Safestay plc

("Safestay", the "Company" or the "Group)

Final Results for the Year Ended 31 December 2017

2017 Financial highlights

- 43% growth in total revenues to £10.5 million (including acquisitions made in 2017)
- 15% growth in UK revenues to £8.5 million showing strong underlying performance
- Adjusted EBITDA of £3.2m (2016: £2.2 million) in line with market expectations
- Loss before tax increased to £0.87m (2016: £0.47m) due to increased finance costs (including leasehold properties)
- Reflecting the strong sales growth like for like occupancy (UK) increased by 13.5% to 74% (31 December 2016: 65%)
- UK average bed rate stable at £19.80 with scope for future increases in line with increased demand
- Completed the refinancing of Elephant & Castle and Edinburgh hostels raising £11.4 million of gross cash proceeds
- Agreed new £18.4 million 5 year secured debt facility with HSBC to replace existing bank loan and two convertible loans and in addition reducing significantly the cost of borrowings

Key Metrics

	2017	**2016**
Occupancy %	73%	65%
Average Bed Rate	£19.34	£19.28
Room Revenues (£'000)	8,971	6,058
Total Revenues (£'000)	10,547	7,411
Cash generated from operations (£'000)	1,863	2,308
Net assets per share	55p	58p

2017 Operational highlights

- Number of beds sold increased from 297,276 to 444,480 in 2017
- Switch from focus on bed rate to focusing on bed profitability
- Successful integration of 5 newly acquired European properties in key gateway city destinations
- Leading guest scores in the markets Safestay operates achieved by developing a strong traction with guests
- Well advanced capex programme with key projects in Madrid, Barcelona, and Elephant & Castle that together will add a further 330 beds to the portfolio
- Significant expansion of Digital Marketing capabilities

Post year end

- Acquisition of 3rd Hostel in Barcelona for €3.0 million increasing the number of beds in the city to 594 beds.

Larry Lipman commenting on the results said:

"Arguably this has been the most successful year for the Company to date, beginning with the refinancing of the Company which exemplified the embedded value in the business and providing the capital to support the threefold expansion of the portfolio. This activity came alongside a very strong trading performance from the Group with like for like revenues up 15% driven by a particularly strong performance from our uniquely located and Grade 1 listed Holland Park Hostel.

2018 has started well from a trading perspective and we have continued the portfolio's expansion with the acquisition of a third hostel in the ever-popular city of Barcelona. We are looking forward to benefitting from a full year's contribution from the assets that we have acquired and completing the investment projects we have underway."

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Chairman's Statement

Introduction

I am very pleased to present the results for the year to 31 December 2017 which shows the company performing strongly recording a 43% increase in revenues alongside an increased occupancy across our portfolio of hostels to 73%.

The business has grown rapidly, both organically and through acquisition. The first Safestay hostel opened in London at Elephant & Castle in 2012, with 413 beds. In 2017 the Group expanded into key gateway European cities transforming the portfolio. Today we have 9 hostels in the UK and Europe (plus Elephant & Castle extension, a development site in Paris and 34 apartments under development in Madrid), with a total of over 2,600 beds plus 34 apartments.

The concept of a youth hostel has changed substantially over the last few years; Safestay's hostels are stylish, comfortable and safe occupying beautiful buildings that are centrally located but with an average bed rate of £20. This has led to the concept of a premium hostel becoming more widely recognised which in turn is increasing our existing and future customer base and opportunity as awareness of the offer grows.

2017 was a good year for the business with the establishment of our European platform together with growing brand recognition that are combining to drive occupancy levels and expand our loyal customer base.

Financial Results

Revenue

Group revenue for the financial year ended 31 December 2017 increased by 43% to £10.5 million (2016: £7.4 million). Within this, UK achieved total sales growth of 15% to £8.5 million, driven on the back of increases in occupancy to 74% (2016: 65%). The new European acquisitions contributed £2.0 million to revenue in the period.

Food & beverage sales for the Group in 2017 were £1.4 million. On a like for like basis, the UK grew its food & beverage revenue by 8% to £1.3 million. With the added investment and initiatives, we are making in our food and beverage offering we expect to be able to deliver increased benefits going forward, both in 2018 and beyond.

Total ancillary sales were £193k. In the UK they grew by 39% to £153k. Despite being a small portion of revenue, we believe that there is a potential to grow this side of the business.

Adjusted EBITDA

Adjusted EBITDA provides a key measure of progress made. Adjusted EBITDA for the year to December 2017 was £3.2 million, an increase of 45% on the same period last year (2016: £2.2 million).

Adjusted EBITDA is as follows:

	2017	2016
	£'000	**£'000**
Operating Profit	971	995
Add back:		
Depreciation	1,538	901
Amortisation	161	140
Exceptional expenses	495	152
Share based payment expense	34	34
Adjusted EBITDA	3,199	2,222

There were a number of exceptional expenses, totalling £0.495 million which includes costs relating to the Group refinancing of its bank debt, professional costs in relation to the property refinancing and the acquisition costs of acquiring the U Hostel and Equity Point Hostels in Europe.

Finance Costs

Finance costs in 2017 were £1.8m (2016: £1.5 million).

In March 2017 the Group refinanced its borrowings with a new 5 year £18.4m secured bank facility with HSBC. This enabled the Group to repay all previous borrowings including two convertible loans and, in doing so, the group significantly reduce the annual interest costs. There were, however, early repayment penalties of £118k on the previous loan.

The property refinancing for Edinburgh and Elephant & Castle has been accounted for as a financing transaction as all significant risks and rewards of the ownership of the two buildings are retained by Safestay. Safestay retains operational control and will benefit from all operating profits and also has a repurchase option for each freehold interest.

Furthermore, our lease at Kensington Holland Park is also being accounted for as a finance lease rather than an operating lease, according to IAS17 (to be superseded by IFRS16 from 1 January 2019). Whilst the lease shows indicators for both finance and operating leases it was concluded that the lease should be classified as a finance lease on the basis that the present value of the lease payments at a yield of 6.55% constitutes the substantial part of the freehold valuation.

Loss Per Share

Basic loss per share for the year ended 31 December 2017 was 2.55p (2016: loss 1.49p) based on the number of shares, 34,219,134 (2016: 34,219,134) in issue during the year.

Cash flow, capital expenditure and debt

Cash generated from operations was £1.8 million (2016: £2.3 million). Cash generation has reduced during the year due to increases in PLC and central costs, in line with the growth of the business. The Group had cash balances of £4.5 million at 31 December 2017 (2016: £0.7million).

Gross proceeds of £11.4 million were received on the property refinancing of Edinburgh and Elephant & Castle. The business retains a long-term interest in the properties to generate future operating cash flows and the funds generated were used to acquire our European hostels in the Summer of 2017. The two hostels were valued for the refinancing as leaseholds on 14 March 2017 at £30.3 million.

Further capital expenditure, to improve the Group's properties, was £1.1 million. For 2018 we are projecting capital expenditure to be considerably higher due mainly to expansionary improvements. We are undertaking the extension of the Elephant & Castle property which will give us an additional 80 beds. The expected build cost is £2.1m plus expenses. In line with the property refinancing agreement, on completion Safestay will receive £1.2m back from the landlord. The remaining amount is being financed from internal cash resources. Other planned improvement works are at our Madrid Hostel to provide a rooftop bar and terrace together with the fit out of our service apartments in Madrid, due to open in the second half of 2018. Finally, there will be some product improvement and maintenance on our Barcelona properties and the ongoing investment in Paris, due to open in 2019.

Outstanding bank loans from HSBC was £18.2 million (2016: £17.4 million). This together with the finance lease obligations of £21.2 million (2016: £10.2 million) meant debt at 31 December 2017 was £39.4 million (2016: £27.6 million).

Net asset value per share decreased to 55p (2016: 58p).

Operational Review

2017 was a year of change for the operations. With Nuno Sacramento joining the business as COO we became more focused on the quality of our proposition, and yield management as well as total bed profitability, rather than average bed rate.

The UK business delivered £7.0 million of revenue in hostel accommodation (+16% year on year), along with 39% growth year on year in ancillary revenues. This excellent result was achieved by pursuing clear segmentation, targeting 40% groups, 20% direct business and 40% sold through Online Travel Agencies ('OTAs'). In addition, the introduction of a yield management system has allowed us to better flex our prices to meet demand, and this has helped grow revenues.

