
Michael Hirst	4,600	-	4,600	9 p	31/10/21	30/10/28
	2,600	-	2,600	16 p	30/11/21	29/11/28
	3,200	-	3,200	13 p	31/12/21	30/12/28
	3,200	-	3,200	13 p	31/01/22	30/01/29
	3,000	-	3,000	14 p	28/02/22	27/02/29
	2,800	-	2,800	15 p	31/03/22	30/03/29
	2,800	-	2,800	15 p	30/04/22	29/04/29
	2,400	-	2,400	17 p	31/05/22	30/05/29
	2,300	-	2,300	18 p	30/06/22	29/06/29
	2,600	-	2,600	16 p	31/07/22	30/07/29
Nuno Sacramento	500,000	-	500,000	50 p	21/07/20	20/07/27
	100,000	-	100,000	42 p	11/10/21	10/10/28
	200,000	-	200,000	34 p	01/01/22	31/12/28
	300,000	-	300,000	33 p	02/01/23	01/01/30
	46,300	-	46,300	9 p	31/10/21	30/10/28
	26,100	-	26,100	16 p	30/11/21	29/11/28
	32,100	-	32,100	13 p	31/12/21	30/12/28
	32,100	-	32,100	13 p	31/01/22	30/01/29
	29,800	-	29,800	14 p	28/02/22	27/02/29
	27,800	-	27,800	15 p	31/03/22	30/03/29
	27,800	-	27,800	15 p	30/04/22	29/04/29
	24,600	-	24,600	17 p	31/05/22	30/05/29
	23,200	-	23,200	18 p	30/06/22	29/06/29
Stephen Moss	11,200	-	11,200	9 p	31/10/21	30/10/28
	6,300	-	6,300	16 p	30/11/21	29/11/28
	7,700	-	7,700	13 p	31/12/21	30/12/28
	7,700	-	7,700	13 p	31/01/22	30/01/29
	7,200	-	7,200	14 p	28/02/22	27/02/29
	6,700	-	6,700	15 p	31/03/22	30/03/29
	6,700	-	6,700	15 p	30/04/22	29/04/29
	5,900	-	5,900	17 p	31/05/22	30/05/29
	5,600	-	5,600	18 p	30/06/22	29/06/29
	6,300	-	6,300	16 p	31/07/22	30/07/29

Safestay plc

Directors' Report

The options granted in the first 7 months of 2021 were received by the existing 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 31 May 2022.

	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	4,361,764	6.74
Bredbury Ltd	3,129,665	4.84
Safeland Holdings (2008) Corporation	3,112,484	4.81
Hargreaves Landsdown Asset Management Ltd	2,670,520	4.13
Canaccord Genuity Wealth Management	2,641,176	4.08
Safeland Plc	2,597,334	4.02
Peter O'Reilly	2,298,273	3.55

Dividends

The directors have not recommended the payment of a dividend for the year (2020: 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 UK-adopted IFRS. 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 UK-adopted IFRS, 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.

Safestay plc

Directors' Report

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 2021, the directors have authorised no such conflicts or potential conflicts in accordance with the above procedures.

Going concern

The Company is reporting an adjusted EBITDA loss in 2021 when the business was again severely impacted by the pandemic and the hostels on average have been open for less than 50% of the year. Travel restrictions and local lockdowns continued to impact in some of the countries where the Company operates in Europe into 2022.

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 despite the Omicron pandemic in December 2021 and into the first two months of 2022, the Group started to generate cash from its operation when restrictions were lifted by the end of the first quarter in 2022 and the travel industry recovers through 2022.

The directors have further 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 £0.9 million to £0.6 million during the first lockdown in the second quarter of 2020, and this continued during the second wave of lockdowns from November 2020. Costs were allowed to come back into the business on a measured basis as the business re-opened in 2021, mindful of the potential for future travel restrictions and lockdown, which has helped navigate the final Omicron variant and associated restrictions. These reductions and the cost consciousness, are the results of the combined impact of the following actions implemented by management during this period:

- The Group has taken advantage of governmental support schemes in all jurisdictions where they were available, including the job retention scheme in the UK and similar schemes in the other countries where Safestay operates hostels.
- Variable operational costs in the hostels were mechanically reduced to zero with the absence of revenue, as necessary. The fixed operational costs, exclusive of insurance, rent and property taxes, were reduced to £0.15 million during the first lockdown and this continued until the hostels reopened. The Group maintains a minimum level of spend in safety, utilities and maintenance to keep the properties in a good condition whilst they are closed.

Safestay plc

Directors' Report

- The Group benefited from business rates reliefs for the 5 hostels operated in the UK since April 2020 through to end of June 2021 and continued with a 66% relief until March 2022. It is also benefiting from the 50% relief in the year to 31 March 2023.
- The Group continued to liaise with landlords to obtain a £1.3 million rent reduction for 2021, with deals being extended in all of the hostels apart from Berlin, Bratislava, Elephant & Castle, Madrid and Vienna. As highlighted in previous reports, in addition, the landlords with rent deferments have agreed for the majority to be after 2022.
- Operating costs in the head office were reduced by 40% 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 through to July 2021.

The Group 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 £10.2 million of HSBC debt was repaid.

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 June 2022 for the period to 31 December 2022, assumes as a prudent base case that the sales will gradually climb through the summer months. Like for like sales for the first 5 months of the year are 81% of pre covid levels. This continues to reflect the expectation of a slow recovery of the tourism market in general outlined in last year's annual report.

The sale of Edinburgh generated enough liquidity, after the £10.2m debt repayment, for the business to mitigate the enforced downturn of revenues due to the Pandemic restrictions, and through to time positive cash inflows are being generated.

The covenants of the debt facility were waived in June 2020, being replaced with adjusted EBITDA targets reflecting revised performances of the hostels since the first lockdown in April 2020. These run through to June 2022, when they will revert to the adjusted and waived covenants that have been agreed until December 2022.

Despite the lingering uncertainties resulting from the impact of COVID-19 and additional resulting travel restrictions and ability to meet original bank covenants, the directors believe the existing cash and facilities in place, 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.

Post balance sheet events

- The Group is currently not committed to any future acquisition projects or development.

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 to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Safestay plc

Directors' Report

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

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, 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 foreign exchange risk, interest rate risk and liquidity risk. The Board reviews and agrees policies for managing these risks which are detailed below.

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 because of the prolonged impact of Covid-19. The company produces 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 13 January 2020 with a new facility of £12.7m 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 3.99% above base rate from year 2. Repayment of CBILs facility commenced in April 2022.

Safestay plc

Directors' Report

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

To proactively manage liquidity, it remains closely monitored and the sales of the Barcelona Sea Hostel (February 2021 for a £0.7m consideration), and the Edinburgh Hostel (June 2021 for £16m) have mitigated any short-term issues.

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 £12.7 million main facility has an interest rate of 2.95% above SONIA (Sterling OverNight Index Average). The £5 million CBILS is interest free in year 1 and has an interest rate of 3.99% 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 2021, 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 £89,000 (2020: £140,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

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 23.

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 social, environmental matters and employment of disabled persons.

Safestay plc

Directors' Report

Auditor

Following a failure to agree fees, Safestay ran a tender process and appointed CLA Evelyn Partners Limited (formerly Nexia Smith & Williamson Audit Limited) as the auditors for 2021 and will propose their 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 (Aug 12, 2022 21:04 GMT+2)

Larry Lipman
Chairman
12 August 2022

Safestay plc

Directors' Remuneration Report

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 the 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. 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 4,443,766 options are issued and not forfeited as at 31 December 2021, of which 3,209,821 for executive directors. 49% of the options issued are still vesting. The vesting period is 3 years for all option granted before February 2020 with an average exercise price of 40p and options granted after February 2020 have a vesting period of 1 year with an average exercise price of 14p.

From October 2020, the directors agreed to reduce their salary by 40% to reduce the operating costs of the Company during the lockdown period, which ran through to re-opening in July 2021. 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 the last 3 months of 2020 and was subsequently extended in 2021, under recommendation of the executive directors to the remuneration committee.

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.

Safestay plc

Directors' Remuneration Report

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. Paul Hingston has a service agreement terminated by either party upon three months' notice, Nuno Sacramento had the same and Peter Harvey had a contract that required one months' written 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 23.5p and 16.0p respectively and the market price of the shares at 31 December 2021 was 19.5p.

Directors' emoluments (audited)

The emoluments of the directors of the Company for the period ended 31 December 2021 were as follows:

Name	Salary and fees £'000	Pension £'000	Benefits in kind £'000	2021 Total £'000
Executive directors				
Hervé Deligny	59	2	-	61
Larry Lipman	77	-	-	77
Nuno Sacramento	110	3	-	113
Peter Harvey	34	1	-	35
Non-executive directors				
Anson Chan	-	-	-	-
Michael Hirst	29	-	-	29
Paul Cummins	-	-	-	-
Stephen Moss	23	-	-	23
Total	332	6	-	338

Safestay plc

Directors' Remuneration Report

The comparative for the 31 December 2020 is 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
Hervé Deligny	154	12	-	166
Non-executive directors				
Stephen Moss	27	-	-	27
Michael Hirst	31	-	-	31
Paul Cummins	-	-	-	-
Anson Chan	-	-	-	-
Total	444	16	-	460

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


Larry Lipman (Aug 12, 2022 21:04 GMT+2)

Larry Lipman
Chairman
12 August 2022

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 CLA Evelyn Partners Limited (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.

