29 May 2020

Safestay plc

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

Final Results for the year Ended 31 December 2019

Safestay (AIM: SSTY), the owner and operator of an international brand of contemporary hostels, is pleased to announce its Final Results for the 12 months to 31 December 2019.

2019 Financial highlights

- Total revenues increased by 26% to £18.4 million (2018: £14.6 million) with like for like sales up 7%
- 49% or £9 million of net revenue now coming from mainland Europe versus 43% in 2018 (£6.2 million)
- 77.3% occupancy achieved over the period, up from 75.6%, reflecting good demand
- 5.4% increase in average bed rate to £21.4 (2018: £20.3)
- Adjusted EBITDA of £6.1 million and £3.8 million pre-IFRS 16 adjustments (2018: £3.4 million)
- Loss before tax of £0.6 million and £0.2 million pre-IFRS 16 adjustments (2018: £0.6 million)
- Loss per share 1.48p (2018: loss of 2.56p)

2019 Operational highlights

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

- Added 7 new properties in the key tourist cities of Pisa, Venice, Glasgow, Berlin, Athens, Bratislava and Warsaw
- 43% growth in F&B revenues now representing 14% of total revenues
- 50% increase in number of bookings made via the Safestay website
- £0.9 million was invested in renovation projects to maintain the premium positioning of the Safestay brand
- Elephant & Castle hostel was revalued following the 73 bed extension at £26.8 million, an increase of £10.8 million over the last valuation in 2017, which equates to a NAV increase of 16.7p per share

Post-year end – 2020 year to date highlights

- Agreed to increase debt facility from £17.9 million to £22.9 million with HSBC under the same terms as the previous facility, for a new 5 year term until January 2025
- In response to COVID-19 and the temporary closure of all hostels from 1 April, the Company minimised all costs, agreed a £5 million overdraft with HSBC, utilised available government reliefs and as a result is well placed to weather the current crisis
- Management focus has switched to preparing for a staggered re-opening plan initially just targeting the domestic market in each country
- Under the re-opening plan there will be protective changes introduced to check-in, food service, cleaning rotas and the temporary closure of common spaces with no shared rooms, and instead rooms will be sold to individuals or groups known to each other

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

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

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

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

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014 (MAR).

Enquiries

Safestay plc Larry Lipman	+44 (0) 20 8815 1600
Liberum Capital Limited (Nominated Adviser and Broker) Andrew Godber/Edward Thomas	+44 (0) 20 3100 2000
Novella Tim Robertson Fergus Young	+44 (0) 20 3151 7008

For more information visit our:

Website www.safestay.com
Vox Markets page https://www.voxmarkets.co.uk/company/SSTY/news/
Instagram page www.instagram.com/safestayhostels/

Chairman's Statement

Introduction

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

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

Response to COVID-19

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

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

Our re-opening plans will be staggered over the course of 2020, subject to the restrictions in each market and look to initially focus on just domestic customers while international travel remains limited. Under the slogan, 'Stay Safe at Safestay' the priority will be to inform guests of the safety measures that will be in place. Check-in will be completed via WhatsApp, hand sanitiser gel, masks and gloves will be made available, common rooms including the restaurant areas will be closed, breakfasts will instead be served in boxes. A substantially increased cleaning rota will be introduced and no shared rooms will be sold, and instead rooms will be sold to individuals or groups who are known to each other.

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

Material uncertainty which may cast significant doubt regarding the Company's ability to trade as a going concern has resulted from the impact of the COVID-19 virus on the economy and the hospitality industry. Note 1 below elaborates on the position of the Company regarding going concern, and the measures introduced before and after the re-opening of the hostels to protect our clients, employees and the Company. We believe that Safestay has the infrastructure in place to manage the re-engagement and that ultimately, we will find the route to returning our portfolio of hostels to pre-COVID-19 levels.

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

Financial Results

Revenue

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

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

Adjusted EBITDA

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

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

Adjusted EBITDA is as follows:

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

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

Finance Costs

Finance costs in 2019 were £2.6 million (2018: £1.6 million). There has been no significant change since 2017 when the Group signed a 5-year £18.4 million secured bank facility with HSBC and entered a Land Sale and Lease back with 2 properties, in London and Edinburgh. These 2 leases have been accounted for as finance leases since 2017, under IAS 17. Our lease at Kensington Holland Park has also been accounted for as a finance lease since 2017, under IAS 17.