Furthermore, 2017 was a year of consolidation for the UK portfolio. Occupancy levels in all our UK properties increased. Particularly pleasing was Kensington Holland Park where average occupancy increased from 55.2% in 2016 to 73.40% in 2017. York continues to grow reaching an average of 55% for the year, but peaking at 75.3% in June, representing a good performance.

2017 was also our year of European expansion. The group acquired two separate businesses in May. Two properties were acquired from U Hostels in Madrid, one open with 228 beds, one under development with 34 serviced apartments and Paris, also under development with a further 250 beds. In addition, we acquired from Equity Point four hostels, two in Barcelona, and one each in Prague and Lisbon. Both these sets of acquisitions support our concept that Safestay has the capability to apply its model to an operating business. The European acquisitions have given us the foundation and operating platform in Europe to expand upon further, and to deliver on our ambition to become a leading consolidator of the hostel segment.

Cost reduction is an ongoing consideration across our business. We have taken a more focused approach to maximising EBITDA in order to achieve optimum performance and hence improve bed profitability. We have been reducing our OTA dependency. In addition, we are removing a significant portion of costs through automation, centralising procurement and exploring payroll efficiencies including outsourcing, where there has been an immediate gain in productivity. For example, we have outsourced our housekeeping in both Elephant & Castle and Kensington Holland Park which is proving a success.

We are also investing in line with our strategy of improving the customer proposition and building digital and IT capabilities that will help enable the delivery of long-term sustainable growth. We believe this is key as we are looking to engage and talk with more of our customers in the digital environment which in turn will lead to increased customer loyalty translating into increased revenues.

We believe that a well-planned capital improvements programme is key to supporting and growing the value of our businesses. For this reason, we are excited at the progress made in Elephant & Castle with the extension that will yield an additional 80 beds. The planned development of our Madrid rooftop is on track to open for the summer months and sets the standard for our Paris opening, in 2019, which will also have a rooftop bar. All these additions further help enhance our brand and proposition and increase revenue.

Safestay increased its beds sold from 297,276 to 444,480 in 2017. We believe there remains further potential to enhance performance of the existing portfolio, through increased occupancy as scale and distribution meets millennials' preferred travelling profile of hop on, hop off in key European cities; groups can be leveraged across the chain and loyalty starts to get traction through the quality and service levels that underpin Safestay's ethos.

Whilst we may be faced with market headwinds in 2018 with regards to labour costs, supply chain inflation and increased business costs we believe that our ability to focus on maximising bed profitability, as well as keeping our brand and proposition relevant will make us well placed to continue to grow. This will be reinforced by the ever-increasing demand for travel in the hostel sector across Europe).

Clear & Consistent Strategy

Safestay is targeting an increasingly diverse customer base. Our hostels are designed to appeal to a broad community of guests from school groups, young adults and backpackers, to families and business travellers. Our revenue generation is driven by occupancy and bed rate. In addition, we are also focusing our efforts on driving additional revenue from our food & beverage offering together with ancillary spend, including towel rental, laundry, padlocks. This can be seen in this year's results where food & beverage spend was 13% of total revenue, mainly in the UK (only 3% in Europe).

Our aim is to act as a consolidator within the Hostel market, entering new markets through the acquisition and development of both existing operations and new sites where the potential is identified.

The Board

There have been a number of Board changes during the year, as well as changes to the senior executive team.

Two new non-executive directors were appointed, Michael Hirst in May 2017 and Anson Chan in December 2017. Michael is consultant to CBRE Hotels and is one of the world's leading hotel experts. He also advises corporate clients in the hospitality and tourism businesses. Michael's experience in the hospitality industry is already providing Safestay's Board with invaluable insights and additional operational and development support as we continue to expand our business. Anson Chan is a respected Hong Kong businessman who has a wealth of management and investment experience. His experience will support Safestay through its acquisition journey. Anson Chan is not considered to be independent due his interest in Pyrrho Investments Limited, which is a significant shareholder in the company.

Nuno Sacramento was appointed as Chief Operating Officer on 1 February 2017 and joined the Board in July 2017. His significant hospitality background with Premier Inn and other international brands and his very strong operational gives him the right experience to take the Safestay brand to the next stage of growth.

