

Strategic Report

Safestay plc

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

Final Results

Safestay (AIM: SSTY), the owner and operator of an international brand of contemporary hostels, is pleased to announce its Final Results for the 12 months to 31 December 2023.

2023 Financial highlights

- Total revenues, including discontinued operations, increased by 18% to £22.5million (2022: £19.1 million)
- Adjusted EBITDA increased by 15% to £6.8 million (2022: £5.9 million)
- Net loss of £1.3 million (2022: Loss of £0.1 million) increased by the £1.0 million Bratislava impairment
- Loss per share of 2.04p (2022: Loss of 0.23 p)
- Available cash balances of £2.0 million as at 31 December 2023 (2022: £5.2 million) reduced by the acquisition of a freehold property in Edinburgh for £4.3 million
- NAV per share of 50p as at 31 December 2023 (2022: 46p)

2023 Operational highlights

- Occupancy increased to 71.4% (2022: 63%) leaving room for further growth
- Average bed rate increased to £23.74 (2022: £23.63) in spite of a challenging backdrop
- Recovery in group bookings with new office set up in Warsaw to focus solely on this segment
- Significant investment made with 3% of revenues spent on refurbishment across the portfolio
- Launch of new website in July 2023 to drive direct sales
- Completed the acquisition of Edinburgh Hostel in October for £4.3 million

Outlook

- Forward bookings as at January 1st are significantly up on last year at £3.7 million.

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- (2023: £1.9 million), with forward bookings from large school and college groups of £2.7 million as at January 1st 2024 (£0.9 million in 2023)
- Significant opportunity to increase group and direct bookings to drive occupancy rates and mix
- Good start to 2024 with the addition of two Spanish hostels, and one UK hostel to our network: the acquisition of the Safestay Cordoba Mezquita Catedral hostel in Andalusia and the first management contract for Safestay Calpe Seafront, located on the Costa Blanca. The UK hostel acquired is located in Brighton. Both Spanish hostels will be ready for the summer trading season. Brighton will undergo a capital refurbishment project, with trading expected to start in 2025.
- Successful and optimal refinancing of borrowings increases the Group's financial flexibility

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

“Our collection of premium hostels continues to resonate with our core client base and our popularity and appeal is growing, resulting in us selling 848,633 bed nights in 2023. I am delighted to see that our pipeline is as strong as ever, with forward bookings up significantly at the beginning of the year. We are in a strong position to grow the business organically and there is a huge opportunity to grow our group bookings. Acquisitions will also play their part in driving growth. We have three new hostels due to come on stream this summer and I have no doubt that they will prove to be fantastic additions to our portfolio.”

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Chairman's Statement

I am delighted to report that over the course of 2023 we were able to build on the recovery that we saw in 2022 and have delivered impressive growth in spite of a difficult economic environment. Group revenues (including discontinued operations, please refer to Chief Financial Officer's report for more information) for the period were up 18% to £22.5 million (2022: £19.1 million). Occupancy levels increased to 71.4% (2022: 63%) which is a very pleasing result. However, this still remains below historic levels, leaving scope for further improvement. Average bed rate has increased and now stands at £23.74 (2022: £23.63). This has been achieved in spite of macroeconomic headwinds and reflects a material improvement in pricing on pre-pandemic levels.

Our portfolio of 16 hostels and hotels at the 31st December 2023 – soon to be 20 following the acquisitions of Edinburgh, Brighton, Cordoba and the management contract in Calpe – located in key cities across the UK and Europe and our value conscious proposition continues to attract a core client base of young travellers and families, and increasingly business travellers, who are drawn to our premium hostels in city centre locations.

In October 2023, we announced the purchase of a freehold property situated in the heart of Edinburgh for £4.3 million. This property is an extremely attractive and spacious building, positioned in the heart of Edinburgh in the middle of its tourist hotspots. It is set to open ahead of the crucial summer season this year. With 225 beds available in a range of room configurations, we are delighted to be able to offer accommodation in this incredible city once again. Edinburgh remains a top destination for countless young travellers and we are confident our new property will have huge appeal for this group.

In January of this year, we were able to successfully refinance our debt, placing all of our existing borrowings into a single term loan on favourable terms (refer to note

27 for more information) as well as adding a new £2.5 million Revolving Credit Facility (further information of this can be found in the Chief Financial Officer's review). This increases the Group's financial flexibility and will enable us to make additional investment into the growth of our business when the right opportunities arise. We have additionally sourced finance to aid the purchase of the Brighton freehold property. More details can be found in note 27.

The year has started well and our pipeline is strong, with forward bookings as at January 1st 2024 significantly ahead of the level of the previous year. There is headroom to increase occupancy rates and we expect to be able to expand our group and direct bookings in 2024 as we reap the benefits of our investments in marketing and the specialist sales team in Warsaw. I am confident that we are in a strong position to deliver another solid year of growth.

Operational Review

This has been a strong year for the Group, building on the recovery that we delivered in 2022 following the pandemic. International tourism has returned and we are well-positioned to benefit from this recovery as well as a shift to value-conscious travel. We are seeing a diversifying mix of customers. Young travellers and groups comprise the core of our business and we are seeing a growing number of families and business travellers who are attracted to our proposition.

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At the year-end, we operated out of 16 hostels and hotels across 14 Cities in both Europe and the UK, offering a total of 3,255 beds at an average cost of £23.74 per night in 2023. