safestay

REPORT AND FINANCIAL STATEMENTS 2017

Safestay in 2017:
A year of growth.

> "This has clearly been a **transformational period for the business** in many ways. The outlook for the business is **extremely positive.**"
>
> **Larry Lipman,** Chairman

Increased demand for Safestay's unique contemporary hostel offer

+43%

INCREASE IN TOTAL REVENUES

2016 £7.4m 2017 **£10.5m**

6 new European hostels acquired in 2017, bringing the Safestay total to 10

Positive increase all-round

+45%

ADJUSTED EBITDA to £3.2m
(2016: £2.2m)

More beds company wide

+51%

2017 **2,308**
2016 1,526

Total beds
2,308

Occupancy rate
73%

New locations
6

Total locations
10

EBITDA increase
45%

Revenue increase
43%

Average bed rate
£19.34

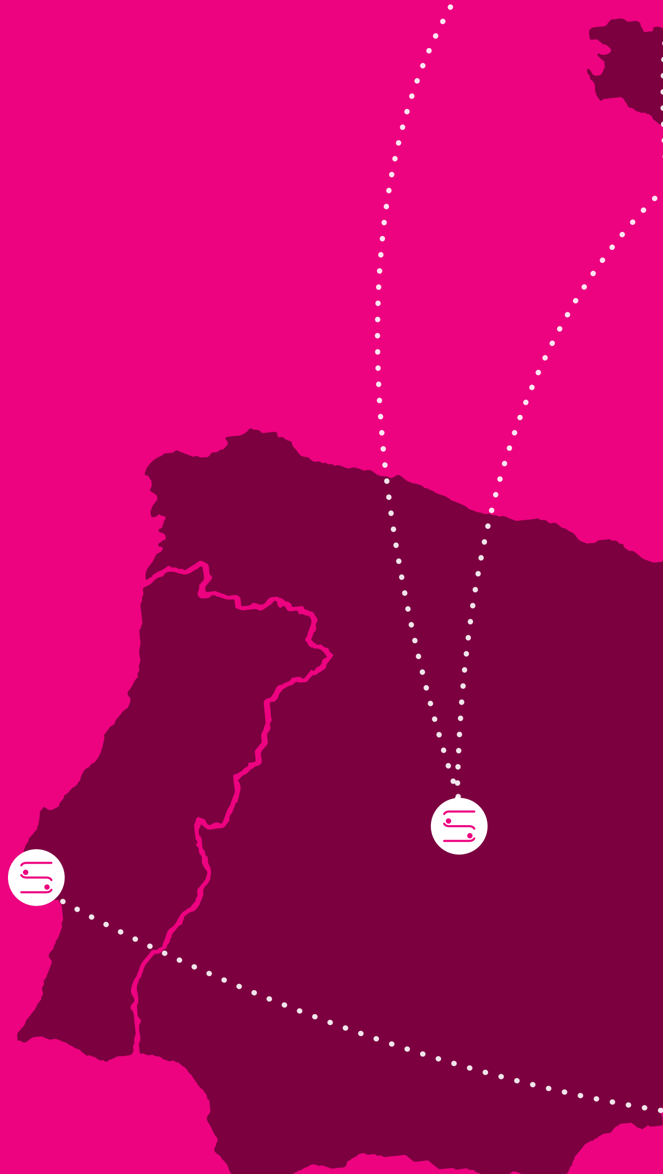
Total bed sales
444,480

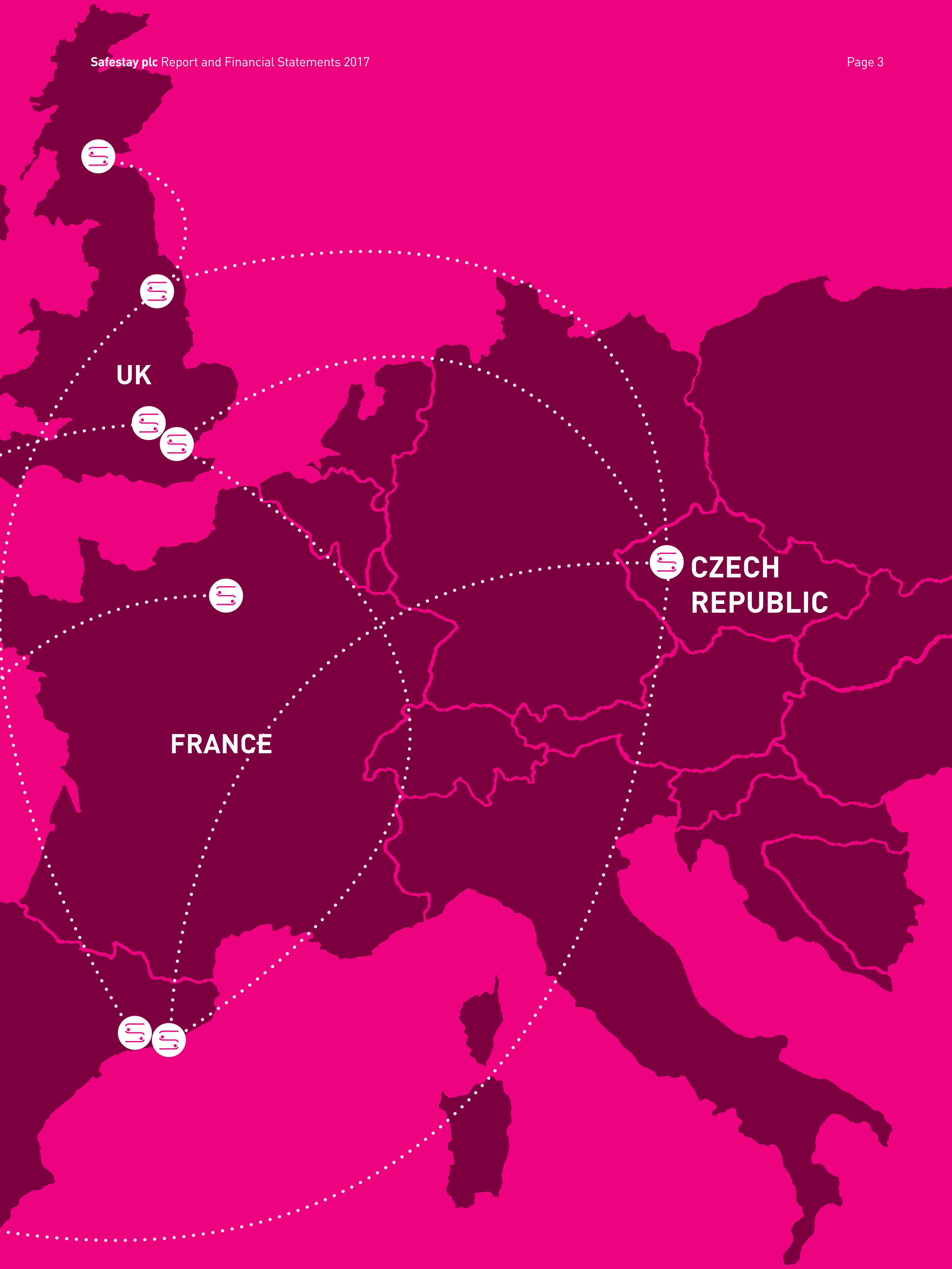
Europe **Calling**

In 2017 our hostel portfolio was transformed by the acquisition of 6 new hostels on the continent.

Stylish. Central. Refreshingly affordable. In the UK, the Safestay concept has already demanded reappraisal of the entire hostel market. We opened our first Safestay hostel in London back in 2012. Safe, sociable, and stylish, that first location invited guests to re-think the meaning of the word hostel. It met an unfulfilled need in the market with open arms, and proved incredibly popular throughout the UK. An additional site in London was soon complemented by hostels in York and Edinburgh.

2017 proved to be our most ambitious year yet, as we transported the Safestay experience outside of the UK for the very first time. Over the course of the year, we acquired six new hostels, offering stunning yet affordable accommodation in the hearts of some of Europe's most alluring cities. From Lisbon in the west, all the way to Prague, thousands of guests across Europe are being introduced to a concept that promises to transform the hospitality industry.




UK
CZECH
REPUBLIC
FRANCE




Check in to check out the original **Safestay experience...**

London Elephant & Castle

Opened in **2014**

413 total beds

The very first Safestay hostel remains our flagship destination. The massive 36,000 sqft. building was originally the Labour Party's headquarters. The hostel offers a combination of shared dorms and private rooms, with 413 beds spread across 74 rooms. As well a number of large social spaces, the site features a restaurant and a fully licensed bar. Just South of the river in zone one, the hostel brings the unique Safestay experience into the very heart of the city.

London Kensington Holland Park

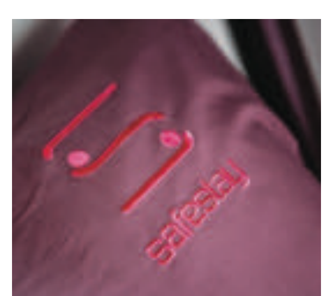
Opened in **2015**

351 total beds

There are hostels, and then there is this. A glorious 24,000 sqft. mansion right in the middle of Holland Park. Located in the heart of West London's most prestigious postcode, this one site raised the bar for a whole industry. Surrounded by the park, and with its own private gardens, the hostel grants guest access, and escape from the vibrant bustle of central London. Notting Hill, the Royal Albert Hall and both the Natural History and Science Museums are all within easy walking distance. Fully re-furbished in 2015, the hostel Is made up of 3 buildings surrounding a private courtyard, including the East Wing of the park's original Jacobean building. As well as a number of elegant social spaces, the hostel features a snooker room and impressive food and beverage facilities.










Safestay leads the way in offering **a new type of hostel** experience.

York

Opened in **2015**

147 total beds

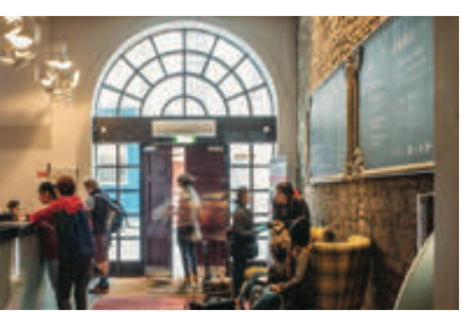
Safestay York delivers a pioneering accommodation concept to one of the UK's most historic and beautiful cities. Built within a 16th century Georgian Townhouse in the city centre, the site provides the perfect staging post to explore York's famous attractions from the Roman walls to St. Mary's Abbey. Inside a Grade I listed building, the hostel houses 23 rooms, 147 beds, a fully licensed bar, and a beautiful, bright dining room. Just six minute's walk from the main train station, Safestay York marries convenience and comfort in perfect harmony.

Edinburgh

Opened in **2015**

615 total beds

With so much to see in Scotland's most famous city, it pays to stay in the heart of the action. Just off the Royal Mile in Old Town, Safestay Edinburgh is a central as it gets. Close to Waverly Station, the hostel is also a short walk from the very best of Edinburgh's famous nightlife. The hostel is surrounded by popular attractions including the National Museum and the Scotch Whiskey Experience tour. It houses 272 beds in 132 rooms. From June to August, in time to catch the Edinburgh festival, an absent student population swells the hostel's capacity to 615 beds.




Our new hostels in **Europe**

Barcelona Sea

Acquired in **2017**

110 total beds

Kick back and relax as you watch the sun rise over the Mediterranean from the shores of one of Europe's coolest cities. Safestay Barcelona Sea is positioned right on the beach in Barceloneta, originally a fishing neighbourhood. The hostel includes 110 beds and a lobby bar with a breath taking sea views. Guests can soak up sun on the beach or walk into Las Ramblas in under ten minutes.

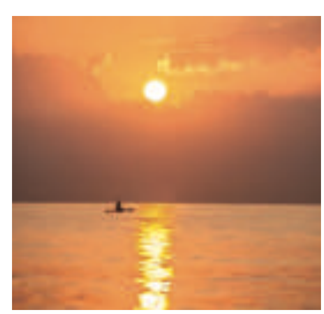
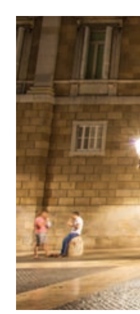
Barcelona Gothic

Acquired in **2017**

144 total beds

Narrow streets, the constant smell of incredible food and a buzzing atmosphere that never seems to sleep. If you want to get a taste of real Barcelona, nothing beats Ciutat Vella, the city's oldest district. Safestay Barcelona Gothic puts you in the middle of classic Barcelona. The 144 bed hostel is surrounded on all sides by bohemian Barcelona culture, food and nightlife. And when you need to rise above it all, a rooftop terrace offers breakfast with a view.







Lisbon

Acquired in **2017**

150 total beds

Mediterranean charm nestled on the waters of the Atlantic. Europe's most westerly Capital is dense with unique culture and history. Safestay Lisbon is found right in the centre of the city, at the cross roads of Chiado, Bairro Alto and the thriving restuaradores neighbourhoods. The charm of the city is enhanced by Safestay Lisbon's stunning building. Built around 1800, the hostel includes 150 beds shared across dorms and double rooms, every one of them outward facing with its own terrace and views of the city. A large, communal area for breakfast is surrounded by terraces where guests can relax before and after exploring the ancient city.

Our portfolio has been transformed in 2017 by the addition of 6 European sites.





From **Spain** to the **Czech Republic**

Madrid

Acquired in **2017**

228 total beds

The food. The history. The buzz. Madrid brings the whole Spanish experience together in one amazing destination. There is so much to be seen, heard and tasted that every minute wasted feels like a lifetime lost. Safestay Madrid helps you make the most of your stay by putting you within touching distance of all the city's most sought after attractions. The hostel is ideal if you want to drop your bags and run. On the Calle, in one of the city's most vibrant neighbourhoods, Safestay Madrid offers 228 beds within a stunning 19th century building. A soon to be completed roof terrace promises a new way to see this glorious capital.

Prague

Acquired in **2017**

150 total beds

Whether you're here to share a beer with friends, or to step back in time and discover a city with a palpable sense of history, Prague has it all. Bang in the middle of the city of a hundred spires, Safestay Prague offers guests the most stylish and affordable way to explore this stunning capital. Located on Ostrovni Street, close to the National Theatre, and ten minutes from the Karluv Most (Charles Bridge), all of the city's most famous sites can be reached on foot from the hostel. Newly refurbished, the highlight of the hostel is a large, comfortable lounge area for chilling before and after trips into the city.

2017 was a **good year for the business** with the establishment of our **European platform together with growing brand recognition.**

Larry Lipman, Chairman

Designed and built to meet the needs of a **millennial audience,** the new website brought Safestay up to speed in an **increasingly digital world.**

Reaping the benefits of a **Digital Future**

Increased investment in digital technology delivered a year of incredible growth.

2017 took the investment and focus placed on our digital assets to new levels. Central to this was the launch of a new website. Designed and built to meet the needs of a millennial audience, the new site brought Safestay up to speed in an increasingly digital world. This investment, and an added emphasis on digital marketing proved transformational.

In tandem with the acquisition of our new European properties, the new website introduced Safestay to a wider audience. Since launching the site has delivered 75% more traffic from Spain, 28% more from Germany, 15% from France, 64% from Italy, 175% from Portugal and 523% from Russia. Critically the website was able to transform that reach into growth.

Website usage in 2017 has increased across all the metrics. Website users has increased by 88%, total number of sessions by 65% and a 109% increase in revenue from the website. In addition to sales, digital marketing has helped to increase affinity with the Safestay brand as we have seen an increase in our Facebook fans. We are no longer keeping up with the potential of digital. We are now poised and ready to exploit it.

INCREASE IN TOTAL NUMBER OF SESSIONS +65%

+109%

INCREASE IN WEBSITE REVENUE

+91% INCREASE IN AVERAGE ORDER VALUE

INCREASE IN USERS

+88%

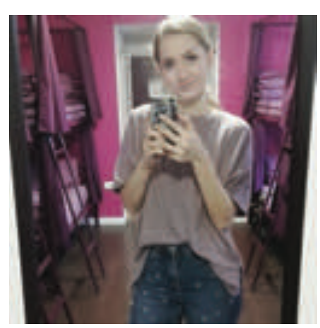
Short stay of a couple of nights but enough to highlight the **chill vibe, amazing staff,** comfortable rooms and clean toilets for a big hostel! **Happy hour is a must** and good breakfast for a fair price. **Wicked!**

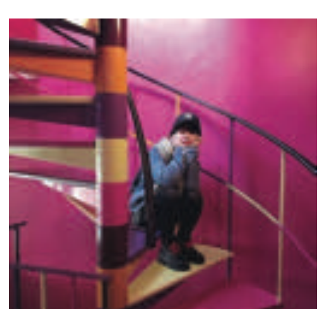
Safestay Holland Park, August 2017

Made by **Safestayers**

Customers have always been at the forefront of our brand. We love our Safestayers because they make us who we are. In this business, it really is guests that matter most. It's their desire for unique, affordable and convenient city accommodation that shapes our business. Their expectations, their needs and the quality of their experiences will remain the most important element in every decision we make, and in everything we do.

Photographs collected from #safestay across social media platforms





Chairman's Statement

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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Larry Lipman, Chairman

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 74%.

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 nine 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 £'000	2016 £'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, projectional costs in relation to the property refinancing and the acqusition costs of acquiring the UHostel and Equity Point Hostels in Europe.

Finance Costs

Finance costs in 2017 were £1.8 million (2016: £1.5 million). In March 2017 the Group refinanced its borrowings with a new 5 year £18.4 million 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.

Chairman's Statement

Cash flow, capital expenditure and debt

Cash generated from operations was £1.9 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: £0.7 million).

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 £2.1 million plus expenses. In line with the property refinancing agreement, on completion Safestay will receive £1.2 million 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 a 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.

Chairman's Statement

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

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 in 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.

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.

Officers and Professional Advisors

Directors

Larry Lipman
Chairman

Nuno Sacramento
Chief Operating Officer

Sharon Segal
Finance Director & Company Secretary

Stephen Moss CBE
Non-Executive Director

Michael Hirst OBE
Non-Executive Director

Anson Chan
Non-Executive Director

Registered Office

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Company Number

8866498

Nominated Adviser and Broker

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Corporate Solicitor

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160 Queen Victoria Street
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Auditor

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

Registrar

Link Asset Services
The Registry
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Beckenham
Kent
BR3 4TU

Bankers

HSBC Bank plc
69 Pall Mall
St James's
London
SW1Y 5EY

Strategic Report

Principal activity

The principal activity of the Group comprises the operation and development of high quality traveller accommodation under the Safestay brand in properties that are either owned or occupied on long leasehold.

The Business model

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

- **Development**
  Identifying potential properties in target cities, acquiring the properties and their contemporary, stylish refurbishment to fit with the brand
- **Operational**
  Providing a comfortable, safe and enjoyable stay in our hostels for a reasonable price with a focus on customer satisfaction, a strong community experience and repeat stays
- **Brand**
  Building the Safestay brand value
- **Scale**
  Building the platform to efficiently add further hostels to the Group
- **People**
  Investing in the right people where automation cannot be adopted

Review of business and future prospects

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

The underlying business generated revenues of £10.5 million (2016: £7.4 million). Operating profit before exceptional costs was £1.5 million (2016: £1.1 million) and an underlying adjusted EBITDA, as defined in the Chairman's statement, of £3.2 million (2016: £2.2 million) for the year to 31 December 2017. 2017 has been an important year for Safestay, which has seen it grow from four hostels in the UK to nine operating hostels with one under development and now spanning into Continental Europe. The European acquisitions have catapulted Safestay as a major player in the hostel market, with over 2,300 beds.

The additional European hostels have been fully integrated both financially and operationally into the Safestay group. This has meant that Safestay now has a European platform to build on, giving the business a sound foundation to acquire and develop new hostels in Europe, as recently witnessed by the acquisition of our third hostel in Barcelona, announced on the 8 March 2018.

The key operational performance indicators in 2017 resulted in an average bed occupancy of 73% and average bed rate of £19.34 for the group as a whole. The timing of the European acquisitions, in mid-season means that it is difficult to give year on year comparisons. For the UK, occupancy increased from 65% to 74% and average bed rate increased from £19.28 to £19.80.

Safestay has absorbed, with some resilience, recent market disruption (such as the recent terror events in mainland Europe, political unrest in Barcelona and significant movements in currency exchange rates, particularly following the EU referendum result in the UK). Our strategy benefits from a broad consumer base across many locations enabling the Group to cope with the financial impact of such events.

The Chairman's Statement includes further analysis of the business performance and future prospects of the Group.

Principal risks and uncertainties

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

Business risk

Safestay operates in the hospitality industry which, over the years, has experienced fluctuations in trading performance. Traditionally, the hotel sector's performance has tracked macro-economic trends, feeling the strain during the economic downturn and becoming more buoyant during recovery. The hostel sector, which leans more heavily on leisure travellers and has a lower price point, has proved more resilient and has delivered more robust cash flows through the economic cycle and has quickly recovered from isolated terror acts which may limit travel in the short term. The hospitality sector in the UK continues to face a number of cost headwinds from the National Living Wage, business rates, commodity price inflation and foreign exchange rate fluctuations.

A proportion of Safestay's business comes from Europe, including a number of school groups. The business is therefore susceptible to changes in the source market, schools' education, travel policies and any fluctuations arising in the market from the 'Brexit' process together with risks arising from exchange rate fluctuations.

Whilst demand in Safestay's markets is projected to strengthen, the provision of new supply will dilute the trading performance within the competitor set. It should be recognised the barriers to entry are quite high with the availability of suitable real estate limited. Safestay's defence to such threats is the combination of our premium locations and high standard of accommodation and operations. As supply increases, the business' focus on revenue, customer service, and sales and marketing activity is key in order to protect and grow market share, brand loyalty and reputation.

Safestay's property management system is deployed via SaaS (software as a service). As such the Group is dependent on robust internet connectivity and the resilience of the provider's third-party data centre and back-up protocols to operate. Whilst the arrangement carries risks, these are deemed to be reduced when compared to an in-house option which would lead to higher management overhead costs for the business. Management believe this current arrangement is more suitable to the business needs as well as being more cost effective due to the small size of our business. The other systems used are not deemed to be business critical.

Accessing expansion opportunities at the right price and in the right locations is, by its nature, an opportunistic exercise. Whilst the leadership team has a track record in securing properties to support business growth, there is no guarantee that future opportunities can be secured.

Financial risk

In 2017, the Group competed an £18.4 million 5 year secured refinancing, repaying existing bank debt and convertible loans. This provides an efficient base from which to grow the business at a reduced margin over LIBOR. However, any increases in LIBOR will increase the cost of these loans and therefore impact the net profit of the business.

The determining factor in Safestay's ability to acquire further hostels is governed by cash reserves and the ability to raise additional equity and debt. As such, there may be times when opportunities cannot be taken advantage of due to funds not being available or allocated elsewhere. Strict financial controls are in place to ensure that monies cannot be expended above the available limits or to breach any banking covenants.

A proportion of Safestay's business comprises group bookings and there is a risk of booking cancellations which will leave the hostel with unforeseen beds to sell at relatively short notice. To offset this risk, all group bookings require a non-refundable deposit of 10% at time of confirmation and staged payments in advance of the group arrivals.

Except for a small number of credit sales for which applied credit limits are verified through external sources, Safestay has a policy of full payment upfront for guests staying which is the norm for hostels. As such there are negligible trade receivable risks.

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

Larry Lipman
Chairman
17 April 2018

Directors' Report

The directors present their annual report on the affairs of the Company and Group together with the financial statements for the year ended 31 December 2017.

Directors

The directors who have served in the year to 31 December 2017 were as follows:

Larry Lipman
Sharon Segal (appointed 9 October 2017)
Nuno Sacramento (appointed 4 May 2017)
Stephen Moss CBE
Michael Hirst OBE (appointed 4 May 2017
Anson Chan (appointed 6 December 2017)

Larry Lipman and Stephen Moss will be standing for re-election at the Company's AGM in 2018.

Larry Lipman
Chairman

Larry Lipman (aged 61) has been the main driving force behind the Safestay business since its establishment. He is responsible for the Group's strategy and business development. He has extensive experience of the property market, gained over thirty years, throughout which he has been the managing director of Safeland plc, where his primary focus is on trading opportunities and the assessment of potential investments and refurbishment projects. He was also a key executive in each of Safeland's previous demergers, including Bizspace and Safestore, and, in each case, he continued after the demerger to be closely involved with the growth of those businesses as well as continuing to manage the core businesses of Safeland.

Nuno Sacramento
Chief Operating Officer

Nuno Sacramento (aged 46) was appointed as Chief Operating Officer on 1st February 2017. His significant hospitality background with international brands gives him the right platform to take the Safestay brand to the next stage of growth. Prior to joining Safestay, Nuno was Operations Director for Whitbread, managing a portfolio of 100 Premier Inns with on-site restaurants and Costa Coffee in key locations. Whitbread is the UK's largest hotel, restaurant and coffee shop operator with 50,000 employees and a leading FTSE 100 business. Nuno was a key contributor to the success of Whitbread, primarily its Premier Inn brand, where he had an influential role shaping the business. He headed the transition from fixed pricing to dynamic pricing, had a key role in defining the operating format and shaping evolving structures and labour models. Previously, Nuno ran his own businesses in Brazil and the UK and held various management roles with Accor, from Sofitel to Novotel in Russia, Argentina, France and Brazil.

Sharon Segal
Finance Director

Sharon Segal (aged 47) joined Safestay as Finance Director in October 2017. She previously worked at The ONE Group, as Director of Finance, having joined the business in 2011, in order to open the UK / European office and head up the European expansion. In addition, Sharon has over 20 years' experience in investment markets having spent the early part of her investment career with Deutsche Bank as a sell side equities analyst and then with Aviva Investors as a UK Small-Mid Cap Fund Manager, responsible for c£1bn in assets under management. Sharon holds a BA(Hons) in Economics from Manchester University, an MA in Demography from the Hebrew University in Jerusalem and is an MBA graduate from the London Business School.

There is **a sense of momentum building within the business** as the Group refines its practices in all areas of building a portfolio of modern, contemporary hostels.

Larry Lipman, Chairman

Stephen Moss (CBE)
Non-Executive Director

Stephen Moss (aged 62) is Chairman of three companies: Grosvenor Securities Limited, a central London commercial property investment and development company; Bibendum PLB Group Limited; and Bonasystems Europe Limited, a leading floor care and anti-slip specialist serving the hotel, leisure and transport sector. Until 2008, he was Managing Director of BCP Airport Parking which he had grown to become one of the leading booking agents for travel ancillaries via a mix of internet bookings and distribution agreements with leading travel agents, tour operators and airlines including Tui, Thomas Cook and Ryanair. Stephen founded Springboard in 1990, a charity which promotes careers in hospitality, leisure and tourism, of which he remains Chairman, and its board and corporate partners include many of the UK's leading hotel groups. In 1992 he was awarded an MBE for services to the restaurant industry and, in 2002, a CBE for his contribution towards education and training.

Michael Hirst (OBE)
Non-Executive Director

Michael Hirst (aged 74) is consultant to CBRE Hotels, the world's leading hotel experts. He also advises hospitality and tourism businesses and has acted as an Arbitrator for the International Court of Arbitration in hotel dispute resolution. He is a Director of CP Holdings Ltd, a diversified industrial and services group, which includes hotels and thermal spas in Central Europe. He is Chairman of the Business Visits & Events Partnership, representing Britain's Events' Industry and Deputy Chairman of the UK Government's Events Industry Board. He is a director of The Tourism Alliance, bringing together all the major tourism organisations in the UK and is appointed to the Tourism Industry Council, a collaboration between the UK Government and the tourism industry.

Anson Chan
Non-Executive Director

Anson Chan (aged 54) is a respected Hong Kong businessman who has accumulated a variety of management and investment experiences. Over the years, he has served as an executive director for his family's real estate development and investment business, the Bonds Group of Companies. Before joining his family business, Mr. Chan was an associate director in the proprietary investments group for a Japanese investment bank, Nomura International, from 2000 to 2004, and of AIG Investment Corporation from 1998 to 2000. He was responsible for developing new investment opportunities in private equity in Greater China. In addition, Mr. Chan is a seed investor and responsible officer of an Asia-focused fund, Evenstar Fund. From 2005 to 2008, he also served as a senior advisor to Elliott Associates, a leading U.S. based activist investment fund with assets under management in excess of US$10 billion.

Directors' Report

Directors' indemnity provisions

The company has granted an indemnity to each of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. The company purchases Directors and Officers liability insurance which gives appropriate cover for any legal action brought against its directors. Such qualifying indemnity provision remains in force as at the date of approving the directors' report.

Directors' interests in shares

The following directors directly own share capital of the company:

	Ordinary shares of 1p each	
	Fully paid number	Percentage %
Stephen Moss	125,833	0.4
Larry Lipman	56,055	0.2
Michael Hirst	50,000	0.2

Larry Lipman also owns one-third of the share capital of Safeland Holdings (2008) Corporation ("SHC") a corporation incorporated in Panama and 1.7% of Safeland plc. SHC owned 2,524,250 ordinary shares in the Company, representing 7.4% of the Company's shares in issue as at 31 December 2017. SHC owned 69.8% of Safeland plc, a company incorporated in the UK. Safeland plc owned 1,420,864 ordinary shares of the Company, representing 4.2% of the Company's shares in issue at 31 December 2017.

Anson Chan is not considered to be independent due his interest in Pyrrho Investments Limited which is a significant shareholder in the company.

Directors' interests in options over the equity share capital of the company at 31 December 2017 were as follows:

	Granted	Lapsed	At 31 Dec 2017	Exercise price	Exercisable from	Exercisable to
Larry Lipman	396,521	–	396,521	50p	02/05/2017	01/05/2024
	250,000	–	250,000	60p	14/07/2019	13/07/2026
Nuno Sacramento	500,000	–	500,000	60p	14/07/2019	13/07/2026

Other substantial shareholdings

The Company had been notified of the following shareholdings which constitutes three per cent or more of the total issued ordinary shares of the Company as at 10 April 2018.

	Ordinary shares of 1p each	
	Fully paid number	Percentage %
Pyrrho Investments Limited	7,525,000	21.99
Miton Group plc	7,364,497	21.35
Safeland Holdings (2008) Corporation	2,524,250	7.38
British Growth Fund plc	1,850,485	5.41
Bredbury Limited	1,612,905	4.71
Safeland Plc	1,420,864	4.15
Mr Angus D Paradice & Ms Claire V Pfister	1,114,435	3.26

Dividends

The Directors have not recommended the payment of a dividend for the year (2016: nil).

Financial instruments

The Group's policy on financial instruments is stated in note 23 to these financial statements.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Chairman's Statement, Directors' Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required to prepare consolidated accounts under International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and Group for that period. In preparing these financial statements, the directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgments and accounting estimates that are reasonable and prudent;

— state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

— prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Conflicts of interest

Under the articles of association of the Company and in accordance with the provisions of the Companies Act 2006, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. However, the directors may authorise conflicts and potential conflicts, as they deem appropriate. As a safeguard, only directors who have no interest in the matter being considered will be able to take the relevant decision, and the directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. During the financial period ended 31 December 2017, the directors have authorised no such conflicts or potential conflicts in accordance with the above procedures.

Going concern

Although the group reports a loss before tax in the consolidated income statement, it generates significant cash from its operations and expects to continue to do so for the foreseeable future. The group's strategy is to continue to develop and expand the premium hostel offering provided by the group within the UK and through its European acquisitions. The plan, based on the Group's budgets and financial projections to 31 December 2019, expects significant increase in group revenue, building on the recent expansion and management's expertise, and the directors consider this to be achievable. In addition, the group forecasts it will maintain a cash surplus for the foreseeable future.

As a result, the directors believe that the group and company will have adequate resources to continue in operational existence for at least 12 months after the date of approval of these financial statements and continues to adopt the going concern basis of accounting in preparing the financial statements.

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.

Statement of disclosure of information to the auditor

— So far as each of the directors currently in office is aware, there is no relevant audit information of which the Company's auditor is unaware; and

— Each of the directors has taken all the steps that ought to have been taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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

Larry Lipman
Chairman
17 April 2018

Directors’ Remuneration Report

Introduction

This report describes how the Board has applied the principles of good governance relating to Directors’ remuneration during the period ended 31 December 2017.

Remuneration committee

The duties of the Remuneration Committee are performed by Stephen Moss and Michael Hirst, with advice being taken from the Board as a whole in respect of employees who are not directors of the Company. The Committee determines on behalf of the shareholders, the Company’s policy for the level of remuneration for the executive directors.

Remuneration policy on executive directors’ remuneration

Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre required and to reward them for enhancing value to shareholders. The performance measurement of both executive and non-executive directors and the determination of their annual remuneration package is undertaken by the Committee.

There are three main elements of the remuneration package for executive directors and senior managers:

1. Basic salary is determined by the Remuneration Committee at the beginning of each year and when an individual changes position or responsibility. Appropriate salary levels are set by reference to the performance, experience and responsibilities of each individual concerned and having regard to the prevailing market conditions.
2. Performance related bonuses are assessed annually and are based on a combination of individual and corporate performances during the preceding financial year. During the current year under review and prior years the directors did not receive a bonus.
3. Share options.

The remuneration package for Executive Directors also includes benefits in kind including motor vehicles, fuel and health insurance.

It is the Company’s policy that its executive directors may take up outside directorships where it is considered that the appointment would not impinge on their employment with the Company. Individuals may retain any remuneration received from such services.

Directors’ service contracts

Larry Lipman has a contract terminable on 6 months’ notice. Stephen Moss and Michael Hirst have an initial term of 3 years unless terminated by either party upon three months written notice. Anson Chan has no service agreement. Nuno Sacramento and Sharon Segal have a service agreement terminated by either party upon three months’ notice.

The directors’ service contracts contain no provision for fixed termination payments.

Share price

The Company has a single class of ordinary shares listed on the AIM market of the London Stock Exchange. High and low prices for the period were 44.0p and 54.5p respectively and the market price of the shares at 31 December 2017 was 51p.

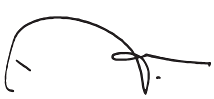
Directors' emoluments

The emoluments of the directors of the Company for the period ended 31 December 2017 were as follows:

	Salary and fees £'000	Benefits in kind £'000	2017 Total £'000	2016 Total £'000
Executive directors				
Larry Lipman	73	–	73	46
Sharon Segal*	24	1	25	–
Nuno Sacramento*	76	9	85	–
Philip Houghton**	–	–	–	175
Non-executive directors				
Stephen Moss	24	–	24	24
Michael Hirst*	18	–	18	–
Anson Chan*	–	–	–	–
	215	**10**	**225**	**245**

* Appointed during 2017
** Resigned 31 December 2016

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



Larry Lipman
Chairman
17 April 2018

Corporate Governance

Companies that have shares traded on AIM, the London Stock Exchange's market for smaller growing companies, are not required to comply with the UK Corporate Governance Code ('the Code'). Whilst the Group does not adhere to the Code, the Board is committed to maintaining high standards of corporate governance and draws on best practice including those aspects of the Code it considers to be appropriate and practicable for a company of this size. In line with a focus on cost-effectiveness across the Group, the corporate governance processes in place balance the need to ensure that the Board carries out its responsibilities effectively with the need to do so cost-effectively.

Directors

During the period ended 31 December 2017 the Group was controlled by its Board of Directors which consisted of three executives and three non-executive directors. Larry Lipman is Chairman of the Board.

Each member of the Board is subject to the re-election provisions of the Articles of Association, which requires them to offer themselves for re-election at least once every three years. In the event of a proposal to appoint a new director, this would be discussed at a full Board meeting, with each member being given the opportunity to meet the individual concerned prior to any formal decision being taken.

Due to the small size of the Board, it is considered inappropriate to establish a Nomination Committee. Consequently, these duties are performed by the Board as a whole.

Non-executive directors

Stephen Moss, Michael Hirst and Anson Chan act as the company's Non-executive Directors. They are available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through existing mechanisms for investor communication.

The Non-Executive Directors constructively challenge and help develop proposals on strategy through attendance at Board meetings and regular dialogue with the executive directors. They also ensure that robust internal controls exist and are complied with and monitor management performance against agreed goals and objectives.

Directors' remuneration

The Executive Directors' remuneration consists of a package of basic salary and discretionary bonuses, which are linked to corporate and individual performance achievements and the levels of each are determined remuneration committee. The statement of remuneration policy and details of each director's remuneration are set out in the Directors' Remuneration Report.

Internal control

The Board is responsible for ensuring that the Group has in place a system of internal control. In this context, control is defined as those policies and processes established to ensure that business objectives are achieved cost effectively, assets and shareholder value are safeguarded, and laws, regulations and policies are complied with. Controls can provide reasonable but not absolute assurance that risks are identified and adequately managed to achieve business objectives and to minimise material errors, losses and fraud or breaches of laws and regulations. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Auditor

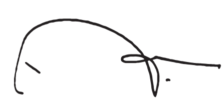
The Board is responsible for the relationship with the Group's auditor, the in-depth review of the Group's financial reports, internal controls and any other reports that the Group may circularise. This includes a review of the cost effectiveness of the audit and non-audit services provided to the Group.

The Board monitors the non-audit services being provided to the Group by its external auditors on a regular basis to check that these services do not impair their independence or objectivity. Prior approval of the Board is required for activities which may be perceived to be in conflict with the role of the external auditor.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in the note 6 to the financial statements.

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

By order of the Board.



Larry Lipman
Chairman
17 April 2018

Independent Auditor's Report

to the members of Safestay plc

Our opinion on the financial statements is unmodified

We have audited the financial statements of Safestay plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

— the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;

— the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

— the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Who we are reporting to

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

— The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

— The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Overall materiality: £200k, which represents 2% of the group's revenue

Key audit matters for the group were identified as acquisition accounting and the consolidation process, leased assets and lease obligations, and the risk of fraud in revenue recognition; and for the parent entity, leased assets and lease obligations

A full scope audit has been performed in respect of all UK trading entities and the parent company, with targeted and analytical procedures for the acquired European entities.

Independent Auditor's Report

to the members of Safestay plc

Key audit matters

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

Key Audit Matter — Group	How the matter was addressed in the audit — Group
Acquisition accounting During the year the group acquired two separate groups of European hostels. Accounting for each acquisition is set out in note 26 to the consolidated financial statements. The assessment of the fair values of assets and liabilities acquired, and their associated useful lives, requires management judgement and the use of estimates in the determination of these values and the resultant intangible assets and goodwill recognised. We therefore identified acquisition accounting and the associated incorporation of the acquired entities into the group consolidation as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: reviewing the accounting policy for compliance with IFRSs as adopted by the EU and that the application by the group is consistent with the stated policy; obtaining managements' assessment of the transaction and corroborated the fact pattern with reference to the Sale and Purchase Agreements; testing the appropriateness of the allocation of the purchase price to assets and liabilities acquired, recognition and measurement of intangible assets and goodwill and the application of any fair value adjustments; testing the integrity of data used in the models used by management by agreeing a sample to source data; challenge of the key inputs within the calculations, as well as performing a completeness review of all operating units to ensure all appropriate sites had been appropriately identified; considering evidence obtained from other audit procedures which would indicate any material inconsistency with the accounting adopted; and a review of management's disclosures for the transactions in the financial statements, ensuring that these reflect the transactions and are complete. The Group's accounting policy on acquisition accounting is shown in note 1 to the financial statements and related disclosures are included in note 26. Key observations As a result of the audit procedures we performed, and after considering management's disclosures of the judgements applied by them, we have concluded that acquisitions have been appropriately recognised in accordance with the requirements of IFRS3 revised.

Key Audit Matter — Group	**How the matter was addressed in the audit — Group**
Risk of fraud in revenue recognition Under ISA (UK) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', there is a presumed risk of fraud in revenue recognition. As the Group records a proportion of sales in cash and through point of sale transactions, we identified the risk of fraud in revenue recognition as a significant risk which was one of the most significant assessed risks of material misstatement.	**Our audit work included, but was not restricted to:** an evaluation of the revenue recognition policies for each of the Group's two principal revenue streams against the requirements of the Group's stated accounting policies and IAS 18: 'Revenue'; performing substantive analytical review over the key income streams of each hostel throughout the year; for hostel accommodation and food and beverage sales made by the hostels performing testing of the recording of sales transactions by each hostel; testing the application of cut-off at the period end; agreeing the receipt of cash collected at hostels into Group bank accounts; and for both income streams, assessing management review processes for the recording and reporting of revenue. The Group's accounting policy on revenue, including its recognition, is shown in note 1 and related disclosures are included in note 2. **Key observations** As a result of the audit procedures performed we have concluded that revenue has been recognised appropriately in accordance with IAS18.

Key Audit Matter — Group and Parent	**How the matter was addressed in the audit — Group and Parent**
Leased assets and lease obligations During the year, the group entered a financing transaction resulting in a legal sale of the freehold properties of two of the group's properties. The arrangement requires the group to pay an annual rental charge, but also grants the right of re-purchase of both properties at a future date. Under IAS16 this transaction does not meet the definition of a disposal of the asset and the future rent liability should be treated as a finance lease within the group accounts under IAS39. The group has also acquired a number of leasehold interests as part of the European hostel acquisitions. We therefore identified there is a risk that the lease obligations and related assets are not appropriately recognised in the financial statements.	**Our audit work included, but was not restricted to:** evaluating the accounting policy for compliance with IFRSs as adopted by the EU and that the application by the group is consistent with the stated policy; appraising management's assessment of the financing transactions and assessing it against relevant accounting standards, including their estimation of the value of the right of re-purchase testing this against the loan documents to ensure management's assessment reflects the substance of the transaction; appraising management's assessment of the leases acquired as part of the European acquisitions on a similar basis; testing managements calculation of the current and future lease obligations; challenging areas of judgement and estimation made by management as part of the calculations and assessing the sensitivity of these to alternative estimates; and reading disclosures within the financial statements to ensure they are appropriate and complete. The Group's accounting policy on leased assets and lease obligations is shown in note 1 to the financial statements and related disclosures are included in note 16 in the consolidated financial statements and note 8 in the company financial statements described the action that it has taken to address this issue. **Key observations** As a result of the audit procedures we performed, we have concluded that lease transactions have been appropriately treated within the financial statements. We concur with the treatment of the two properties as financing transactions and that there are no additional disclosures or accounting treatment required for the acquired lease obligations.

Independent Auditor's Report

to the members of Safestay plc

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	£200k which is approximately 2% of revenue. This benchmark is considered the most appropriate because the group is currently loss-making, revenue represents a stable benchmark at this stage of the group's development. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 to reflect the increased size of the group through its recent acquisitions.	£180k which is approximately 0.4% of total assets. This benchmark is considered the most appropriate because the parent entity does not trade in its own right holding assets for the benefit of the group as a whole. Materiality for the current year is unchanged from the level that we determined for the year ended 31 December 2016 to reflect the absence of significant change for this entity.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality of £10k for certain areas such as Directors' remuneration and related party transactions.	We determined a lower level of specific materiality of £10k for certain areas such as Directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£10k and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10k and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

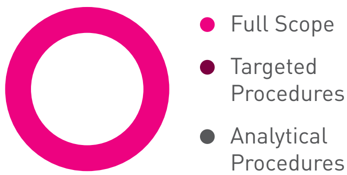
An overview of the scope of our audit

Our group audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

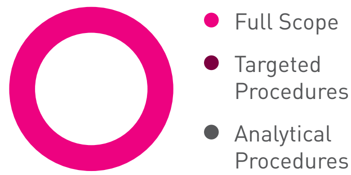
- extension to our scope of our work for the acquisitions in the current year. These comprise several European hostels acquired in two transactions where we have considered the fair values of the assets and liabilities acquired as detailed above and tested operating activity through a combination of targeted and analytical review procedures;
- evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. The group financial statements are a consolidation of the UK operations that have existed all year and the European operations that were acquired during the course of the year. UK operations account for approximately 80% of group operations for the year under review and a full scope audit is performed on these. Targeted and analytical review audit work was performed on other components to group materiality levels by the group audit team;
- recognition that the group is organised into two operating segments: Hostels based in the UK and those based on Europe. Hostel accommodation represents one revenue stream and food and beverage revenue is reported as another stream. We substantively tested a sample of transactions within these streams;
- undertaking substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

This approach, with the exception of the approach to the acquired European subsidiary entities, is consistent with that adopted for the year ended 31 December 2016.

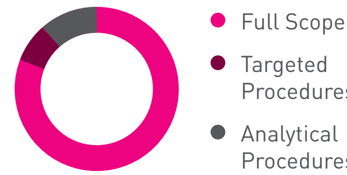
Acquisition Accounting



Leased Assets and Lease Obligations



Risk of fraud in revenue



Other information

The directors are responsible for the other information. The other information comprises the information included in the report and financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Philip Westerman
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
17 April 2018

Consolidated Income Statement

Year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue	2	**10,547**	**7,411**
Cost of sales	3	(1,561)	(1,022)
Gross profit		**8,986**	**6,389**
Administrative expenses	4	(7,520)	(5,242)
Operating profit before exceptional expenses		**1,466**	**1,147**
Exceptional expenses	4	(495)	(152)
Operating profit after exceptional expenses		**971**	**995**
Finance costs	5	(1,833)	(1,463)
Loss before tax		**(862)**	**(468)**
Tax	7	(11)	(43)
Loss for the financial year attributable to owners of the parent company	6	**(873)**	**(511)**
Basic and diluted loss per share	8	**(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.

The revenue and operating result for the period is derived from continuing operations in the United Kingdom and Europe.

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

Consolidated Statement of Comprehensive Income

Year ended December 2017

	2017 £'000	2016 £'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**

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

Consolidated Statement of Financial Position
31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	10	45,971	45,771
Intangible assets	11	1,410	1,212
Goodwill	11	7,301	525
Total non-current assets		**54,682**	**47,508**
Current assets			
Stock		25	23
Trade, Derivative financial instruments and other receivables	12	903	504
Cash and cash equivalents	13	4,504	737
Total current assets		**5,432**	**1,264**
Total assets		**60,114**	**48,772**
Current liabilities			
Loans and overdrafts	15	168	3,489
Finance lease obligations	16	49	34
Trade, Derivative financial instruments and other payables	14	1,625	1,306
Current liabilities		**1,842**	**4,829**
Non-current liabilities			
Bank loans and convertible loan notes	15	17,990	13,906
Finance lease obligations	16	21,179	10,195
Deferred tax liabilities	17	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	18	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**

These financial statements were approved by the Board of Directors and authorised for issue on 17 April 2018.

Signed on behalf of the Board of Directors.

Larry Lipman
Chairman
17 April 2018

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**

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Operating activities			
Cash generated from operations	20	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	13	**4,504**	**737**

Notes to the Consolidated Financial Statements

31 December 2017

1. ACCOUNTING POLICIES FOR THE GROUP AND COMPANY FINANCIAL STATEMENTS

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

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS regulation.

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

The accounting policies have been applied consistently throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2017.

The following is a list of standards that are in issue but are not effective in the year and have not yet been endorsed for use in the EU, together with the effective date of application to the Group.

—IFRS9: Financial Instruments - effective 1 January 2018

—IFRS15: Revenue from contracts with customers – effective 1 January 2018

—IFRS16: Leases - effective 1 January 2019

The adoption of IFRS9 Financial Instruments and IFRS15 Revenues from contracts with customers are not expected to have a material effect on the financial statements. The adoption of IFRS 16: Leases is expected to have a material effect on the financial statements. A new asset will be recognised in property, plant and equipment equal to the present value of future lease obligations formally accounted as operating leases.

Going concern

Although the group reports a loss before tax in the consolidated income statement, it generates significant cash from its operations and expects to continue to do so for the foreseeable future. The group's strategy is to continue to develop and expand the premium hostel offering provided by the group within the UK and through its European acquisitions. The plan, based on the Group's budgets and financial projections to 31 December 2019, expects significant increase in group revenue, building on the recent expansion and management's expertise, and the directors consider this to be achievable. In addition, the group maintains a cash surplus for the foreseeable future.

As a result, the directors believe that the group and company should have adequate resources to continue in operational existence for at least 12 months after the date of approval of these financial statements and continues to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation

The Group's financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2017. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Business combinations

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

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

Notes to the Consolidated Financial Statements
31 December 2017

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
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.

Notes to the Consolidated Financial Statements
31 December 2017

— 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 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.

Notes to the Consolidated Financial Statements
31 December 2017

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.

Dividends

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Borrowings

Borrowings other than bank overdrafts are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method.

Financial instruments issued by the Group comprise convertible loan notes that can either be repaid in cash or be converted to a fixed number of shares at the option of the loan note holder. These financial instruments are recognised in liabilities.

Loan notes with no option to be converted to share capital and that will be repaid in cash are recognised in liabilities.

Loan arrangement fees

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

Stock

Stock is stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price.

Trade receivables

Trade receivables are measured at initial recognition at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Equity

The total equity attributable to the equity holders of the parent comprises the following:

Notes to the Consolidated Financial Statements
31 December 2017

Share Capital
Share capital represents the nominal value of shares issued.

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

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

Revaluation reserve
Revaluation reserves represent the increase in fair value of investment property over the value at which it was previously carried on the balance sheet. Any gain from a revaluation is taken to the revaluation reserve. Where it reverses a previous impairment, the impairment is reversed, but any surplus in excess of the amount of the impairment is added to the revaluation reserve.

Retained earnings
Retained earnings represent undistributed cumulative earnings.

Equity Instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Share based payments
The equity settled share-based payment reserve arises as the expense of issuing share-based payments is recognised over time. The reserve will fall as share options vest and are exercised but the reserve may equally rise or might see any reduction offset, as new potentially dilutive share options are issued. Balances relating to share options that lapse after they vest are transferred to retained fair value of employee services determined by reference to transfer of instruments granted.

The Group has applied the requirements of IFRS 2 Share based payment to share options. The fair value of the share options is determined at the grant date and are expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non-transferability, exercise restrictions and behavioural considerations.

Derivative financial instruments
None of the Group's derivative financial instruments are designated as a hedging instrument. The derivative financial instruments are initially recognised at fair value and subsequently re-measured at fair value at the end of each reporting period. Changes in fair value of the derivatives are taken to the income statement.

Exceptional Items
The Group separately discloses on the face of the Income Statement items of income or expense which are material and their nature and amount would, without separate disclosure, distort the reporting of the underlying business.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Notes to the Consolidated Financial Statements
31 December 2017

The carrying amount of deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised on the basis of tax losses enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Critical accounting judgements and key sources of estimation and uncertainty

The fair value of the Group's property is the main area within the financial information where the Directors have exercised significant estimates.

— The Holland Park lease showed indicators that it could be treated as either a finance or operating lease. The Group's decision to treat it as a finance lease was based on a balanced judgment of relevant factors. Furthermore, the fair value of the Group's finance lease asset is inherently subjective. The methodology applies a discount rate to the future lease payments to approximate to the fair value of the asset. Details of the methodology of property valuations are detailed in note 10.

— Judgements were made around the capitalised leases for Edinburgh and Elephant & Castle. The valuations will remain fixed going forward. The valuation of the leasehold interest was performed by external valuers as set out in note 10. No tax arises on these transactions.

— The Group has identified certain costs as exceptional in nature in that, without separate disclosure, would distort the reporting of the underlying business. This is set out in note 4.

— 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 26.

2. SEGMENTAL ANALYSIS

	2017 £'000	2016 £'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.

Notes to the Consolidated Financial Statements
31 December 2017

3. COST OF SALES

	2017 £'000	2016 £'000
Food and drinks	571	461
Direct room supplies and sales commissions	990	561
	1,561	**1,022**

4. ADMINISTRATIVE EXPENSES

	2017 £'000	2016 £'000
Staff costs (see note 9)	3,018	2,517
Legal and professional fees	778	515
Property costs	761	160
Depreciation & Amortisation	1,682	1,041
Share option expenses	34	34
Other expenses	1,742	1,127
	8,015	**5,394**

Administrative expenses include £495,000 (2016: £152,000) of exceptional expenses. Of this amount £222,000 relates to the property refinancing which occurred in March 2017. The remaining costs include £201,000 in acquisition costs of acquiring the U Hostels and Equity Point Hostels in Europe and £72,000 with regard to intellectual property advice on the Safestay brand. These costs are treated as exceptional and outside the underlying trading of the hostels.

5. FINANCE COSTS

	2017 £'000	2016 £'000
Interest on bank overdrafts and loans	798	727
Amortised loan arrangement fees	73	66
Other interest costs	115	5
Lease finance (note 16)	831	629
Fair value of interest rate swaps	16	36
	1,833	**1,463**

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6. LOSS FOR THE FINANCIAL PERIOD

	2017 £'000	2016 £'000
Loss for the financial period is arrived at after charging:		
Depreciation on owned assets	843	688
Depreciation of assets under finance lease	695	213
Amortisation of intangible assets	161	140
Operating Lease expense	559	–
Auditor's remuneration for audit services	85	55

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

	2017 £'000	2016 £'000
Fees payable to the auditor for the audit of:		
the company's annual accounts	55	25
the subsidiary entities	30	30
	85	**55**
Fees payable to the auditor and its related entities for other services:		
Tax advice services	46	5
Taxation compliance services	25	24
	71	**29**

The audit fees disclosed in 2017 represent the fees payable for the audit for the period ended 31 December 2017 and the non-audit fees are those incurred in the period.

7. TAX

	2017 £'000	2016 £'000
Current tax		
Corporation tax	11	38
Total current tax	11	38
Deferred tax	–	5
Total tax charge	11	43

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

	2017 £'000	2016 £'000
Loss before tax	**(862)**	**(468)**
Tax at the standard UK corporation tax rate of 19.25% (2016: 20.25%)	(166)	(92)
Factors affecting charge for the period		
Non-deductible items and other timing differences	101	130
Depreciation in excess of capital allowances	76	5
Group tax charge	**11**	**143**

Details of deferred tax assets and liabilities are included in note 17.

8. 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.

9. STAFF COSTS

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

	2017 Number	2016 Number
Hostel operation	149	113
Directors	4	3
	153	**116**

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

	2017 £'000	2016 £'000
Wages and salaries	2,729	2,341
Social security costs	274	168
Other employment costs	15	8
Total staff costs	**3,018**	**2,517**

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10. 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.

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11. 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. See also note 26.

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.

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12. TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Trade and other receivables	740	315
Prepayments and accrued income	163	199
	903	**504**

The directors consider that the carrying amount of other receivables approximates to their fair value. All amounts outstanding are within their agreed credit terms.

13. CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Cash and cash equivalents	4,504	737

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

14. TRADE AND OTHER PAYABLES

	2017 £'000	2016 £'000
Trade payables	495	251
Corporation tax	104	84
Social security and other taxes	145	195
Other creditors	182	63
Accruals and deferred income	699	713
	1,625	**1,306**

Trade payables principally comprise amounts outstanding for trade purchases, customer deposits and operating costs.

15. 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**

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16. 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.

The fair value of the group's lease obligations is approximately equal to their carrying amount. The Group's finance leases disclosed above are in sterling.

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17. DEFERRED INCOME TAX

	Deferred tax assets £000	Deferred tax liabilities £000	Total £000
Balance as at 1 January 2016	**102**	**(102)**	**-**
Recognised in the income statement	-	(5)	(5)
Balance at 31 December 2016	**102**	**(107)**	**(5)**
Recognised in the income statement	(102)	102	–
Recognised on acquisition	–	(100)	(100)
Balance at 31 December 2017	**–**	**(105)**	**(105)**

Deferred tax assets relate to tax losses available for use against profits of future periods. Deferred tax liabilities relate primarily to accelerated capital allowances.

18. 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

At the 31 December 2017, the ordinary shares rank pari passu. There are no changes to the voting rights of the ordinary shares since the balance sheet date.

19. SHARE BASED PAYMENTS

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

			Number of share options outstanding	
Grant date	Exercise price per share (pence)	Period within which options are exercisable	2017	2016
2 May 2014	50p	2/5/2017 to 1/5/2024	1,057,389	1,057,389
14 July 2017	50p	14/7/2019 to 13/7/2026	750,000	–
			1,807,389	**1,057,389**

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The share options are exercisable at a price equal to the average quoted market price of the company's shares on the date of grant. The vesting period is 3 years from the date of grant and the share price must be a minimum of 60p. The options are forfeited if the employee leaves the Group before the options vest. Details of these share options are summarised in the table below.

	2017		2016	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Brought forward 1 January	1,057,389	51p	1,189,389	51p
Issued in the period	750,000	50p	–	–
Forfeited in the period	–	–	(132,000)	56p
Outstanding at 31 December	**1,807,389**	**50p**	**1,057,389**	**50p**
Exercisable at end of the period	**1,057,389**	**51p**	**nil**	**nil**

No options were exercised in the period.

A share-based payment charge was calculated using the Black Scholes model to calculate the fair value of the share options. The charge of £34,000 (2016: £34,000) is included with administrative expenses.

The inputs are as follows:

	2017	2016
Closing price of Safestay Plc	51.00p	45.50p
Weighted average share price	50.00p	50.00p
Weighted average exercise price	60.00p	60.00p
Expected volatility	30.00%	30.00%
Expected life	7.00 years	7.34 years
Risk free rate	0.25%	0.25%
Expected dividend yield	1.00%	1.00%

The expected volatility percentage was derived from 12 and 3 month quoted share prices to 21 March 2018.

20. NOTES TO THE CASH FLOW STATEMENT

	2017 £'000	2016 £'000
Loss before tax	(862)	(468)
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangible assets	1,699	1,041
Finance cost	1,833	1,361
Share based payment charge	34	34
Exchange movements	(147)	–
Changes in working capital:		
Decrease/(Increase) in inventory	2	(4)
(Increase)/decrease in trade and other receivables	(259)	205
(Decrease)/increase in trade and other payables	(389)	139
Net cash from operating activities	**1,911**	**2,308**

Notes to the Consolidated Financial Statements
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21. 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.

22. RELATED PARTY TRANSACTIONS

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

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

	2017 £'000	2016 £'000
Directors' emoluments	215	245
Benefits in kind	10	–
Share based payment charges	34	34
	259	**279**

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

Details of directors share options is provided in the Directors' remuneration report.

At the 31 December 2017, the group owed Safeland plc £1,400 (2016: £nil). Safeland plc is related to Safestay plc by way of a common director.

23. FINANCIAL INSTRUMENTS

Capital management

Total Capital is calculated as equity, as shown in the consolidated statement of financial position, plus debt.

The Board's policy is to maintain a strong capital base with a view to underpinning investor, creditor and market confidence and sustaining the future development of the business. Capital consists of ordinary shares, other capital reserves and retained earnings. To this end, the Board monitors the Group's performance at both a corporate and individual asset level and sets internal guidelines for interest cover and gearing.

The executive directors monitor the Group's current and projected financial position against these guidelines. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

	2017 £'000	2016 £'000
Share capital	342	342
Share premium account	14,504	14,504
Merger reserve	1,772	1,772
Retained earnings	(1,929)	(1,056)
Share based payment reserve	91	57
Revaluation reserve	4,218	4,218
Bank loans (2016 also includes convertible loans)	18,505	17,395
Finance lease obligations	21,228	10,229

The Group has no externally imposed capital requirements.

Notes to the Consolidated Financial Statements
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Significant Accounting Policies

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

Categories of financial instruments

At 31 December 2017, the Group held the following financial assets:

	2017 £'000	2016 £'000
Trade and other receivables	903	292
Derivative financial instruments	–	13
Cash and cash equivalents	4,504	737
	5,407	**1,042**

At 31 December 2017, the Group held the following financial liabilities:

	2017 £'000	2016 £'000
Bank and convertible loans	18,505	17,395
Finance leases	21,228	10,229
Trade and other payables	809	464
Derivative financial instruments	13	45
	40,555	**28,133**

Of the above financial liabilities, £17,000 (2016: £45,000) relates to financial liabilities held at fair value through profit or loss and the remainder are financial liabilities measured at amortised cost.

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

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Financial Liability Movements

	Long term borrowings £'000	Short term borrowings £'000	Lease liabilities £'000	Total £'000
At 1 January 2017	**13,906**	**3,489**	**10,229**	**27,624**
Cash flows				
Repayment of bank loans	(14,111)	(3,489)		(17,600)
Repayment of lease liabilities			(960)	(960)
Proceeds received	18,400		11,420	29,820
Acquired on Business combination	105			105
Loan and refinancing fees			(375)	(375)
Non-cash				
Reclassification	(168)	168		-
Imputed interest and amortisation of fees	(37)		914	877
At 31 December 2017	**17,990**	**168**	**21,228**	**39,386**
At 1 January 2016	17,391	693	10,261	28,345
Cash flows				
Repayment of bank loans		(755)		(755)
Repayment of lease liabilities			(660)	(660)
Non-cash				
Reclassification	(3,551)	3,551		-
Imputed interest and amortisation of fees	66		628	694
At 31 December 2016	**13,906**	**3,489**	**10,229**	**27,624**

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Financial risk management

The Group's financial instruments comprise bank loans and overdrafts, finance leases, cash and cash equivalents, available-for-sale investments, derivative financial instruments and various items within trade and other receivables and payables that arise directly from its operations.

The main risks arising from the financial instruments are credit risk, interest rate risk and liquidity risk. The board reviews and agrees policies for managing these risks which are detailed below.

Credit risk

The principal credit risk arises from bookings where the customer does not show up and the beds cannot be resold. The terms and conditions of any future booking received in advance requires the payment of a 10% deposit which is non-refundable. This policy ensures that the risk of customers not fulfilling their booking is reduced.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings at variable rate expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

Liquidity risk

All of the Group's long-term bank borrowings are secured on the Group's property portfolio. If the value of the portfolio were to fall significantly, the Group risk breaching borrowing covenants. The board regularly review the Group's gearing levels, cash flow projections and associated headroom and ensure that excess banking facilities are available for future use.

Interest rate risk management

The Group is exposed to interest rate risk on its borrowings, which are at floating interest rates of between 3.00% and 3.25% above the London inter-bank offer rate (LIBOR) shown in the table below. The Group carefully manages its interest rate risk on an ongoing basis. In the period to 31 December 2015, the Group took out two interest rate instruments to manage its interest rate risk. Further details of these swaps can be found in note 24 to these financial statements. The directors currently believe that interest rate risk is at an acceptable level.

The interest rates for the Group's borrowings at 31 December 2017 are set out in the table below. All interest rates are at variable rate, unless stated, and the rates disclosed include margins.

	Interest rate %	Floating/ capped £'000	2017 Borrowing £'000	2016 Borrowings £'000
	2.97	18,400	18,400	–
	3.04	–	–	7,969
	3.29	–	–	5,825
	6.00	–	–	2,800
	5.00	–	–	1,000
		18,400	**18,400**	**17,594**

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Interest rate sensitivity

The sensitivity analysis in the paragraph below has been determined based on the exposure to interest rates for all borrowings subject to interest charges at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the statement of financial position date was outstanding for the whole year. A 0.25% increase or decrease is used when reporting interest rate risk internally to key management and represents management's assessment of the reasonably possible change in interest rates.

Based on bank borrowings, at 31 December 2017, if interest rates were 0.25% higher or (lower) and all other variables were held constant, the Group's net profit would increase or decrease by £46,000 (2016: £35,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Credit risk management

Credit risk refers to the risk that counterparties will default on its contractual obligations resulting in financial loss to the Group. Customers' bookings received in advance are made with a 10% non-refundable deposit to reduce the risk of lost revenue from a cancellation. The Group is not exposed to any other material credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors. The board manages liquidity risk by regularly reviewing the Group's gearing levels, cash flow projections and associated headroom and ensuring that excess banking facilities are available for future use. All of the Group's long-term bank borrowings are secured on the Group's property portfolio.

Liquidity and interest risk analysis

The following tables detail the Group's remaining contractual maturity for its all financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay including interest.

	Less than 1 year £'000	1–2 years £'000	3–5 years £'000	Total £'000
Variable interest rate borrowings	168	168	18,064	18,400
Finance Leases	960	960	2,800	4,720
Derivative financial instruments	13	–	–	13
	1,141	**1,128**	**20,864**	**23,133**

Movement in derivative financial instruments:

	Less than 1 year £'000	1–2 years £'000	3–5 years £'000	Total £'000
At 1 January	13	(45)	20	(36)
Changes in fair values	(13)	28	(7)	(9)
At 31 December	**–**	**(17)**	**13**	**(45)**

All of the above loans are at a set interest rate above the Bank of England Base rate except for the financial borrowings which are part covered by an interest rate swap or an interest rate cap. The weighted average effective interest rate at 31 December 2017 was 3.7%.

In the year to 31 December 2017, all of the Group's financial assets are non-interest bearing, except cash, were the majority are non-interest bearing of £4.5 million (2016: £0.7 million). All non-derivative financial assets are due within one year.

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Fair value measurements recognised in the statement of financial position

IFRS13 categorises financial assets and liabilities as being valued in 3 hierarchical levels:

—Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

—Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

—Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 4 £'000
Financial liabilities				
Derivative financial instruments liabilities	–	(17)	–	(17)
	–	**(17)**	**–**	**(17)**
Net fair value	**–**	**(17)**	**–**	**(17)**

As at the year end, the fair values of the Group's outstanding derivative financial instruments, have been estimated by Coutts and Co by calculating the present value of future cash flow, using appropriate market discount rates, representing Level 2 fair value measurements as defined by IFRS 13, 'Fair Value Measurements.'

There were no transfers between levels in the period.

24. FAIR VALUES OF NON-FINANCIAL ASSETS

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 4 £'000
2017				
Freehold Property	–	–	2,422	2,422
Leasehold Property	–	–	42,686	42,686
	–	**–**	**45,108**	**45,108**
2016				
Freehold Property	–	–	32,982	32,982
Leasehold Property	–	–	12,789	12,789
	–	**–**	**45,771**	**45,771**

The group's freehold and leasehold property asset is estimated based on appraisals performed by independent, professionally qualified property valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation process and fair value changes are reviewed by the directors at each reporting date.

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25. DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2017, the Group had two derivative financial instruments as detailed below.

— The LIBOR rate on a notional loan of £1.225 million was swapped to a fixed rate of 2.07% until 6 May 2019. The fair value of this financial instrument at 31 December 2017 was a liability of £17,000 (2016: £45,000).

— The LIBOR rate on a notional loan of £1.225 million was capped at 3.00% until 6 May 2019. The fair value of this financial instrument at 31 December 2017 was £nil (2016: £13,000 asset).

Neither of these financial instruments has been designated as qualifying for hedge accounting and consequently the fair value loss for the period has been taken to the income statement and disclosed within finance costs.

26. BUSINESS COMBINATIONS

See accounting policy in note 1.

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:

	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**

Notes to the Consolidated Financial Statements
31 December 2017

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. Of the goodwill recognised £4.5 million is expected to be deductible for taxation purposes.

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 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 £'000	Equity Point £'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.

27. OPERATING LEASES

The Group's leases are all in Europe and provide for periodic rent reviews to open market value and enjoy statutory rights to renewal on expiry. Generally, they do not contain conditions to rent escalation, rights to purchase, concessions or other material provision of an unusual mature.

Total future minimum lease rental payments under non-cancellable leases as follows:

	2017 £'000	2016 £'000
Due after one year	1,685	–
Between one and five years	6,318	–
After five years	10,479	–

Company Statement of Financial Position

31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	3	12,952	12,528
Investments	4	7,756	2,593
Total non-current assets		**20,708**	**15,121**
Current assets			
Trade and other receivables	5	22,389	18,935
Cash at bank and in hand		854	-
Total current assets		**23,243**	**18,935**
Total Assets		**43,951**	**34,056**
Current Liabilities			
Loans and overdrafts	7	168	2,899
Finance lease obligations	8	36	34
Trade and other payables	6	5,265	4,904
Current Liabilities		**5,469**	**7,837**
Non-current liabilities			
Bank loans and convertible loan notes	7	17,885	2,760
Lease obligations	8	10,159	10,196
Total non-current liabilities		**28,044**	**12,956**
Total liabilities		**33,513**	**20,793**
Net assets		**10,438**	**13,263**
Equity			
Share capital	9	342	342
Share premium account		14,504	14,504
Merger reserve		1,772	1,772
Share based payment reserve		91	57
Profit and loss account		(6,271)	(3,412)
Equity attributable to the owners of the parent company		**10,438**	**13,263**

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The company's loss for the period was £2,859,000 (2016: £2,155,000).

These financial statements were approved by the Board of Directors and authorised for issue on 17 April 2018.

Signed on behalf of the Board of Directors

Larry Lipman
Chairman
17 April 2018

Company Statement of Changes in Equity

31 December 2017

	Share Capital £'000	Share premium account £'000	Merger Reserve £'000	Share based payment reserve £'000	Profit and loss account £'000	Total equity £'000
Balance as at 1 January 2016	342	14,504	1,772	23	(1,257)	15,384
Comprehensive income						
Loss for the year	–	–	–	–	(2,155)	(2,155)
Total comprehensive loss	**–**	**–**	**–**	**–**	**(2,155)**	**(2,155)**
Transactions with owners						
Share based payment charge for the period	–	–	–	34	–	34
Balance at 31 December 2016	**342**	**14,504**	**1,772**	**57**	**(3,412)**	**13,263**
Comprehensive income						
Loss for the year	–	–	–	–	(2,859)	(2,859)
Total comprehensive income	**–**	**–**	**–**	**–**	**(2,859)**	**(2,859)**
Transactions with owners						
Share based payment charge for the period	–	–	–	34	–	34
Balance at 31 December 2017	**342**	**14,504**	**1,772**	**91**	**(6,271)**	**10,438**

Company Statement of Cash Flows

31 December 2017

	2017 £'000	2016 £'000
Loss before tax	(2,859)	(2,155)
Adjustments for:		
Finance cost	1,211	924
Share based payment charge	34	34
Depreciation	295	271
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(6)	46
(Decrease)/increase in trade and other payables	(3,348)	8
Net cash used in operating activities	**(4,673)**	**(872)**
Investing activities		
Investment in subsidiaries	(5,163)	–
(Loans to)/received from subsidiaries	(3,024)	1,954
Purchase of tangible fixed assets	(719)	(77)
Net cash (outflow) / inflow from investing activities	**(8,906)**	**1,877**
Financing activities		
Proceeds from new loans	18,400	–
Loan repayments	(2,760)	(95)
Lease capital repaid	–	(660)
Interest paid	(1,211)	(295)
Net cash generated / (outflow) from financing activities	**14,429**	**(1,050)**
Cash and cash equivalents at beginning of year	**4**	**41**
Net decrease in cash and cash equivalents	**850**	**(45)**
Cash and cash equivalents at end of year	**854**	**(4)**

Notes to the Company Financial Statements
31 December 2017

1. LOSS FOR THE FINANCIAL YEAR

The company has taken advantage of section 408 (3) of the Companies Act 2006 and consequently a profit and loss account for the company alone has not been presented. The company's loss for the period was £2,859,000 (2016: £2,155,000).

2. STAFF COSTS

	2017	2016
The company's average monthly number of employees (including directors) during the period was:		
Administration	6	3
Directors	3	3
	9	**6**

	2017 £'000	2016 £'000
The costs incurred in respect of these employees (including directors) during the period were:		
Wages and salaries	436	347
Social security costs	48	30
Other employment costs	2	5
Total staff costs	**486**	**382**

3. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Investment in property £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 1 January 2016	12,793	–	12,793
Additions	–	77	77
As at 31 December 2016	**12,793**	**77**	**12,870**
Additions	655	64	719
At 31 December 2017	**13,448**	**141**	**13,589**
Depreciation			
At 1 January 2016	71	–	71
Charge for the year	256	15	271
At 31 December 2016	**327**	**15**	**342**
Charge for the year	264	31	295
At 31 December 2017	**591**	**46**	**637**
Net book value			
At 31 December 2017	**12,857**	**95**	**12,952**
At 31 December 2016	**12,466**	**62**	**12,528**

Notes to the Company Financial Statements
31 December 2017

4. FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2016	2,593
Additions	–
As at 31 December 2016	**2,593**
Additions	5,163
At 31 December 2017	**7,756**
Net book value	
At 31 December 2017	**7,756**
At 31 December 2016	**2,593**

Shares in subsidiary undertakings
The subsidiaries at 31 December 2017 and their principal activities are as follows:

DIRECT OWNERSHIP

WXZYZ2 Limited	Investment activities (dormant)	
Safestay (York) Limited	Property owning activities	
Safestay (Edinburgh) Limited	Property owning activities	
Safestay (Edinburgh) Hostel Limited	Hostel operation	
Safestay (HP) Limited	Hostel operation	
Safestay Hostels Madrid SL	Holding company (Spain)	Calle Sagasta 22, Madrid 28004
SS Barcelona 1 SL	Dormant (Spain)	Sheet Vigatans 5-9, Barcelona 08003
SS Barcelona 2 SL	Dormant (Spain)	Sheet Vigatans 5-9, Barcelona 08003

INDIRECT OWNERSHIP

Safestay (Elephant and Castle) Limited	Hostel operation	
Safestay (York) Hostel Ltd	Hostel operation	
U Hostels Albergues Juveniles S.L	Hostel operation (Spain)	Calle Sagasta 22, Madrid 28004
Safestay España SLU	Hostel operation (Spain)	Sheet Vigatans 5-9, Barcelona 08003
Equity Point Lisboa Unipessoal Lda.	Hostel operation (Portugal)	Travessa do Fala-So9, Lisbon 1250-109
Equity Point Prague, s.r.o	Hostel operation (Czech Republic)	Ostrovni 131/15, Prague, Nove Mesto 110 00
Safestay France SAS	Hostel operation (France)	11 Rue de Cambrai, CS 90042, Paris
MREF II White Property Limited (Jersey)	Property Owning activities	44 Esplanade, St Helier, Jersey, JE4 9WG
MREF II White GP Limited (Jersey)	Holding Company (dormant)	44 Esplanade, St Helier, Jersey, JE4 9WG
MREF II White Limited Partnership (Jersey)	Holding Company (dormant)	44 Esplanade, St Helier, Jersey, JE4 9WG
MREF II White Holdings Limited (Jersey)	Holding Company (dormant)	44 Esplanade, St Helier, Jersey, JE4 9WG
U Places Spain S.L	Dormant (Spain)	Calle Sagasta 22, Madrid 28004

All subsidiaries are incorporated in Great Britain and registered in England and Wales unless otherwise stated. All subsidiaries are 100% owned.

Notes to the Company Financial Statements
31 December 2017

5. TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Due within one year:		
Amounts due from subsidiary undertakings	22,231	18,782
Other debtors	158	94
Other receivables and prepayments	–	59
	22,389	**18,935**

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

6. TRADE AND OTHER PAYABLES

	2017 £'000	2016 £'000
Trade payables	142	77
Amounts due to subsidiary undertakings	5,123	4,698
Other payables	–	40
Accruals and deferred income	–	89
	5,265	**4,904**

7. BANK AND OTHER FINANCE LOANS

	2017 £'000	2016 £'000
Bank Loan	18,400	1,875
Convertible loan notes	–	3,800
Loan arrangement fees	(347)	(20)
Bank overdraft	–	4
	18,053	**5,659**

The loans are secured on properties owned by the Group.

The bank and convertible loans are repayable as follows:

	2017 £'000	2016 £'000
In one year	168	2,899
Between one and two years	168	1,095
Between two and five years	17,717	1,665
	18,053	**5,659**

Notes to the Company Financial Statements

31 December 2017

8. OBLIGATIONS UNDER FINANCE LEASES

	Minimum Lease Payments	
	2017 £'000	2016 £'000
Amounts payable under finance leases:		
Within one year	660	660
In the second to fifth years inclusive	2,640	2,640
After five years	27,720	28,380
Less future finance charges	(20,825)	(21,451)
Present value of future lease obligations	**10,195**	**10,229**

	Preset Values of Minimum Lease Payments	
	2017 £'000	2016 £'000
Amounts payable under finance leases:		
Within one year	36	34
In the second to fifth years inclusive	168	157
After five years	9,991	10,038
Present value of future lease obligations	**10,195**	**10,229**

The Company has treated the Holland Park lease as a finance lease on the basis that the present value of the lease payments constitutes the substantial part of a theoretical freehold valuation.

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

The fair value of the Company's lease obligations is approximately equal to their carrying amount. The Company's finance leases disclosed above are in sterling.

9. SHARE CAPITAL

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

Notes to the Company Financial Statements
31 December 2017

10. SHARE BASED PAYMENTS

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

			Number of share options outstanding	
Grant date	Exercise price per share (pence)	Period within which options are exercisable	2017	2016
2 May 2014	50p	2/5/2017 to 1/5/2024	1,057,389	1,057,389
14 July 2017	50p	14/7/2019 to 13/7/2026	750,000	–
			1,807,389	**1,057,389**

The share options are exercisable at a price equal to the average quoted market price of the company's shares on the date of grant. The vesting period is 3 years from the date of grant and the share price must be a minimum of 60p. The options are forfeited if the employee leaves the Group before the options vest. Details of these share options are summarised in the table below:

	2017		2016	
Grant date	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Brought forward 1 January	1,057,389	51p	1,189,389	51p
Issued in the period	750,000	50p	–	–
Forfeited in the period	–	–	(132,000)	56p
Outstanding at 31 December	**1,807,389**	**50p**	**1,057,389**	**50p**
Exercisable at end of the period	**1,057,389**	**51p**	**nil**	**nil**

No options were exercised in the period.

A share-based payment charge was calculated using the Black Scholes model to calculate the fair value of the share options. The charge of £34,000 (2016: £34,000) is included with administrative expenses.

	2017	2016
Closing price of Safestay Plc	51.00p	45.50p
Weighted average share price	50.00p	50.00p
Weighted average exercise price	60.00p	60.00p
Expected volatility	30.00%	30.00%
Expected life	7.00 years	7.34 years
Risk free rate	0.25%	0.25%
Expected dividend yield	1.00%	1.00%

The expected volatility percentage was derived from 12 and 3 month quoted share prices to 21 March 2018.

Notes to the Company Financial Statements
31 December 2017

11. RELATED PARTY TRANSACTIONS

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

	2017 £'000	2016 £'000
Directors' emoluments including employers national insurance	225	245
Share based payments	34	34
	259	**279**

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

	2017 £'000	2016 £'000
Amounts due from subsidiary companies	22,231	18,782
Amounts due to subsidiary companies	5,123	4,698

At the 31 December 2017, the company owed Safeland plc £1,400 (2016: £nil). Safeland plc is related to Safestay plc by way of a common director.

The company incurred transactions with one subsidiary entity during the period, MREF II limited for the rental of one property. Value of these transactions in the year were £0.13 million (2016: 0.60 million)

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