Sharon Segal joined the board as Finance Director and Company Secretary on 9 October 2017. Sharon previously worked at The ONE Group, a hospitality business operating restaurant, lounge bars and Food & beverage in Hotels as Director of Finance, having joined the business in 2011, in order to open the Pan-European office and head up the European expansion.

Corporate Governance

The Remuneration Committee is chaired by Stephen Moss and its other member is Michael Hirst. The Remuneration Committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior executives and special remuneration packages for the Executive Directors. It is also responsible for making recommendations for performance bonus' for Executive Directors as well as Senior Management.

The Audit Committee comprises Stephen Moss (Chairman) and Michael Hirst. The Audit Committee meets at least twice a year and is responsible for ensuring that the financial performance of the Company is properly reported on and monitored, including reviews of the annual and interim accounts, results announcements, internal control systems and procedures and accounting policies.

Outlook

2018 has begun as expected for Safestay. The announcement on the 8 March 2018 of our acquisition of a third hostel in Barcelona, increases our number of beds to over 2,600, and has already been absorbed into the Safestay Group.

We have a highly experienced management team in place that will ensure our continued growth and success. This, together with the continued opportunity for supply chain enhancement gives us a solid foundation to achieve our goals.

We remain committed to seeking out new opportunities in the market; acting as a consolidator and entering new markets globally through acquisition and acquiring new sites.

Larry Lipman
Chairman
17 April 2018

Safestay plc

Condensed Consolidated Income Statement

Year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Revenue	**2**	**10,547**	7,411
Cost of sales		**(1,561)**	(1,022)
Gross profit		**8,986**	6,389
Administrative expenses		**(7,520)**	(5,242)
Operating profit before exceptional expenses		**1,466**	1,147
Exceptional expenses		**(495)**	(152)
Operating profit after exceptional expenses		**971**	995
Finance costs		**(1,833)**	(1,463)
Loss before tax		**(862)**	(468)
Tax		**(11)**	(43)
Loss for the financial year attributable to owners of the parent company		**(873)**	(511)
Basic and diluted loss per share	**3**	(2.55p)	(1.49p)

Safestay plc

Condensed Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017	2016
	£'000	£'000
Loss for the year	**(873)**	(511)
Other comprehensive income		
Items that will not be reclassified subsequently to profit and loss		
Revaluation of freehold land and buildings	**-**	3,860
Total comprehensive (loss)/ income for the year attributable to owners of the parent company	**(873)**	3,349

Safestay plc

Condensed Consolidated Statement of Financial Position

31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	**4**	**45,971**	45,771
Intangible assets	**5**	**1,410**	1,212
Goodwill	**5**	**7,301**	525
Total non-current assets		**54,682**	47,508
Current assets			
Stock		**25**	23
Trade, Derivative financial instruments and other receivables		**903**	504
Cash and cash equivalents		**4,504**	737
Total current assets		**5,432**	1,264
Total assets		**60,114**	48,772
Current liabilities			
Loans and overdrafts	**6**	**168**	3,489
Finance lease obligations	**7**	**49**	34
Trade, Derivative financial instruments and other payables		**1,625**	1,306
Current liabilities		**1,842**	4,829
Non-current liabilities			
Bank loans and convertible loan notes	**6**	**17,990**	13,906
Finance lease obligations	**7**	**21,179**	10,195
Deferred tax liabilities		**105**	5
Total non-current liabilities		**39,274**	24,106
Total liabilities		**41,116**	28,935
Net assets		**18,998**	19,837
Equity			
Share capital	**8**	**342**	342
Share premium account		**14,504**	14,504
Merger reserve		**1,772**	1,772
Share based payment reserve		**91**	57
Revaluation reserve		**4,218**	4,218
Retained earnings		**(1,929)**	(1,056)
Total equity attributable to owners of the parent company		**18,998**	19,837

Safestay plc

Condensed Consolidated Statement of Changes in Equity

31 December 2017

	Share Capital £'000	Share premium account £'000	Merger Reserve £'000	Share based payment reserve £'000	Revaluation Reserve £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2016	**342**	**14,504**	**1,772**	**23**	**358**	**(545)**	**16,454**
Comprehensive income		`					
Loss for the year	-	-	-	-	-	(511)	(511)
Other comprehensive income	-	-	-	-	3,860	-	3,860
Total comprehensive income	-	-	-	-	3,860	(511)	(3,349)
Transactions with owners							
Share based payment charge for the period	-	-	-	34	-	-	34
Balance at 31 December 2016	**342**	**14,504**	**1,772**	**57**	**4,218**	**(1,056)**	**19,837**
Comprehensive income							
Loss for the year	-	-	-	-	-	(873)	(873)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	(873)	(873)
Transactions with owners							
Share based payment charge for the period	-	-	-	34	-	-	34
Balance at 31 December 2017	**342**	**14,504**	**1,772**	**91**	**4,218**	**(1,929)**	**18,998**

Safestay plc

Condensed Consolidated Statement of Cash Flows

Year ended 31 December 2017

	2017 £'000	2016 £'000
Operating activities		
Cash generated from operations	**1,911**	2,308
Income tax paid	**(48)**	-
Net cash generated from operating activities	**1,863**	2,308
Investing activities		
Purchases of property, plant and equipment	**(1,088)**	(484)
Purchases of intangible assets	**(48)**	-
Acquisition of business (note 26)	**(7,298)**	-
Net cash outflow from investing activities	**(8,434)**	(484)
Financing activities		
Proceeds from property refinancing transaction	**11,420**	-
New bank loans drawn	**18,400**	-
Bank loans repaid	**(17,600)**	(755)
Loan and refinancing arrangement fees	**(375)**	-
Amounts paid under finance leases	**(916)**	(660)
Interest paid	**(591)**	(732)
Net cash generated / (absorbed in) from financing activities	**10,338**	(2,147)
Net increase /(decrease) in cash and cash equivalents	**3,767**	(323)
Cash and cash equivalents at beginning of year	**737**	1,060
Cash and cash equivalents at end of year	**4,504**	737

Basis of Preparation
On 17 April 2018, the Directors approved this preliminary announcement for publication. Copies of this announcement are available from the Company's registered office at la Kingsley Way, London N2 OFW and on its website, www.safestay.com. The Annual Report and Accounts will be sent to shareholders in due course and will be available on the Company's website, www.safestay.com. The financial information presented above does not constitute statutory financial statements as defined by section 435 of the Companies Act 2006 for the year ended 31 December 2017.

The financial information for the year ended 31 December 2017 is derived from the statutory financial statements for that year, prepared under IFRS, under which the auditors have reported. The audit report was unqualified, did not include references to matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2017 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The accounting policies applied in this announcement are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES FOR THE GROUP

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.

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

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

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

Revenue
Revenue is stated net of VAT and comprises revenues from overnight hostel accommodation, income from the rental of student accommodation during the academic year and the sale of ancillary goods and services such as food & beverage and merchandise. Accommodation and the

sale of ancillary goods and services is recognised when provided. Income from the rent of student accommodation is recognised on a straight-line basis over the academic year to which the rent relates.

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

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

Leases

The Group as lessor:

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

The Group as lessee:

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

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

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

Foreign currency translation

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

Property, plant and equipment

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

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

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

Impairment of property, plant and equipment

At each statement of financial position date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

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

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

Intangible assets

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

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

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

(a) Goodwill

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

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

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

(b) Other intangible assets

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

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

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

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.

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

2. SEGMENTAL ANALYSIS

	2017	2016
	£'000	**£'000**
Hostel accommodation	8,971	6,058
Food and Beverages sales	1,383	1,243
Other income	193	110
	10,547	7,411

2017	**UK**	**Europe**	**Total**
Revenue	8,496	2,051	10,547
Operating Profit	922	49	971
Depreciation & Amortisation	1,450	249	1,699
Exceptional & Share base payment expense	529	-	529
Adjusted EBITDA	2,901	298	3,199

Assets and liabilities are not analysed on a segmental basis.

In 2016 all revenues, costs and profits and losses arising there from related to the UK.

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

3. LOSS PER SHARE

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

	2017 £'000	2016 £'000
Loss for the period attributable to equity holders of the company	(873)	(511)

	2017 '000	2016 '000
Weighted average number of ordinary shares for the purposes of basic loss earnings per share	34,219	34,219
Effect of dilutive potential ordinary shares	1,807	2,264
Weighted average number of ordinary shares for the purposes of diluted loss per share	36,026	36,483
Basic loss per share	(2.55p)	(1.49p)
Diluted loss per share	(2.55p)	(1.49p)

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.

4. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures, fittings and equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation					
Balance as at 1 January 2016	28,764	12,793	1,055	-	42,612
Transfer	(267)	267	-	-	-
Additions	224	62	198	-	484
Revaluation	3,739	-	-	-	3,739
Balance as at 31 December 2016	32,460	13,122	1,253	-	46,835
Transfer	(29,777)	29,777	-	-	-
Additions	-	818	149	121	1,088
Acquired in business combination	-	-	598	-	598
Exchange movements	-	-	52	-	52
At 31 December 2017	**2,683**	**43,717**	**2,052**	**121**	**48,573**
Depreciation					
Balance as at 1 January 2016	-	71	214	-	285
Charge for the period	275	262	364	-	901
Revaluation	(122)	-	-	-	(122)
Balance as at 31 December 2016	153	333	578	-	1,064
Charge for the year	108	698	732	-	1,538
At 31 December 2017	**261**	**1,031**	**1,310**	**-**	**2,602**
Net book value:					
At 31 December 2017	**2,422**	**42,686**	**742**	**121**	**45,971**
At 31 December 2016	32,307	12,789	675	-	45,771

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

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

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

Assets in the course of construction represent additional letting rooms at one of the group's hostels. The group has a commitment to spend £2.1m on this development.

5. INTANGIBLE ASSETS AND GOODWILL

	Website Development £'000	Leasehold rights £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2016 and 31 December 2016	-	1,400	525	1,925
Additions	48	-	-	48
Arising in business combination	-	302	6,685	6,987
Exchange movements	-	9	91	100
At 31 December 2017	**48**	**1,711**	**7,301**	**9,060**
Amortisation				
At 1 January 2016	-	48	-	48
Charge for the period	-	140	-	140
At 31 December 2016	-	188	-	188
Charge for the period	4	157	-	161
At 31 December 2017	**4**	**345**	**-**	**349**
Net book value:				
At 31 December 2017	**44**	**1,366**	**7,301**	**8,711**
At 31 December 2016	-	1,212	525	1,737

On the acquisition of the business on Smart City hostel in Edinburgh in 16 September 2015 the Directors identified an intangible asset in relation the lease with the University of Edinburgh, which terminates in 2027 and the amortisation of this intangible asset is based on a straight-line basis until that date.

Goodwill in 2017 arose from the acquisition of U Hostels and Equity Point businesses.

Goodwill in 2016 arose from the acquisition of the business of the Smart City hostel in Edinburgh, which is the relevant cash generating unit. At 31 December 2017, an impairment review has been performed using forecast cash flows over 5 years discounted at appropriate discount rates to affirm its value in use. This forecast requires the use of assumptions and estimates based on current operating parameters and there are no reasonable sensitivities that indicate this asset is impaired.

6. LOANS

	2017 £'000	2016 £'000
At amortised cost		
Bank Loan	**18,400**	13,794
Convertible loan	**-**	3,800
	18,400	17,594
Loan arrangement fees	**(242)**	(199)
	18,158	17,395
Loans repayable within one year	**168**	3,489
Loans repayable after more than one year	**17,990**	13,906
	18,158	17,395

7. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments	
	2017 £'000	**2016 £'000**
Amounts payable under finance leases:		
Within one year	**937**	660
In the second to fifth years inclusive	**3,840**	2,640
After five years	**37,455**	28,380
Less future finance charges	**(21,004)**	(21,451)
Present value of future lease obligations	**21,228**	10,229

	Present value of minimum lease payments	
	2017 £'000	**2016 £'000**
Amounts payable under finance leases:		
Within one year	**49**	34
In the second to fifth years inclusive	**223**	157
After five years	**20,956**	10,038
Present value of future lease obligations	**21,228**	10,229

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

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

On 31 March 2017 the group property refinancing transactions on its hostels in Edinburgh and Elephant & Castle, receiving gross proceeds of £5.32 million and £6.1 million respectively. The properties were independently valued at £14.3 million and £16.0 million;

as the undervaluation matched by lease rentals is below the full market rate, the directors have deemed the transactions as outside the scope of IAS17 and treatment as finance leases is considered appropriate.