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

Earnings per Share

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

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

Cash flow, capital expenditure and debt

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

Completed Acquisitions in 2019:

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

In 2019, the Group also announced 2 projects which were exchanged in 2019 but completed in 2020:

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

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

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

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

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

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

Operational Review

Since establishing its first hostel, Safestay has been achieving a 57% CAGR (Compounded Average Annual Growth Rate) in revenues in 5 years. It is clear that the Safestay model, which was originally developed in the UK, is well suited to the rest of the European market. Since the acquisition of 4 hostels in Spain, Czech Republic and Portugal in 2017, Safestay has entered 7 more countries with the openings of Brussels and Vienna in 2018, Pisa, Glasgow and Berlin in 2019 and Athens, Warsaw, Bratislava in 2020.

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

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

It was also pleasing to see that the revenue generated directly via our website increased by 50% in 2019 to reach 9% of the total room revenue. Reflecting a 34% increase in website traffic, combined with a 4.3% conversion to booking (2018: 3.5%). More specifically, the contribution from our website was 12% of total room revenue in the last 5 months of the year after the completion of a website refresh.

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

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

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

Outlook

Safestay has been at the forefront of the modernisation of the hostel market over the last 5 years. Our strategy is to offer a comfortable and safe stay in beautiful, often iconic buildings that are centrally located, in well-known and popular cities but still with an expected bed rate of £20. This has proven to be a successful formula and one which we believe will continue to appeal to our customer base again once the world gets past the current crisis.

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

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

Larry Lipman
Chairman
29 May 2020

Safestay Plc

Condensed Consolidated Income Statement

Year ended 31 December 2019

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

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Condensed Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

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

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Condensed Consolidated Statement of Financial Position

31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	**5**	87,366	47,522
Intangible assets	**6**	1,084	1,268
Goodwill	**6**	12,603	10,506
Total non-current assets		**101,053**	**59,296**
Current assets			
Stock		85	45
Trade, Derivative financial instruments and other receivables		1,408	1,200
Cash and cash equivalents		2,954	9,859
Total current assets		**4,447**	**11,104**
Total assets		**105,500**	**70,400**
Current liabilities			
Loans and overdrafts	**7**	279	353
Finance lease obligations	**8**	1,648	28
Trade, Derivative financial instruments and other payables		2,602	1,890
Current liabilities		**4,529**	**2,271**
Non-current liabilities			
Bank loans and convertible loan notes	**7**	17,399	17,772
Finance lease obligations	**8**	46,483	21,176
Deferred tax liabilities		105	105
Trade and other payables due in more than one year		767	1,140
Total non-current liabilities		**64,754**	**40,193**
Total liabilities		**69,283**	**42,464**
Net assets		**36,217**	**27,936**
Equity			
Share capital	**9**	647	647
Share premium account		23,904	23,904
Other components of equity		15,461	6,221
Retained earnings		(3,795)	(2,836)
Total equity attributable to owners of the parent company		**36,217**	**27,936**

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Condensed Consolidated Statement of Changes in Equity

31 December 2019

	Share Capital	Share premium account	Other Components of Equity	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2018	**342**	**14,504**	**6,081**	**(1,929)**	**18,998**
Comprehensive income		`			
Loss for the year	-	-	106	(907)	(801)
Total comprehensive income	-	-	106	(907)	(801)
Transactions with owners					
Issue of shares	305	9,400	-	-	9,705
Share based payment charge for the period	-	-	34	-	34
Balance at 31 December 2018	**647**	**23,904**	**6,221**	**(2,836)**	**27,936**
Comprehensive income					
Loss for the year	-	-	-	(960)	(960)
Movement in translation reserve	-	-	(47)	-	(47)
Total comprehensive loss	-	-	(47)	(960)	(1,007)
Transactions with owners					
Share based payment charge for the period	-	-	34	-	34
Revaluation reserve	-	-	9,253	-	9,253
Balance at 31 December 2019	**647**	**23,904**	**15,461**	**(3,795)**	**36,217**

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Condensed Consolidated Statement of Cash Flows

Year ended 31 December 2018

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

Basis of Preparation

On 28 May 2020, the directors approved this preliminary announcement for publication. Copies of this announcement are available from the Company's registered office at 1a 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 2019.

The financial information for the year ended 31 December 2019 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 2019 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 2018, as described in those financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES FOR THE GROUP

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:

<u>IFRS 16: Leases - effective 1 January 2019</u>

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

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

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

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

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

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

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

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

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

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

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

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

Lessor accounting

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

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

Going concern

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

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

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

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

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

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

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

Business combinations

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

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

Goodwill

Goodwill represents the future economic benefits arising from a business combination, measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is carried at cost less accumulated impairment losses. A review of the goodwill is carried out annually.

Operating segments

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

Lease

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group

- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract the Group has the right to direct the use of the identified asset throughout the period of use; and

- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
  - The Group has the right to operate the asset; or
  - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

Measurement and recognition of leases as a lessee

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

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

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise an extension or termination option.

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

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

Revenue

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

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

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

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

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

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

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

There are no significant judgements or estimations made in calculating and recognising revenue. Revenue is not materially accrued or deferred between one accounting period and the next.

Foreign currency translation

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

Impairment of property, plant and equipment

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

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

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

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

Intangible assets

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

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

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

- **Goodwill**

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

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

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

- **Other intangible assets**

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

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

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

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

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.

<u>Judgements</u>

- The Holland Park lease showed indicators that it could be treated as either a finance or operating lease. The Group's decision to treat it as a finance lease was based on a balanced judgment of relevant factors. Furthermore, the fair value of the Group's finance lease asset is inherently subjective. The methodology applies a discount rate to the future lease payments to approximate to the fair value of the asset. Details of the methodology of property valuations are detailed in note 5.

- Judgements were made around the capitalised leases for Edinburgh and Elephant & Castle. The valuation of the leasehold interest was performed by external valuers as set out in note 5. No tax arises on these transactions.

- The Group has identified certain costs as exceptional in nature in that, without separate disclosure, would distort the reporting of the underlying business.

- Extension options for leases: In accordance with IFRS 16, when the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

- The IFRS 16 standard specifies the accounting for an individual lease and therefore the IBR is specific to each lease. However, as a practical expedient, the Standard may be applied to a portfolio of leases with similar characteristics if management reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual leases within that portfolio. If accounting for a portfolio, management shall use estimates and assumptions that reflect the size and composition of the portfolio. Generally, the Group uses its incremental borrowing rate as the discount rate adjusted for lease specific and asset specific terms where required. All the commercial leases entered in by the Company are of similar terms, in European countries which offer similar lending rates. Management has assessed the sensitivity of the model as follows: a change of 100bps in the IBR would impact the total lease liability by 6%. Therefore, management have applied the same discount rate to all leases in the portfolio.

Estimates

- The fair-value of the assets and liabilities recognised on the acquisition of an operation or entity is determined using both external valuations and directors' valuations. Details of the fair values are set out in the note 10.

- 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 6.

2. SEGMENTAL ANALYSIS

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

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

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

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

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

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

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

3. FINANCE COSTS

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

4. LOSS PER SHARE

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

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

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

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

The total number of shares in issue as at 31 December 2019 was 64,679,014.

5. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Right of use assets £'000	Leasehold land and buildings £'000	Fixtures, fittings and equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation						
At 1 January 2018	**2,683**	**-**	**43,717**	**2,052**	**121**	**48,573**
Transfer	18	-	(230)	-	-	(212)
Additions	-	-	208	207	2,084	2,499
Acquired in business combination	-	-	319	259	-	578
Disposals	-	-	-	(48)	(55)	(103)
Transfer to current assets	-	-	-	-	(88)	(88)
Exchange movements	-	-	-	43	-	43
At 31 December 2018	**2,701**	**-**	**44,014**	**2,513**	**2,062**	**51,290**
Transfer	-	-	2,062	-	(2,062)	-
Additions	-	-	717	696	-	1,413
Adjustment on transition to IFRS 16	-	72,534	(45,322)	-	-	27,212
Acquired in business combination	5,348	-	-	89	-	5,437
Disposals	-	-	-	-	-	-
Revaluation	-	9,253	-	-	-	9,253
Exchange movements	(51)	-	(23)	(73)	-	(147)
At 31 December 2019	**7,998**	**81,787**	**1,448**	**3,225**	**-**	**94,458**
Depreciation						
At 1 January 2018	**261**	**-**	**1,031**	**1,310**	**-**	**2,602**
Transfer	(205)	-	(25)	-	-	(230)
Charge for the year	28	-	904	489	-	1,421
Released on disposal	-	-	-	(25)	-	(25)
At 31 December 2018	**84**	**-**	**1,910**	**1,774**	**-**	**3,768**
Transfer	-	-	-	-	-	-
Adjustment on transition to IFRS 16		1,848	(1,848)			
Charge for the year	60	2,771	55	438	-	3,324
Released on disposal	-	-	-	-	-	-
At 31 December 2019	**144**	**4,619**	**117**	**2,212**	**-**	**7,092**
Net book value:						
At 31 December 2019	**7,854**	**77,168**	**1,331**	**1,013**	**-**	**87,366**
At 31 December 2018	2,617	-	42,104	739	2,062	47,522

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

The freehold land and building acquired in business combination relate to:

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

- The freehold of the Pisa acquired in June 2019 for £3 million.

The Edinburgh leasehold was independently valued on 14 March 2017 at £16 million and the London Elephant & Castle leasehold was independently valued on 31 July 2019 at £26.8 million. Both valuations were performed by Cushman and Wakefield on behalf of HSBC (the Group's bankers). The Group has accounted for the finance transactions as interest-bearing borrowings secured on the original properties held. There were no recognised gains or losses arising in respect of these transactions.

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

<u>Right of use assets</u>

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

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

6. INTANGIBLE ASSETS AND GOODWILL

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

Leasehold Rights

The directors identified intangible assets in the following transactions:

- acquisition of the business on Smart City hostel in Edinburgh in 2015 identified an intangible asset in relation the lease with the University of Edinburgh, which terminates in 2027.

- acquisition of the Barcelona Sea property in 2017 identified a sublease agreement with a tenant in-situ for the duration of the head lease.

Amortisation of leasehold rights is based on a straight-line basis for the term of the lease. Amortisation is taken to the statement of comprehensive income within administrative expenses.

Goodwill

Goodwill arising from business combinations in the year are disclosed in note 10. Goodwill in a business combination is allocated to the cash generating units (CGUs) that are expected to benefit from that business combination. The Group's CGUs have been defined as each operating hostel. This conclusion is consistent with the approach adopted in previous years and with the operational management of the business.

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

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

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

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

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

Sensitivity analysis

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

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

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

7. LOANS

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

8. LEASES

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

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

The Group has leases for hostels across Europe. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 5).

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

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

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

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

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

<u>Lease liabilities</u>

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

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

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

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

9. EQUITY

CALLED UP SHARE CAPITAL

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

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

10. BUSINESS COMBINATIONS

See accounting policy in note 1.

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

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

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

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

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

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

1) Brand – the hostels were purchased from two selling entities, each with a large portfolio of hostels that are continuing to trade under their original brand names. For this reason, management do not attribute the future earnings to the brands purchased; the key asset purchased is the future potential of each hostel as operated under the Safestay management team, and as an extension of the existing Safestay portfolio.
2) Advanced deposits – each acquisition resulted in the purchase of advanced deposits taken under previous management that would result in potential sales whilst under Safestay control. The Board quantified the value of contracted sales under their original terms of sale and found the contracts to be immaterial at acquisition.
3) Property, plant and equipment – the Board reviewed the asset registers of each entity and performed an impairment of each. The book value of assets was agreed to represent the fair value of each asset class.
4) Intangible assets – the Board reviewed the agreements with customers and found no intangible assets for capitalisation.

The Group incurred acquisition costs of £0.101 million on legal fees and due diligence costs. These have been charged to operating exceptional items in the Consolidated Income Statement.

The acquisitions have contributed the following revenue and operating profits to the Group in the year ended 31 December 2019 from the date of acquisition:

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

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

The pre-acquisition trading results are not indicative of the trading expectation under Safestay's stewardship; the Group deployed its Property Management System and digital marketing platform, updated internal processes and undertook a light re-branding exercise in each new property in the year ended 31 December 2019.

11. POST REPORTING DATE EVENTS

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

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

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

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

- Due to current closure of the hostels and the slow recovery expected from re-opening, as explained in the Going concern note, cash flows from operation will be reduced, which will reduce the recoverable amount from each hostel. As a consequence, has this been taken in consideration within these financial statements, an impairment charge could have arisen. Note 6 includes a sensitivity analysis for each hostel.

- Payments from guests take place at the time of booking or check in, except for groups which may occasionally benefit from partial credit facility. Trade debtors amount to as at 31 December 2019. There would therefore be no risk of significant trade bad debt resulting from COVID-19.