CLA Evelyn Partners Limited was appointed as external auditor of the Company to conduct the audit of the Company's financial statements for the financial year to 31 December 2021 and their re-appointment as auditor for the following financial year will be subject to approval by shareholders at the 2022 Annual General Meeting. External audit partners are rotated every five years (seven years for subsidiary companies). The current external audit partner is Stephen Drew. 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 concessions under IFRS 16;
- Review of the management paper in relation to key assumptions used in the impairment test as at 31 December 2021 under IAS 36;
- Review of the management paper in relation to the valuation of the assets under IAS 16.

Safestay plc

Corporate Governance

The Quoted Companies Alliance's Ten Principles of Corporate Governance

1. Establish a strategy and business model which promote long-term value for shareholders – the company's business model is explained in the Strategic Report.
2. Seek to understand and meet shareholder needs and expectations – there is continuous communication with shareholders and the largest shareholder has a seat on the Board of Directors.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success – this is explained in the Section 172(1) statement of the Strategic Report.
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation – the company's risk management is explained in the risks section of the Strategic Report.
5. Maintain the board as a well-functioning, balanced team led by the chair - the Board has had a best practices review of their procedures and follows these.
6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities – these are covered in the Director biographies in the Directors' report.
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement – the Board reviews at each meeting the company performance and how it can be improved through the actions of the Board.
8. Promote a corporate culture that is based on ethical values and behaviours – This is detailed in the employees section of the Section 172(1) statement of the Strategic Report.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board – this is covered by the Board's best practice review.
10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders – the company has continuous communication with shareholders and other stakeholders.

Director Board Meeting Attendance

The following table summarises the attendance of the directors for board meetings in 2021:

	Board Meetings in Year	Board Meetings Attended
Paul Cummins	13	13
Hervé Deligny	13	5
Peter Harvey	13	8
Michael Hirst	13	13
Larry Lipman	13	13
Stephen Moss	13	13
Nuno Sacramento	13	11

By order of the Board.


Larry Lipman (Aug 12, 2022 21:04 GMT+2)

Larry Lipman

Chairman

12 August 2022

Independent auditor's report to the members of Safestay plc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAFESTAY PLC

Opinion

We have audited the financial statements of Safestay Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 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 the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our approach to the audit

Of the group's twenty-five reporting components, we subjected twelve to audits for group reporting purposes and ten to specific audit procedures where the extent of our audit work was based on our assessment of the risk of material misstatement and of the materiality of that component. The latter were not individually significant enough to require an audit for group reporting purposes but were still material to the group.

The components within the scope of our work covered 99% of group revenue, 99% of group profit before tax, and 99% of group net assets.

For the remaining three components, we performed analysis at a group level to re-examine our assessment that there were no significant risks of material misstatement within these.

There have been no component auditors used in this engagement.

Independent auditor's report to the members of Safestay plc

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the

engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Description of risk	How the matter was addressed in the audit
Carrying value of goodwill – Group (See Note 12)	The Group has a significant carrying value of goodwill arising on the acquisition of businesses in the prior year. An annual impairment review is required to assess the carrying value of goodwill for each cash generating unit (CGU). Management uses a discounted cash flow model and compares the resulting valuation to the carrying value of goodwill for each CGU to assess if any impairment is required. There are significant judgements and assumptions, such as growth rates and discount factors, used by management in determining the valuation.	We reviewed management's assessment of impairment of goodwill. We challenged assumptions and assertions made by management in their assessment. As part of our audit procedures we: · Obtained the discounted cash flow models and the underlying valuations for each cash generating unit and checked the mathematical accuracy of these. Confirmed the basis of support for judgements and assumptions used by management. · Reviewed and challenged management's forecasts of future results which underpins how the valuations are calculated. · Compared historical forecasts against actual results and corroborate management's assertions where reasonably practicable. · Used our internal valuations team to assess the valuation models and the appropriateness of the discount rates applied. · Performed sensitivity analysis on key assumptions used in the calculations.
Right of use leases – Group (See Note 17)	The Group holds a significant number of its hostel properties on long term leasehold contracts.	As part of our audit procedures we: · Obtained the IFRS 16 model and the underlying calculations for each lease and

Independent auditor's report to the members of Safestay plc

	A risk exists that the appropriate treatment under IFRS 16 of these leasehold contracts has not been applied. A deed of variation has been agreed for the hostel property located in Holland Park. A significant level of judgement is required to reassess the Incremental Borrowing Rate (IBR) for this lease agreement.	checked the mathematical accuracy of these. • Obtained a copy of each lease agreement for each property leased within the Group and reviewed each agreement against the inputs into the IFRS 16 model. • Using the lease agreements the lease liability, right-of-use asset, depreciation, and interest balances were assessed against our expected outcome. • Used our internal valuations team to assess the valuation models and the appropriateness of the judgements applied.
Revenue – Group (See Note 2)	The Group applies IFRS 15 'Revenue from Contracts with Customers'. The Group's activities consist of the provision of hostel and student accommodation, the sale of food and beverages, and other ancillary revenues. A risk exists that the company is not recognising revenue in line with IFRS 15, particularly for those bookings which span or fall close to the year end.	As part of our procedures we: • Gained an understanding by performing walkthroughs on the design and implementation of controls over revenue recognition which have been put in place by the Group to prevent and detect fraud and errors in revenue recognition. • Obtained a complete list of all material agreements with third party booking agents and reviewed the key terms of each contract to confirm the revenue recognition criteria in accordance with IFRS 15. • Performed tests of detail on the two main revenue streams identified: accommodation and ancillary revenue. • Performed cut off testing to ensure that the split between revenue and deferred revenue has been performed correctly.
Carrying value of investments in subsidiaries – Company (See Note 4)	The Company has significant balances relating to investments in subsidiaries. The investments relate to the acquisition of subsidiaries in prior years.	We reviewed management's assessment of impairment of the carrying value of investments in subsidiaries. We challenged assumptions and assertions made by management in their assessment and considered whether the presence of impairment indicators should result in an impairment charge.

Independent auditor's report to the members of Safestay plc

	The carrying value of the investments in subsidiaries is also underpinned by the future financial viability of the subsidiaries.	As part of our audit procedures we: · Considered whether the market capitalisation of the group is less than the carrying amount of investment balances and therefore highlighting a potential impairment indicator · Challenged assumptions and assertions made by management in their assessment of the investment balances and considered whether the presence of impairment indicators should result in an impairment charge · Reviewed the forecasted results of the subsidiaries and corroborated management's assertions where reasonably practical · Discussed with management the underlying future and planned activities of the subsidiaries. · Obtained the discounted cash flow models and assessed the mathematical accuracy of each valuation
Going Concern – Group (See Note 1)	Under IAS1, management are required to perform an assessment of the entity's ability to continue as a going concern. Due to the significant impact of coronavirus on the hostel and hospitality sector, an increased risk will exist over the ability of the business to continue as a going concern into the future.	Our procedures in relation to going concern are noted in the Conclusions relating to Going Concern section of the audit report.

Independent auditor's report to the members of Safestay plc

Our application of materiality

The materiality for the group financial statements as a whole ("group FS materiality") was set at £2,666k. This has been determined with reference to the benchmark of the group's total assets, which we consider to be one of the principal considerations for members of the company in assessing the group's performance. Group FS materiality represents 2% of the group's gross assets. We are required to consider whether there are one or more particular classes of transactions or account balance, for which misstatements of lesser amounts than materiality could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In the group financial statements, for transactions and assets and liabilities other than investment properties and right of use assets, we have determined specific materiality to be £100k, based on 1.5% of turnover due to revenue growth being one of the group's key performance indicators.

The materiality for the parent company financial statements as a whole ("parent FS materiality") was set at £976k. This has been determined with reference to the benchmark of the parent company's total assets as it exists only as a holding company for the group and carries on no trade in its own right. Parent FS materiality represents 2% of the parent company's total assets as presented on the face of the parent company statement of financial position.

Performance materiality for the group financial statements was set at £1,733k, being 65% of group FS materiality, for transactions and assets and liabilities other than investment properties and right of use assets, we have determined specific performance materiality to be £65k, being 65% of group specific materiality, for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We have set it at this amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds group FS materiality. We judged this level to be appropriate based on our understanding of the group and its financial statements, as updated by our risk assessment procedures and our expectation regarding current period misstatements including considering experience from previous audits.

Performance materiality for the parent company financial statements was set at £635k, being 65% of parent FS materiality. It was set at 65% to reflect the fact that this is the first period that CLA Evelyn Partners Limited have audited this group.

Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Challenging the assumptions used in the detailed budgets and forecasts prepared by management for the financial years ending 31 December 2022 and 31 December 2023;

Independent auditor's report to the members of Safestay plc

- Considering historical trading performance by comparing recent growth rates of both revenue and operating profit across the group's geographical and market segments;
- Assessing the appropriateness of the assumptions concerning growth rates and inputs to the discount rate against latest market expectations and macro-economic assumptions;
- Comparing the forecast results to those actually achieved in the 2022 financial period so far;
- Reviewing bank statements to monitor the cash position of the group post year end, and obtaining an understanding of significant expected cash outflows (such as capital expenditure) in the forthcoming 12-month period;
- Considering the group's funding position and requirements;
- Reviewing and challenging management's assertions the Group is able to comply with all loan facility covenants in the 12 months from approval of the financial statements; and
- Considering the sensitivity of the assumptions and headroom.

We challenged management to consider the sensitivity of the assumptions and forecasts with comparison to bank covenants in place. We obtained the bank covenant waiver for the bank covenant breach after the year ended 31 December 2021.