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

8. CALLED UP EQUITY SHARE CAPITAL

	£'000
Allotted, issued and fully paid	
34,219,134 Ordinary Shares of 1p each as at 31 December 2016 and 2017	342

9. POST BALANCE SHEET EVENTS

On 8 March 2018, the Group announced the acquisition of a third hostel in Barcelona for €3.0 million from Equity Point Hostels ("Equity Point"). The consideration will be satisfied from the Group's cash resources with an initial payment of €0.7 million and then four payments of €0.575 million spread over the next four years. The Board has not completed its appraisal on the fair value of assets acquired.

10. BUSINESS COMBINATIONS

During the year ended 31 December 2017 the business acquired a100% interest five new hostels.

Safestay PLC individually acquired three new hostels for a combined cash consideration of €5.9m. Safestay España SLU, a previously dormant subsidiary of Safestay PLC, acquired a further two hostels for an additional €3m cash consideration.

All hostel acquisitions have been treated as business combinations as they were operating as a business at the point of purchase.

On 19th May 2017, the Group's first European hostels were acquired through a portfolio, hereafter referred to collectively as "U Hostels":

- U Hostels Albergues Juveniles SL, an entity operating a 228-bed luxury hostel, located in Lisbon, Portugal
- U Places SL, a dormant subsidiary of U Hostels Albergues Juveniles SL. The entity holds a business licence for the apartment block situated next to the Madrid hostel.
- Safestay France SAS (formerly U Hostels France SAS), a subsidiary of U Hostels Albergues Juveniles SL. The company has access to a development in Montmatre Paris, which, if developed under current plans as a 250-bed hostel, will join the Safestay portfolio.

On 30th June 2017, the Group continued its European expansion through purchases from a further portfolio, hereafter collectively referred to as "Equity Point".

- Equity Point Lisboa Unipessoal Lda, an entity operating a 150-bed luxury hostel in Lisbon, Portugal

- Equity Point Prague s,r.o, an entity operating a 150 bed luxury hostel in Prague, Czech Republic.

The business operations of two hostels in Barcelona were purchased by Safestay España SLU from the same portfolio on 30th June 2017. The assets and liabilities acquired, translated at €1.14 to the pound are:

	GROUP	
	U Hostels	Equity Point
Number of hostels acquired (excluding assets under development)	1	4
Provisional fair values	£'000	£'000
Property, plant and equipment	467	131
Intangible assets	-	401
Current assets	78	78
Cash / (net debt)	386	84
Deferred revenue, trade and other payables	(241)	(201)
Deferred Tax	-	(100)
Goodwill	2,207	4,478
Consideration (satisfied by cash)	**2,897**	**4,871**

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

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

1) Brand – the hostels were purchased from two selling entities, each with a large portfolio of hostels that are continui1ng to trade under their original brand names. For this reason, management do not attribute the future earnings to the brands purchased; the key asset purchased is the future potential of each hostel as operated under the Safestay management team, and as an extension of the existing Safestay portfolio.
    2) Advanced deposits – each acquisition resulted in the purchase of advanced deposits taken under previous management that would result in potential sales whilst under Safestay control. The Board quantified the value of contracted sales under their original terms of sale and found the contracts to be immaterial at acquisition.
    3) Property, plant and equipment – the Board reviewed the asset registers of each entity and performed an impairment of each. The book value of assets was agreed to represent the fair value of each asset class.
    4) Intangible assets – the Board identified within the business combination of Safestay España SLU an intangible asset in relation to a tenancy sublease with a tenant in-situ at acquisition. The lease terminates in 2031; the amortisation of this intangible asset is based on a straight- line basis until that date.

The group incurred acquisition costs of £155,000 on legal fees and due diligence costs. These have been charged to operating exceptional items in the Consolidated Income Statement.

The acquisitions have contributed the following revenue and operating profits to the Group in the year ended 31 December 2017 from the date of acquisition:

	GROUP	
	U Hostels	Equity Point
	£'000	£'000
Revenue	738	1,313
Operating Profit	(66)	116

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

The pre-acquisition trading results are not indicative of the trading expectation under Safestay's stewardship; the Group deployed its Property Management System and digital marketing platform, updated internal processes and undertook a light re-branding exercise in each new property in the year ended 31 December 2017.