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

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

Other information

The other information comprises the information included the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Safestay plc

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report to the members of Safestay plc

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

We obtained an understanding of the Group and Parent Company's legal and regulatory framework, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Companies Act 2006 and taxation legislation.

We understand that the Company complies with the framework through:

- Outsourcing tax compliance to external experts.
- Subscribing to relevant updates from external experts, and making changes to internal procedures and controls as necessary.
- The directors' close involvement in the day-to-day running of the business, meaning that any litigation or claims would come to their attention directly.

In the context of the audit, we considered those laws and regulations: which determine the form and content of the financial statements; which are central to the Group's ability to conduct its business; and where failure to comply could result in material penalties. We identified the following laws and regulations as being of significance in the context of the Group:

- The Companies Act 2006 and IFRS in respect of the preparation and presentation of the financial statements.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur. The areas identified in this discussion were:

- Manipulation of the financial statements via fraudulent journal entries, particularly in judgemental and/or complex accounting areas.

These areas were communicated to the other members of the engagement team not present at the discussion.

We identified the greatest risks of material impact on the financial statements from irregularities, including fraud, to be the override of controls by management, inappropriate revenue recognition and judgement surrounding the property valuations. Our audit procedures to respond to these risks included enquires of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals, review of debit balances within the trade payables listing, review of management's assessment of credit card transactions in the period, reviewing accounting estimates for bias, corroborating balances recognised to supporting documentation and ensuring accounting policies are appropriate under the relevant accounting standards and applicable law.

Independent auditor's report to the members of Safestay plc

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

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

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Drew

Stephen Drew (Aug 12, 2022 20:06 GMT+1)

Stephen Drew

Senior Statutory Auditor, for and on behalf of

CLA Evelyn Partners Limited

Statutory Auditor

Chartered Accountants

14th Floor
103 Colmore Row
Birmingham
B3 3AG

12 August 2022

Safestay plc

Consolidated Income Statement

Year ended 31 December 2021

	Note	2021	2021	2020	2020	2020
		Continuing	Discontinued	As restated	As restated	As restated
		operations	operations	Continuing	Discontinued	Total
		£'000	£'000	operations	operations	Total
		£'000	£'000	£'000	£'000	£'000
Revenue	2	5,810	613	6,423	3,375	1,456
Cost of sales	3	(1,160)	(132)	(1,292)	(658)	(234)
Gross profit		4,650	481	5,131	2,717	1,222
Administrative expenses	5	(9,867)	(565)	(10,432)	(9,693)	(1,609)
Operating loss before exceptional items		(5,217)	(84)	(5,301)	(6,976)	(387)
Exceptional items – other operating income	5	1,737	-	1,737	448	-
Exceptional items – profit on disposal	5	-	7,511	7,511	-	-
Exceptional items – loss on disposal	5	-	(554)	(554)	-	-
Exceptional items – costs	5	-	-	-	(261)	-
Operating profit after exceptional items		(3,480)	6,873	3,393	(6,789)	(387)
Finance costs	6	(2,627)	(74)	(2,701)	(2,750)	-
Profit/(loss) before tax		(6,107)	6,799	692	(9,539)	(387)
Tax	8	218	(1,509)	(1,291)	2,198	205
Profit/(loss) for the financial year attributable to owners of the parent company		(5,889)	5,290	(599)	(7,341)	(182)
Basic profit/(loss) per share	9			(0.93p)		(11.63p)

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 2021**

	2021	2020
	£'000	As restated £'000
Profit/(loss) for the year	(599)	(7,523)
Exchange differences on translating foreign operations	169	(4)
Property revaluation	5,039	-
Deferred tax on property revaluation	(1,399)	(185)
Total comprehensive profit/(loss) for the year attributable to owners of the parent company	3,210	(7,712)

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

Safestay plc

Consolidated Statement of Financial Position

31 December 2021

	Note	2021 £'000	2020 As restated £'000
Non-current assets			
Property, plant and equipment (including right of use asset)	11	73,609	89,735
Intangible assets	12	18	921
Goodwill	12	12,146	13,569
Lease assets	17	562	-
Deferred tax asset	18	1,122	2,159
Total non-current assets		87,457	106,384
Current assets			
Stock		35	47
Trade and other receivables	13	1,227	1,884
Lease assets	17	78	-
Current tax asset		199	289
Cash and cash equivalents	14	4,482	2,125
Total current assets		6,021	4,345
Total assets		93,478	110,729
Current liabilities			
Borrowings	16	(926)	(311)
Lease liabilities	17	(1,922)	(1,932)
Trade and other payables	15	(2,062)	(2,409)
Current liabilities		(4,910)	(4,652)
Non-current liabilities			
Borrowings	16	(24,028)	(40,043)
Lease liabilities	17	(31,086)	(37,089)
Trade and other payables due in more than one year	15	(7)	(336)
Deferred tax liabilities	18	(3,314)	(1,758)
Total non-current liabilities		(58,435)	(79,226)
Total liabilities		(63,345)	(83,878)
Net assets		30,133	26,851
Equity			
Share capital	19	647	647
Share premium account	19	23,904	23,904
Other components of equity	19	18,510	14,629
Retained earnings		(12,928)	(12,329)
Total equity attributable to owners of the parent company		30,133	26,851

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

Safestay plc

Consolidated Statement of Financial Position

31 December 2021

These financial statements were approved by the Board of Directors and authorised for issue on 12 August 2022.

Signed on behalf of the Board of Directors


Larry Lipman (Aug 12, 2022 21:04 GMT+2)

Larry Lipman

12/08/2022

Safestay plc

Consolidated Statement of Changes in Equity

31 December 2021

	Share Capital £'000	Share premium account £'000	As restated Other Components of Equity £'000	As restated Retained earnings £'000	As restated Total equity £'000
Balance as at 1 January 2020 (as restated)	647	23,904	14,531	(4,806)	34,276
Comprehensive income					
Loss for the year	-	-	-	(7,523)	(7,523)
Other comprehensive income					
Movement in translation reserve (as restated)	-	-	4	-	4
Deferred tax on property revaluation (as restated)	-	-	(185)	-	(185)
Total comprehensive income	-	-	(181)	(7,523)	(7,704)
Transactions with owners					
Share based payment charge for the period	-	-	279	-	279
Balance at 31 December 2020 (as restated)	647	23,904	14,629	(12,329)	26,851
Loss for the year	-	-	-	(599)	(599)
Other comprehensive income					
Property revaluation	-	-	5,039	-	5,039
Deferred tax on property revaluation	-	-	(1,399)	-	(1,399)
Movement in translation reserve	-	-	169	-	169
Total comprehensive profit	-	-	3,809	(599)	3,210
Transactions with owners					
Share based payment charge for the period	-	-	72	-	72
Balance at 31 December 2021	647	23,904	18,510	(12,928)	30,133

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

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Consolidated Statement of Cash Flows

31 December 2021

	Note	2021 £'000	2020 £'000
Operating activities			
Cash generated from operations	21	(1,272)	(4,228)
Income tax received/(paid)		(51)	(119)
Net cash (used in)/generated from operations		(1,323)	(4,347)
Investing activities			
Purchases of property, plant and equipment		(307)	(985)
Purchases of intangible assets		-	(36)
Acquisitions, net of cash acquired	25	-	(2,003)
Payment of deferred consideration		-	(509)
Proceeds on sale of fixed assets		16,658	-
Net cash outflow from investing activities		16,351	(3,533)
Financing activities			
Proceeds from refinancing transaction		-	5,681
Fees relating to financing transaction		-	(161)
Proceeds from Coronavirus Business Interruption Loan Scheme		-	5,000
Bank loans redeemed		(10,373)	-
Principal elements of lease payments		(1,810)	(2,514)
Property financing payments		-	(331)
Interest paid		(488)	(624)
Net cash generated from financing activities		(12,671)	7,051
Cash and cash equivalents at beginning of year		2,125	2,954
Net increase /(decrease) in cash and cash equivalents		2,357	(829)
Cash and cash equivalents at end of year	14	4,482	2,125

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1. ACCOUNTING POLICIES FOR THE GROUP AND COMPANY FINANCIAL STATEMENTS

Safestay plc is listed on the AIM 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 2021.

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 concessions 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 received the concession, 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 2021**

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.

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Going concern

The Group is reporting an adjusted EBITDA loss of £994,000 and net current assets of £1,111,000 in 2021 when the business was again severely impacted by the pandemic and the hostels on average have been open for less than 50% of the year. Travel restrictions and local lockdowns continued to impact in some of the countries where the Group operates in Europe into 2022.

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 despite the Omicron pandemic in December 2021 through to February 2022, the Group has started to generate cash from its operation in the first quarter in 2022 when the travel restrictions were lifted. The travel industry as a whole has been impacted and continues to recover through 2022.

The directors have further reviewed the measures implemented by management to reduce the cash burn of the Group since the start of the outbreak. The monthly fixed cost base was reduced from £0.9 million to £0.6 million during the first lockdown in the second quarter of 2020, and this continued during the second wave of lockdowns from November 2020. Costs were allowed to come back into the business on a measured basis as the business re-opened in 2021, mindful of the potential for future travel restrictions and lockdown, which has helped navigate the final Omicron variant and associated restrictions. These reductions and the cost consciousness, are the results of the combined impact of the following actions implemented by management during this period:

- The Group has taken advantage of governmental support schemes in all jurisdictions where they were available, including the job retention scheme in the UK and similar schemes in the other countries where Safestay operates hostels.
- Variable operational costs in the hostels were mechanically reduced to zero with the absence of revenue, as necessary. The fixed operational costs, exclusive of insurance, rent and property taxes, were reduced to £0.15 million during the first lockdown and this continued until the hostels reopened. The Group maintains a minimum level of spend in safety, utilities and maintenance to keep the properties in a good condition whilst they are closed.
- The Group benefited from business rates reliefs for the 5 hostels operated in the UK since April 2020 through to end of June 2021 and continued with a 66% relief until March 2022. It is also benefiting from the 50% relief in the year to 31 March 2023.
- The Group continued to liaise with landlords to obtain a £1.3 million rent reduction for 2021, with deals being extended in all of the hostels apart from Berlin, Bratislava, Elephant & Castle, Madrid and Vienna. As highlighted in previous reports, in addition, the landlords with rent deferrals have agreed for the majority to be after 2022.
- Operating costs in the head office were reduced by 40% 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 through to July 2021.

The Group 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 £10.2 million of HSBC debt was repaid.

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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 June 2022 assumes as a prudent base case that the hostels revenue will gradually climb through the summer months. Like for like sales for the first 5 months of the year are 80% of pre covid levels. This continues to reflect the expectation of a slow recovery of the tourism market in general outlined in last year's annual report.

The sale of Edinburgh generated enough liquidity, after the £10.2m debt repayment, for the business to mitigate the enforced downturn of revenues due to the Pandemic restrictions, and through to time when positive cash inflows are being generated.

The covenants of the debt facility were waived in June 2020, being replaced with adjusted EBITDA targets reflecting revised performances of the hostels since the first lockdown in April 2020. These also apply in June 2022 and have been met. These will then revert to the adjusted and waived covenants that have been agreed until December 2022.

Based on the latest forecast occupancy rates and average spend, the directors have assessed the cash flow of the business against the Group's commitments and obligations and conclude that there are no material uncertainties in terms of the ability to continue for the foreseeable future. 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.

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 is gross of travel agency commission with the Group being the principal in all third party booking arrangements. It 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.

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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 10 of the accounts. Other grants are disclosed in Exceptional Items shown in note 5 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.

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.

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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.

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

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

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

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

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

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.

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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 related 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.

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.

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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 carrying value of 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 12 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.

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 12.

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.

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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.

- **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. The Group recognises lifetime ECL for trade receivables and amounts due on contracts with customers. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors. Management have considered the ECL for trade receivables as immaterial given the majority of sale receipts are obtained prior to the stay.

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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 included 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 are accounted for as financial liabilities.

- **Loan arrangement fees**

The loan arrangement fees are offset against the loan balance and amortised over the term of the loan to which they relate as part of the effective interest rate calculation.

- **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.

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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.

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.

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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 sub leases as finance leases with reference to the right-of-use asset arising from the head lease. The group has not offset the assets and liabilities of the head lease and sub lease, nor the income and expenditure arising from these contracts. A lease receivable is recognised in the balance sheet in respect of the net investment in the sub lease. The net investment in the sub lease is assessed annually for any indicators of impairment.

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.

- **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.

Other Components of Equity

- **Share premium account**

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

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- **Merger reserve**

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

- **Revaluation reserve**

Revaluation reserves represent the increase in fair value of 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.

- **Share based payment reserve**

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.

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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 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 5.
- 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 24.
- Assessment of impairment of goodwill requires estimation of future cash flows, which are uncertain, discounted to present value which also requires estimation by management. The key assumptions used to calculate the value in use (VIU) to test the goodwill for each cash generating units (CGUs) are detailed in note 12. A Pre-tax discount rate of 9.7% (2020: 11.1%) 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.

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- 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 11. The Group has used external valuations on freehold properties and leased assets under financing transactions, as outlined in note 11. 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 2021.
- 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:

	2021	2020
	£'000	£'000
Hostel accommodation	4,901	3,570
Food and Beverages sales	725	744
Other income	550	120
Rental income	247	397
Total Income	6,423	4,831
Like-for-like income	5,810	3,375

Like-for-like income relates to all turnover less turnover associated with the discontinued operating segments (i.e. Edinburgh and Barcelona Sea hostels).

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, on average our hostels have been open for just 44% of 2021. 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.

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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.

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.

2021

	UK	Spain	Europe	Shared services	Total
	£'000	£'000	£'000	£'000	£'000
Revenue	2,422	1,363	2,638	0	6,423
Profit/(loss) before tax	6,689	(2,279)	(1,169)	(2,549)	692
Add back: Finance costs	271	618	539	1,273	2,701
Add back: Depreciation & Amortisation	1,028	1,076	1,274	395	3,773
EBITDA	7,988	(585)	644	(881)	7,166
Exceptional & Share based payment expense	(7,511)	554	-	72	(6,885)
Rent concessions	(595)	(227)	(453)	-	(1,275)
Adjusted EBITDA	(118)	(258)	191	(809)	(994)
Total assets	34,975	19,144	25,024	14,335	93,478
Total liabilities	(10,731)	(13,432)	(12,461)	(26,721)	(63,345)

2020

As restated

	UK	Spain	Europe	Shared services	Total
	£'000	£'000	£'000	£'000	£'000
Revenue	2,455	835	1,541	-	4,831
Profit/(loss) before tax	(3,156)	(2,986)	(3,280)	(504)	(9,926)
Finance costs	963	460	541	786	2,750
Depreciation & Amortisation	1,465	2,309	1,916	-	5,690
EBITDA	(728)	(217)	(823)	282	(1,486)
Exceptional & Share based payment expense	-	-	-	541	541
Rent concessions	(495)	(207)	(202)	-	(904)
Adjusted EBITDA	(1,223)	(424)	(1,025)	823	(1,849)
Total assets	57,743	18,857	23,259	10,870	110,729
Total liabilities	(24,550)	(13,207)	(18,044)	(28,077)	(83,878)

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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:

	2021 £'000	2020 £'000
UK	35,862	59,478
Spain	18,102	21,976
Rest of Europe	23,164	24,088
Shared services	10,329	842
Total	87,457	106,384

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:

	2021 £'000	2020 £'000
UK	2,422	2,455
Spain	1,363	835
Rest of Europe	2,638	1,541
Total	6,423	4,831

3. COST OF SALES

	2021 £'000	2020 £'000
Food and drinks	341	311
Direct room supplies and sales commissions	951	581
Total	1,292	892

4. DISCONTINUED OPERATIONS

The Group completed on the disposal of two hostels in 2021. The Barcelona Sea hostel was sold in February 2021 for a loss of £554k and the Edinburgh hostel was sold in June 2021 for a profit of £7,511k. The Barcelona Sea hostel was in the operating segment of Spain and the Edinburgh hostel was in the operating segment of UK.

The income statement for the year ended 31 December 2020 has been presentational restated to show the comparative performance of the discontinued hostels.

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5. ADMINISTRATIVE EXPENSES

	2021	2020
	£'000	As restated £'000
Staff costs (see note 10)	3,331	3,823
Legal and professional fees	614	521
Property costs	482	391
Depreciation and amortisation	3,773	4,199
Impairment of goodwill	-	1,491
Share option expenses	72	279
Other expenses	2,160	598
	10,432	11,302

	2021	2020
	£'000	£'000
Exceptional items – other operating income		
Grant income	462	448
Profit on sale of Edinburgh Hostel	7,511	-
Rent concessions	1,275	-
	9,248	448
Exceptional items - costs		
Acquisition and Development costs	-	74
Property costs	-	4
Legal and other	-	82
Refinance related fees write off	-	101
Loss on sale of Barcelona Sea Hostel	554	-
	554	261

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 10).

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In the year 2021 property with a net book value of £14.03m (2020: Nil) was disposed of in the year. The total consideration received from this disposal was £16.66m (2020: £Nil) with the profit on disposal of £7.96m (2020: £Nil). The other main component of the profit is the release of the lease liability of £6.56 m, less the cost of investment of £0.4m, the Edinburgh sublease £0.5m and the Barcelona SEA lease intangible of £0.2m.

6. FINANCE COSTS

	2021	2020
	£'000	£'000
Interest on bank overdrafts and loans	695	625
Amortised loan arrangement fees	68	92
Other interest costs	-	75
Interest expense for lease arrangements (note 17)	1,741	1,558
Property financing costs	197	343
Unwinding of discount on deferred consideration	-	57
	2,701	2,750

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 3.99% + base rate from year 2.

7. LOSS FOR THE FINANCIAL YEAR

	2021	2020
	£'000	£'000
Loss for the financial period is arrived at after charging:		
Depreciation on owned assets	1,434	1,541
Depreciation of assets under lease liabilities	2,243	2,459
Amortisation of intangible assets	96	199
Impairment of goodwill	-	1,491
CLA Evelyn Partners Limited Auditor's remuneration for audit services	119	-
Grant Thornton UK LLP Auditor's remuneration for audit services	-	92
Fees payable to Grant Thornton UK LLP as auditors and its associates for other services	-	5

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

	2021 £'000	2020 £'000
Fees payable to Company's auditors for the audit of the Parent Company and consolidated financial statements:		
CLA Evelyn Partners Limited audit of the Group and Company's annual accounts	90	-
CLA Evelyn Partners Limited audit of the subsidiaries' annual accounts	29	-
Grant Thornton UK LLP audit of the Group and Company's annual accounts	-	70
Grant Thornton UK LLP audit of the subsidiaries' annual accounts	-	22
	119	92

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

	2021 £'000	2020 £'000
Grant Thornton UK LLP Tax advice services	-	5
	-	5

The audit fees disclosed in 2021 represent the fees payable for the audit for the period ended 31 December 2021 and the non-audit fees are those incurred in the period.

8. 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.

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	2021	2020
		As Restated
	£'000	£'000
Current tax		
Corporation tax on profits for the year	103	-
Adjustments for corporation tax on prior periods	(123)	(271)
Other local taxes	116	-
Total current tax	96	(271)
Deferred tax	724	(1,682)
Adjustments for deferred tax in prior periods	559	(450)
Effect of increased tax rate on opening balance	(88)	
Total tax charge	1,291	(2,403)

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

	2021	2020
		As Restated
	£'000	£'000
Profit/(loss) before tax	692	(9,926)
Tax at the standard UK corporation tax rate of 19% (2020: 19%)	131	(1,886)
Fixed asset differences	54	-
Adjustment for tax rate differences in foreign jurisdictions	(154)	(167)
Adjustments for tax on prior periods	(122)	(750)
Other tax adjustments, reliefs and transfers	193	-
Remeasurement of deferred tax for changes in tax rates	(148)	-
Deferred tax not recognised	1,155	-
Factors affecting charge for the period		
Non-deductible items and other timing differences	(1,300)	344
Chargeable gains/(losses)	1,482	-
Depreciation in excess of capital allowances	-	56
Group tax charge	1,291	(2,403)

The Group has a deferred tax liability of £3.326m as disclosed in note 18 related to the potential future gain on property revaluations.

Included within current tax are adjustments for corporation tax on prior periods of £122k and relates to Group losses.

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9. PROFIT/(LOSS) PER SHARE

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

	2021	2020
		As restated
	£'000	£'000
Profit/(Loss) for the period attributable to equity holders of the Company	(599)	(7,523)
Weighted average number of ordinary shares (000s) for the purposes of basic loss earnings per share	64,679	64,679
Effect of dilutive potential ordinary shares (000s)	4,537	4,250
Weighted average number of ordinary shares (000s) for the purposes of diluted profit/(loss) per share	69,216	68,929
Basic profit/(loss) per share	(0.93p)	(11.63p)

The total number of shares in issue as at 31 December 2021 was 64,679,014.

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.

10. STAFF COSTS

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

	2021 Number	2020 Number
Hostel operation	176	197
Directors	5	5
	181	202

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

	2021 £'000	2020 £'000
Wages and salaries	2,925	3,288
Social security costs	380	499
Pension costs	26	36
Total staff costs	3,331	3,823

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Government grants claimed by the Group under coronavirus job retention schemes across the Group for 2021 total £240k (2020: £566k).

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

	2021	2020
	£'000	£'000
Short term employee benefits	332	444
Pension	6	16
Share based payment charges	72	257
	410	717

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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11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Right of use assets buildings £'000	Leasehold buildings £'000	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost or valuation						
At 1 January 2020	7,998	37,512	41,126	4,597	3,225	94,458
Additions	362	1,326	-	106	517	2,311
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
Transfers	73	-	-	(73)	-	-
Additions	32	-	-	-	275	307
Disposals	(17)	(1,610)	(13,402)	(201)	(576)	(15,806)
Revaluations	1,072	-	3,967	-	-	5,039
Derecognition of sub-leased asset	-	(640)	-	-	-	(640)
IFRS 16 lease modification	-	(2,891)	-	-	-	(2,891)
Exchange movements	(87)	-	-	(54)	(92)	(233)
At 31 December 2021	9,484	36,907	31,691	4,967	3,554	86,603
Depreciation						
At 1 January 2020	144	2,425	1,616	695	2,212	7,092
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
Transfers	1	-	-	(1)	-	-
Charge for the year	154	2,243	671	254	355	3,677
On disposals	(1)	(261)	(1,094)	(14)	(405)	(1,775)
At 31 December 2021	439	6,866	1,997	1,036	2,656	12,994
Net book value:						
At 31 December 2021	9,045	30,041	29,694	3,931	898	73,609
At 31 December 2020	8,126	37,164	38,706	4,498	1,241	89,735

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Freehold properties

The Freehold values relates to the 3 following hostels:

- The £3.5 million value of the freehold in **York** is based on the external valuations as at 31 December 2021 prepared by Cushman and Wakefield. 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 £4.9 million value of the freehold in Glasgow is based on the external valuations as at 31 December 2021 prepared by Cushman and Wakefield.
- The hostel in **Pisa** was acquired in June 2019 for £3 million, of which £2.1 million for the freehold. The £3.5 million value of the freehold in Pisa is based on the external valuations as at 31 December 2021 prepared by Cushman and Wakefield.

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 £37.5 million right of use assets all relate to properties operated by the Group as hostels.

Right of use assets as at 31 December 2020	42,048
Lease disposal (Barcelona Sea)	(1,610)
IFRS 16 lease modification	(2,891)
Derecognition of sub-leased asset	(640)
Right of use assets as at 2021	36,907

Leasehold, land and buildings

The Group has used external valuations on Elephant & Castle. The London Elephant & Castle leasehold was independently valued on 31 December 2021 at £26.8 million. The valuation was performed by Cushman and Wakefield. The Group has accounted for the finance transactions as interest-bearing borrowings secured on the original properties held.

Leasehold improvements

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

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Valuation process

Initially market values of the properties were believed to have fallen due to the impact of COVID-19. The directors wanted to show that the values of the properties have recovered post COVID-19 so engaged independent external valuers to determine the market value of all three freehold properties and the long leasehold property. These independent external valuers hold recognised and relevant professional qualifications and have recent experience in the location and category of the properties being valued.

The Group provides information to valuers, including profit and cashflow forecasts along with asset-specific business plans. The valuers use this and other inputs including market transactions for similar properties to produce valuations. These valuations and the assumptions they have made are then discussed and reviewed with the management as well as the directors. Cushman & Wakefield were engaged to value properties now valued at £38.7m.

Valuation fees are a fixed amount agreed between the Group and the valuers in advance of the valuation and are not linked to the valuation output.

Valuation methodology

The value is assessed by adopting the income approach to valuation adopting a discounted cashflow approach. Under this approach it is assumed that the property is held for a period of 10 years and the net present value of the earnings during this period are added to the exit value which is discounted to present day values. Adopting an income approach also requires the analysis of comparable transactions in the market to assess the rates of returns investors are prepared to accept at the date of valuation.

The table below provides details of the assumptions used in the valuation of the properties:

Location	Discount rate	Capitalisation rate	Inflation rate	Running Yield
Elephant & Castle	8%	6%	2%	3.88% - 7.39%
Glasgow	11%	8.5%	2%	5.12% - 10.95%
York	10%	8%	2%	6.27% - 9.78%
Pisa	11%	8.5%	2%	6.82% - 10.77%

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12. INTANGIBLE ASSETS AND GOODWILL

	Website £'000	Leasehold rights £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2020	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
Disposals	-	(1,697)	(1,423)	(3,120)
At 31 December 2021	134	-	13,637	13,771
Amortisation and Impairment				
At 1 January 2020	53	666	-	719
Charge for the period	39	160	-	199
Impairment	-	-	1,491	1,491
Exchange movement	-	(8)	-	(8)
At 31 December 2020	92	818	1,491	2,401
Charge for the period	24	72	-	96
On disposals	-	(890)	-	(890)
At 31 December 2021	116	-	1,491	1,607
Net book value:				
At 31 December 2021	18	-	12,146	12,164
At 31 December 2020	42	879	13,569	14,490

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. This property has been sold in the year.

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 is disclosed in note 25. 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.

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 2021 are shown below.

	Goodwill pre- impairment	Impairment	Goodwill carrying value
CGU	£'000	£'000	£'000
Madrid	2,234	-	2,234
Paris	11	-	11
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
Warsaw	620	-	620
	13,637	(1,491)	12,146

The impairment charge was recorded in the year ended 31 December 2020. No impairment has been deemed necessary by management for the year ended 31 December 2021.

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 9.7% (2020: 11.1%) 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 are 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.

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- 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 2022, adjusted to reflect the post covid-19 transition, and no hostels have a shortfall between the recoverable value and carrying value.

Sensitivity analysis

Management have reviewed all the properties and do not consider there to be an impairment. Also, the sale of the Edinburgh Hostel has also been agreed for a higher value than book value.

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

For each of the 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 Gothic	1800bps	1500bps	500bps
Barcelona Passeig De Gracia	3200bps	2700bps	900bps
Berlin	1800bps	1200bps	600bps
Brussels	6000bps	5200bps	2700bps
Lisbon	1700bps	1500bps	500bps
Madrid	4800bps	4000bps	1600bps
Pisa	300bps	200bps	100bps
Prague	8500bps	6400bps	3900bps
Vienna	2200bps	1800bps	700bps

The table above demonstrates the change in assumption required for an impairment to occur.

A change of 1% in the WACC would have an overall impact of £4.2m in the recoverable value of the CGU tested.

A change of 1% in the occupancy level would have an overall impact of £1.7m in the recoverable value of the CGU tested.

A change of 1% in the Operating margin would have an overall impact of £1.2m in the recoverable value of the CGU tested.

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13. TRADE AND OTHER RECEIVABLES

	2021	2020
	£'000	£'000
Trade and other receivables	865	1,653
Other debtors	230	26
Prepayments and accrued income	132	205
	1,227	1,884

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.

14. CASH AND CASH EQUIVALENTS

	2021	2020
	£'000	£'000
Cash and cash equivalents	4,482	2,125

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

15. TRADE AND OTHER PAYABLES

	2021	2020
	£'000	As restated £'000
Due in less than one year		
Trade payables	640	686
Social security and other taxes	107	157
Other creditors	642	563
Accruals and deferred income	673	1,003
	2,062	2,409
Due in more than one year		
Other payables	7	336
	2,069	2,745

Accruals and deferred income in 2020 have been restated and reduced by £598,000 as explained in note 26.

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Payables due in more than one year in 2020 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 €3.0 million (£2.7 million) in 2017.

16. BORROWINGS

	2021 £'000	2020 £'000
At amortised cost		
Bank Loan	18,013	28,380
Property financing loans	7,078	12,240
Loan arrangement fees	(137)	(266)
	24,954	40,354
Loans repayable within one year	926	311
Loans repayable after more than one year	24,028	40,043
	24,954	40,354

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. The loan will be repaid at a rate of £1 million per year from April 2022 until April 2027. The interest rate is 3.99% margin over base rate from year 2 onwards and is interest free in the first year.

At 31st December 2021 a HSBC bank loan was secured against the freehold property, York hostel and subsidiary investments. The facility ends in January 2025 and the interest rate is 2.95% margin over SONIA.

17. LEASES

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

	2021 £'000	2020 £'000
Current	78	-
Non-current	562	-
Total	640	-

The lease asset relates fully to our contract with Casa Suecia where we have outsourced, on a revenue share basis, our Madrid food and beverage operations.

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This is a contract where Safestay receives the higher of a minimum guaranteed rent or an agreed % of the food and beverage revenue in return for Casa Suecia receiving the profit from this income stream by managing this part of the operation with its own staff. This arrangement commenced in July 2021 and is for an initial five years.

In our lease asset calculations, we have assumed the net profit of Casa Suecia did not exceed the variable threshold.

31-Dec-21	Minimum lease receipts due						Total
	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	After 5 years	
Lease receipts	101	151	151	151	154	-	708
Finance income	(23)	(19)	(14)	(9)	(3)	-	(68)
Net present values	78	132	137	142	151	-	640

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

	2021	2020
		As restated
	£'000	£'000
Current	1,922	1,932
Non-current	31,086	37,089
Total	33,008	39,021

Lease liabilities have been restated in 2020 and increased by £441,000 as explained in note 26.

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 £1.3 million (2020: £0.9 million) reduction in lease liability included as rent concessions in administrative expenses in 2021, reflecting the temporary reduction in rent agreed with the landlords in the 12 months ending 31 December 2021.

Total cash outflow for leases for the year ended 31 December 2021 was £1.9m (2020: £2.5m).

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).

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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	11	5 - 17 years	11 years	10	0	11	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.

Lease liabilities

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2021 is as follows:

	31-Dec-21						Total
	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	After 5 years	
Lease payments	3,085	3,070	2,978	3,008	2,859	32,606	47,606
Finance charges	(1,163)	(1,092)	(1,020)	(948)	(874)	(9,501)	(14,598)
Net present values	1,922	1,978	1,958	2,060	1,985	23,105	33,008

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31-Dec-20

	Minimum lease payments due						Total
	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	After 5 years	
Lease payments	3,466	3,085	3,070	2,978	3,008	47,981	63,588
Finance charges	(1,534)	(1,163)	(1,092)	(1,020)	(948)	(18,810)	(24,567)
Net present values	1,932	1,922	1,978	1,958	2,060	29,171	39,021

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.

18. DEFERRED INCOME TAX

	Deferred tax assets £'000	Deferred tax liabilities £'000	Total £'000
Balance as at 1 January 2020 as restated	-	(1,678)	(1,678)
Recognised in the income statement	2,159	105	2,264
Recognised in other comprehensive income as restated	-	(185)	(185)
Balance at 31 December 2020 as restated	2,159	(1,758)	401
Recognised in the income statement	(1,037)	(157)	(1,194)
Recognised in other comprehensive income	-	(1,399)	(1,399)
Balance at 31 December 2021	1,122	(3,314)	(2,192)

The deferred tax liability in 2020 has been restated and increased by £1.758m as explained in note 26.

The company has recognised deferred tax assets of £1.1m (2020: £2.2m), 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 2021****19. EQUITY****CALLED UP SHARE CAPITAL****£'000****Allotted, issued and fully paid**

64,679,014 Ordinary Shares of 1p each as at 1 January 2021 and 31 December 2021

647

647

At the 31 December 2021, 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 2021

23,904

At 31 December 2021**23,904**

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OTHER COMPONENTS OF EQUITY

	Merger reserve £'000	Share based payment reserve £'000	As restated Revaluation reserve £'000	Translation reserve £'000	Total £'000
Cost					
At 1 January 2020 as restated	1,772	159	12,541	59	14,531
Share based payment charge	-	279	-	-	279
Exchange differences on translating foreign operations	-	-	-	4	4
Deferred tax on property revaluation	-	-	(185)	-	(185)
At 31 December 2020 as restated	1,772	438	12,356	63	14,629
Share based payment charge	-	72	-	-	72
Property revaluation	-	-	5,039	-	5,039
Deferred tax on property revaluation	-	-	(1,399)	-	(1,399)
Exchange differences on translating foreign operations	-	-	-	169	169
At 31 December 2021	1,772	510	15,996	232	18,510

20. 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.

609,600 share options were granted in the period (2020: 1,620,400). 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 July 2021.

The average share price target for options issued in 2021 was 15p (2020: 19p).

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Grant date	Exercise price per share (pence)	Period within which options are exercisable	Number of share options outstanding	
			2021	2020
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
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	900,000	1,200,000
31 Oct 2020	9p	31/10/2021 to 30/10/2028	186,400	186,400
30 Nov 2020	16p	30/11/2021 to 29/11/2028	104,900	104,900
31 Dec 2020	13p	31/12/2021 to 30/12/2028	129,100	129,100
31 January 2021	13p	31/01/2022 to 30/01/2029	129,100	-
28 February 2021	14p	28/02/2022 to 27/02/2029	119,900	-
31 March 2021	15p	31/03/2022 to 30/03/2029	111,900	-
30 April 2021	15p	30/04/2022 to 29/04/2029	75,200	-
31 May 2021	17p	31/05/2022 to 30/05/2029	66,400	-
30 June 2021	18p	30/06/2022 to 29/06/2029	62,700	-
31 July 2021	16p	31/07/2022 to 30/07/2029	44,400	-
			4,443,766	4,634,166

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:

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	2021 Number of share options	2021 Weighted average exercise price	2020 Number of share options	2020 Weighted average exercise price
Brought forward 1 January	4,634,166	38.0p	3,013,766	44p
Forfeited in the period	(800,000)	33.6p	-	-
Issued in the period	609,600	15.0p	1,620,400	28p
Outstanding at 31 December	4,443,766	35.9p	4,634,166	38p
Exercisable at end of the period	2,327,789	42.8p	1,713,766	50p

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 £72k taken through the income statement (2020: £279k).

The inputs are as follows:

	2021	2020
Closing price of Safestay Plc	19.5p	16.0p
Weighted average share price	20.3p	18.8p
Weighted average exercise price	35.9p	38.0p
Expected volatility	35%	40%
Average vesting period	7.0 years	7.1 years
Risk free rate	1.28%	0.50%
Expected dividend yield	0.00%	0.00%

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

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21. NOTES TO THE CASHFLOW STATEMENT

	Restated	
	2021	2020
	£'000	£'000
Profit/(loss) before tax	693	(9,926)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment and amortisation and impairment of intangible assets	3,773	5,690
Profit on disposal of fixed assets	(6,957)	-
Finance cost	2,545	2,693
Share based payment charge	72	279
Exchange movements	116	(8)
Rent concessions	(1,275)	(904)
<i>Changes in working capital:</i>		
Decrease in inventory	12	39
Decrease/(increase) in trade and other receivables	549	(244)
(Decrease) in trade and other payables	(800)	(1,847)
Net cash from operating activities	(1,272)	(4,228)

22. RELATED PARTY TRANSACTIONS

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

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

	2021	2020
	£'000	£'000
Short term employee benefits	336	444
Pension	6	16
Share based payment charges	72	257
	414	717

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

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Details of directors share options is provided in the Directors' Remuneration Report and in note 20 of the accounts. The directors share options have been audited.

Safestay Plc has a common directorship with Safeland Plc. In the year, Safestay Plc rented premises from Safeland Plc on non-commercial terms. Total rent paid to Safeland Plc was £50,000 (2020:£nil).

23. 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.

	2021	2020
		As Restated
	£'000	£'000
Share capital	647	647
Share premium account	23,904	23,904
Retained earnings	(12,928)	(12,329)
Merger reserve	1,772	1,772
Share based payment reserve	510	438
Revaluation reserve	15,996	12,356
Translation reserve	231	63
Bank loans	18,007	28,380
Property financing loans	7,078	12,240
Lease liabilities	33,008	39,021

The revaluation reserve has been restated in 2020 and reduced by £1,758,000 as explained in note 26.

The Group has no externally imposed capital requirements.

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Significant Accounting Policies

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

Categories of financial instruments

At 31 December 2021, the Group held the following financial assets:

	2021	2020
	£'000	£'000
Trade and other receivables (note 13)	1,227	1,679
Cash and cash equivalents	4,482	2,125
	5,709	3,804

At 31 December 2021, the Group held the following financial liabilities:

	2021	2020
	£'000	As restated £'000
Bank loans (note 16)	18,007	28,114
Property financing loans (note 16)	7,078	12,240
Lease liabilities (note 17)	33,008	39,021
Trade and other payables (note 15)	2,069	1,386
	60,162	80,761

All financial liabilities are measured at amortised cost.

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

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Financial Liability Movements

	Long term borrowing s £'000	Short term borrowing s £'000	Lease liabilities £'000	Total £'000
At 1 January 2020 (restated)	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
Lease modification	-	-	441	441
Rent concessions	-	-	(904)	(904)
At 31 December 2020 (restated)	40,043	311	39,021	79,375
At 1 January 2021	40,043	311	39,021	79,375
Cash flows				
Repayment of lease liabilities	-	-	(1,810)	(1,810)
Repayment of property finance loans	(5,156)	-	-	(5,156)
Repayment of bank loans	(10,062)	(311)	-	(10,373)
Loan and refinancing fees	-	-	-	-
Non-cash				
Reclassification	(926)	926	-	-
Government grant	(156)	-	-	(156)
Lease disposals	-	-	(1,389)	(1,389)
Imputed interest and amortisation of fees	285	-	1,471	1,756
Lease modification	-	-	(3,010)	(3,010)
Rent concessions	-	-	(1,275)	(1,275)
At 31 December 2021	24,028	926	33,008	57,962
			2021	2020
			£'000	£'000
Total liabilities			(57,962)	(78,934)
Cash and cash equivalents			4,482	2,125
Net Debt			53,480	76,809

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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 interest rate risk and liquidity risk. The board reviews and agrees policies for managing these risks which are detailed below.

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 £0.7m consideration, and Edinburgh Hostel was sold for £16m. The monthly cost base was reduced from £0.9 million to £0.6 million during the first lockdown. 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 were 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 July 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 Loan to Value ratios.

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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 £17.7 million main facility has an interest rate of 2.45% above the London inter-bank offer rate (LIBOR). When the £10.2 million from the Edinburgh sale proceeds was used to reduce the debt in July 2021, LIBOR was replaced with 2.95% SONIA. The £5 million CBILS in interest free in year 1 and has an interest rate of 3.99% 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 2021, 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 £89,000 (2020: £140,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

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.

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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 1 year £'000	1-2 years £'000	3-5 years £'000	Later than 5 years £'000	Total £'000
Variable interest rate borrowings	1,379	1,577	16,659	-	19,615
Property financing borrowings	191	191	573	10,193	11,148
Trade and other payables	1,946	7	-	-	1,953
Lease liabilities	1,922	1,978	6,003	23,105	33,008
	5,438	3,753	23,235	33,298	65,724

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.

24. 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
2020				
Freehold Property	-	-	8,411	8,411
Leasehold Property	-	-	41,126	41,126
	-	-	49,537	49,537
2021				
Freehold Property	-	-	9,484	9,484
Leasehold Property	-	-	31,691	31,691
	-	-	41,175	41,175

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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.

25. BUSINESS COMBINATIONS

See accounting policy in note 1.

There have been no business combinations in the year ended 31 December 2021.

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.

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

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.

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Notes to the Consolidated Financial Statements

31 December 2021

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 in 2020.

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:

	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.

26. PRIOR YEAR RESTATEMENT

IFRS 16 Adjustment

Following a review of the IFRS 16 accounting for the year to 31 December 2021, it is noted that the classification between accruals, IFRS lease liability and rent expense in the year to 31 December 2020 was found to be incorrect. This has resulted in an increased lease liability of £440,000, a decrease in accruals of £598,000 and a decrease in rent (increase in retained earnings brought forward) of £1.58,000.

Safestay plc

Notes to the Consolidated Financial Statements

31 December 2021

Overall, the 2020 loss decreased and consequently the 2021 retained earnings brought forward has increased by £158,000, plus the net assets has increased by £158,000.

Deferred tax liability on the 2019 Safestay (Elephant & Castle) Ltd property revaluation

From a review of the deferred tax balances as at 31 December 2021 it is noted that the deferred tax liability relating to the property revaluation on Safestay (Elephant & Castle) Ltd was erroneously omitted from the liability for the year ended 31 December 2019.

An adjustment has been made to correct this that has reduced the property revaluation reserve by £1,758,000 and increased the deferred tax liability by £1,758,000. This has reduced net assets by £1,758,000 and has no impact on the trading profit in 2019.

27. POST REPORTING DATE EVENTS

On the 14 April 2022 a share option modification was made by the Group on all share options currently active. This has been performed to align the historical share option vesting conditions to more appropriate benchmarks in the current economic climate.

The Group is currently not committed to any future acquisition projects or development.

Following a review of director rewards and incentives, the Remuneration Committee of the Board of Directors ("Directors") has recommended that, given the reduction in the Company's share price, that the existing awards of share options are no longer a reasonable incentive for the Company's management team (the "Management Team") and Directors and should be replaced in order to re-align the option scheme with the current share price. The Board of Directors approved this recommendation.

On 14 April 2022 the Company granted awards of options over a total of 4,020,121 ordinary shares of one (1) penny each in the Company ("Ordinary Shares") under the Company's existing share option scheme (the "New Options"). The New Options are exercisable on or after 1 January 2024.

A portion of the New Options have been awarded to replace all existing awards of options previously granted in the same number (the "Old Options") to the current Management Team and Directors, which were cancelled on 14 April 2022. The holders of all of the Old Options have agreed to their termination with immediate effect. Old Options that were previously priced significantly above the current share price have effectively been reissued at the current share price, with Old Options previously priced below the current share price effectively reissued at their previous exercise price.

In addition to the replacement of the Old Options, the New Options also include new share options granted to Paul Hingston, Chief Financial Officer, as part of his employment package following his appointment in February 2022.

It has also been agreed with the Business Growth Fund that Larry Lipman, the Chairman, will waive his 250,000 share options issued on 14 July 2017. He has also agreed that if he exercises any of the remaining share options, he cannot sell these shares for two years.

Safestay plc**Company Statement of Financial Position****31 December 2021**

	Note	2021 £'000	2020 As restated £'000
Non-current assets			
Property, plant and equipment	2	10,311	12,112
Intangible assets	3	18	41
Investments	4	10,085	8,852
Deferred tax asset		-	801
Intercompany receivable	5	17,946	17,816
Total non-current assets		38,360	39,622
Current assets			
Trade and other receivables	5	59	10,204
Cash at bank and in hand		3,947	1,080
Total current assets		4,006	11,284
Total Assets		42,366	50,906
Current Liabilities			
Loans and overdrafts	7	(932)	(163)
Lease liabilities	8	(82)	(43)
Trade and other payables	6	(11,784)	(5,976)
Current Liabilities		(12,798)	(6,182)
Non-current liabilities			
Bank loans	7	(16,608)	(27,430)
Lease liabilities	8	(8,530)	(10,038)
Total non-current liabilities		(25,138)	(37,468)
Total liabilities		(37,936)	(43,650)
Net assets		4,430	7,256
Equity			
Share capital	9	647	647
Share premium account	10	23,904	23,904
Merger reserve		1,772	1,772
Share based payment reserve		510	438
Profit and loss account		(22,403)	(19,505)
Equity attributable to the owners of the parent company		4,430	7,256

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 £2,898k (2020 as restated: £5,936k).

Safestay plc

Company Statement of Financial Position

31 December 2021

These financial statements were approved by the Board of Directors and authorised for issue on 12 August 2022.


Larry Lipman (Aug 12, 2022 21:04 GMT+2)

Larry Lipman

Director

12/08/2022

Commercial in confidence

Safestay plc

Company Statement of Changes in Equity

31 December 2021

	Share Capital £'000	Share premium account £'000	Merger Reserve £'000	Share based payment reserve £'000	Profit and loss account £'000	Total equity £'000
As Restated						
At 1 January 2020	647	23,904	1,772	159	(13,569)	12,913
Comprehensive income						
Loss for the year	-	-	-	-	(5,936)	(5,936)
Total comprehensive loss	-	-	-	-	(5,936)	(5,936)
Transactions with owners						
Share based payment charge for period	-	-	-	279	-	279
At 31 December 2020	647	23,904	1,772	438	(19,505)	7,256
Comprehensive income						
Loss for the year	-	-	-	-	(2,898)	(2,898)
Total comprehensive loss	-	-	-	-	(2,898)	(2,898)
Transactions with owners						
Share based payment charge for period	-	-	-	72	-	72
At 31 December 2021	647	23,904	1,772	510	(22,403)	4,430

Safestay plc

Company Statement of Cash Flows

31 December 2021

	2021	2020
	£'000	As Restated £'000
Loss before tax	(2,701)	(6,723)
Adjustments for:		
Finance cost	1,271	1,305
Finance income	(153)	(335)
Share based payment charge	72	279
Rent concessions	(595)	-
Impairment of investments	44	-
Expected credit loss on intercompany balances	-	5,492
Depreciation	372	276
Amortisation	23	-
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(2)	44
(Decrease)/increase in trade and other payables	99	(33)
Income tax paid	(54)	-
Net cash used in operating activities	(1,624)	305
Investing activities		
Interest received	-	334
Investment in subsidiaries	-	(2,227)
Purchase of tangible fixed assets	(2)	(6)
Purchase of intangible assets	-	(36)
Net cash (outflow) / inflow from investing activities	(2)	(1,935)
Financing activities		
Proceeds from refinancing transaction	-	5,000
Proceeds from Coronavirus Business Interruption Loan Scheme	-	5,000
Movement in intercompany	15,053	(7,208)
Loan repayments	(9,990)	-
Lease principal payments	-	(660)
Fees on refinancing	-	(161)
Interest paid	(570)	(625)
Net cash generated / (outflow) from financing activities	4,493	1,346
Cash and cash equivalents at beginning of year	1,080	1,364
Net increase in cash and cash equivalents	2,867	(284)
Cash and cash equivalents at end of year	3,947	1,080

Safestay plc**Notes to the Company Financial Statements****31 December 2021****1. STAFF COSTS**

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

	2021	2020
Administration	9	8
Directors	5	5
	14	13

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

	2021 £'000	2020 £'000
Wages and salaries	682	825
Social security costs	76	101
Pension costs	13	18
Total staff costs	771	944

Government grants claimed by the company under coronavirus job retention schemes across the company for 2021 total £78k (2020: £68k).

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

	2021 £'000	2020 £'000
Short term employee benefits	332	444
Pension	6	16
Share based payment charges	72	257
	410	717

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.

Safestay plc

Notes to the Company Financial Statements

31 December 2021

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 2020	10,299	3,149	81	13,529
Additions	-	-	6	6
At 31 December 2020	10,299	3,149	87	13,535
Additions	-	-	2	2
IFRS 16 lease modification	(1,431)	-	-	(1,431)
At 31 December 2021	8,868	3,149	89	12,106
Depreciation				
At 1 January 2020	557	578	53	1,188
Charge for the year	216	-	19	235
At 31 December 2020	773	578	72	1,423
Charge for the year	205	158	9	372
At 31 December 2021	978	736	81	1,795
Net book value				
At 31 December 2021	7,890	2,413	8	10,311
At 31 December 2020	9,526	2,571	15	12,112

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

Safestay plc

Notes to the Company Financial Statements

31 December 2021

3. INTANGIBLE ASSETS

	Website Development £'000	Total £'000
Cost		
At 1 January 2020	98	98
Additions	36	36
At 31 December 2020	134	134
Additions	-	-
At 31 December 2021	134	134
Depreciation		
At 1 January 2020	52	52
Charge for the year	41	41
At 31 December 2020	93	93
Charge for the year	23	23
At 31 December 2021	116	116
Net book value		
At 31 December 2021	18	18
At 31 December 2020	41	41

Safestay plc**Notes to the Company Financial Statements****31 December 2021****4. FIXED ASSET INVESTMENTS**

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2020	6,625
Additions	2,227
As at 31 December 2020	8,852
Additions	1,277
Impairment of investments	(44)
At 31 December 2021	10,085
Net book value	
At 31 December 2021	10,085
At 31 December 2020	8,852

Safestay plc

Notes to the Company Financial Statements

31 December 2021

Shares in subsidiary undertakings

The subsidiaries at 31 December 2021 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
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 2021

The following indirectly owned subsidiaries were liquidated during the year:

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

5. TRADE AND OTHER RECEIVABLES

	2021	2020
		As
		Restated
	£'000	£'000
Due within one year:		
Amounts due from subsidiary undertakings	-	10,147
Other debtors	25	-
Other receivables and prepayments	34	57
	59	10,204
Due over one year:		
Amounts due from subsidiary undertakings	17,946	17,816

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 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.

Safestay plc

Notes to the Company Financial Statements

31 December 2021

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.

	2021	2020
		As
		Restated
	£'000	£'000
Trade payables	1	17
Amounts due to subsidiary undertakings	11,409	5,700
Other payables	374	259
	11,784	5,976

7. BANK AND OTHER FINANCE LOANS

	2021	2020
	£'000	£'000
Bank Loan	17,745	27,860
Loan arrangement fees	(205)	(267)
	17,540	27,593

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. The loan will be repaid at a rate of £1 million per year from April 2022 until April 2027. The interest rate is 3.99% margin over base rate from year 2 onwards and is interest free in the first year.

At 31st December 2021 a HSBC bank loan was secured against the freehold property, York hostel and subsidiary investments. The facility ends in January 2025 and the interest rate is 2.95% margin over SONIA.

Any increases in SONIA or base rate will increase the cost of these loans and therefore impact the net profit of the business (a 0.5% change in interest rate would impact the net profit before tax by £89,000). Strict financial controls are in place to ensure that monies cannot be expended above the available limits or to breach any banking covenants.

Safestay plc

Notes to the Company Financial Statements

31 December 2021

The bank loan is repayable as follows:

	2021 £'000	2020 £'000
Within one year	932	163
After more than one year	16,608	27,430
	17,540	27,593

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 2021				
Lease payments	400	1,600	15,200	17,200
Finance charges	(318)	(1,240)	(7,030)	(8,588)
Net present values	82	360	8,170	8,612
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 2021****9. SHARE CAPITAL**

	£'000
Allotted, issued and fully paid	
64,679,014 Ordinary Shares of 1p each as at 1 January 2021 and 31 December 2021	647
	<u>647</u>

At the 31 December 2021, 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 2021 and 31 December 2021	23,904
	<u>23,904</u>

Safestay plc

Notes to the Company Financial Statements

31 December 2021

11. SHARE BASED PAYMENTS

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

Grant date	Exercise price per share (pence)	Period within which options are exercisable	Number of share options outstanding	
			2021	2020
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
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	900,000	1,200,000
31 Oct 2020	9p	31/10/2021 to 30/10/2028	186,400	186,400
30 Nov 2020	16p	30/11/2021 to 29/11/2028	104,900	104,900
31 Dec 2020	13p	31/12/2021 to 30/12/2028	129,100	129,100
31 January 2021	13p	31/01/2022 to 30/01/2029	129,100	-
28 February	14p	28/02/2022 to 27/02/2029	119,900	-
31 March 2021	15p	31/03/2022 to 30/03/2029	111,900	-
30 April 2021	15p	30/04/2022 to 29/04/2029	75,200	-
31 May 2021	17p	31/05/2022 to 30/05/2029	66,400	-
30 June 2021	18p	30/06/2022 to 29/06/2029	62,700	-
31 July 2021	16p	31/07/2022 to 30/07/2029	44,400	-
			4,443,766	4,634,166

Safestay plc

Notes to the Company Financial Statements

31 December 2021

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:

	2021	2021	2020	2020
	Number of	Weighted average	Number of	Weighted average
	share options	exercise price	share options	exercise price
Brought forward 1 January	4,634,166	38p	3,013,766	44p
Forfeited in the period	(800,000)	34p		
Issued in the period	609,600	15p	1,620,400	28p
Outstanding at 31 December	4,443,766	36p	4,634,166	38p
Exercisable at end of the period	2,327,789	43p	1,713,766	50p

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 £72k taken through the income statement (2020: £279k).

The inputs are as follows:

	2021	2020
Closing price of Safestay Plc	19.5p	16.0p
Weighted average share price	20.3p	18.8p
Weighted average exercise price	35.9p	38.0p
Expected volatility	35%	40%
Expected life	7.0 years	7.1 years
Risk free rate	1.28%	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 22 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.

Safestay plc

Notes to the Company Financial Statements

31 December 2021

13. PRIOR YEAR RESTATEMENT

IFRS 16 Adjustment

Following a review of the IFRS 16 accounting for the year to 31 December 2021, it is noted that the classification between accruals and the rent expense in the year to 31 December 2020 was found to be incorrect. This has resulted in a decrease in accruals of £165,000 and a decrease in rent (increasing retained earnings brought forward) of £165,000.

Overall, the 2020 profit and consequently the 2021 retained earnings brought forward has increased by £165,000, plus the net assets has increased by £165,000.

Expected credit loss of intercompany receivables from WXYZ2 Limited

Management have reviewed the probability of recovering the intercompany amounts due from WXYZ2 Limited and concluded that a provision should be allocated against this balance as the company does not have the ability to pay this debt. This has resulted in a reduction in trade and other receivables of £5,492k and a provision to administrative expenses of £5,492k. Therefore, the net assets and retained earnings have been reduced by £5,492k.

Intercompany receivables classification

Management have reviewed the timing of recovery of the intercompany amounts due from subsidiary undertakings and concluded that certain balances will not be received in the 12 months after the period end. The directors consider that the subsidiary undertakings have the ability to repay these balances over time but consider these not to be day to day trading balances and therefore have reclassified them as receivables due over one year. This has increased amounts due from subsidiary undertakings over one year by £17,816k and reduced amounts due from subsidiary undertakings under one year by £17,816k.

14. POST REPORTING DATE EVENTS

On the 14 April 2022 a share option modification was made by the Company on all share options currently active. This has been performed to align the historical share option vesting conditions to more appropriate benchmarks in the current economic climate.

The Company is currently not committed to any future acquisition projects or development.

Following a review of director rewards and incentives, the Remuneration Committee of the Board of Directors ("Directors") has recommended that, given the reduction in the Company's share price, that the existing awards of share options are no longer a reasonable incentive for the Company's management team (the "Management Team") and Directors and should be replaced in order to re-align the option scheme with the current share price. The Board of Directors approved this recommendation.

Safestay plc

Notes to the Company Financial Statements

31 December 2021

On 14 April 2022 the Company granted awards of options over a total of 4,020,121 ordinary shares of one (1) penny each in the Company ("Ordinary Shares") under the Company's existing share option scheme (the "New Options"). The New Options are exercisable on or after 1 January 2024.

A portion of the New Options have been awarded to replace all existing awards of options previously granted in the same number (the "Old Options") to the current Management Team and Directors, which were cancelled on 14 April 2022. The holders of all of the Old Options have agreed to their termination with immediate effect. Old Options that were previously priced significantly above the current share price have effectively been reissued at the current share price, with Old Options previously priced below the current share price effectively reissued at their previous exercise price.

In addition to the replacement of the Old Options, the New Options also include new share options granted to Paul Hingston, Chief Financial Officer, as part of his employment package following his appointment in February 2022.

It has also been agreed with the Business Growth Fund that Larry Lipman, the Chairman, will waive his 250,000 share options issued on 14 July 2017. He has also agreed that if he exercises any of the remaining share options, he cannot sell these shares for two years.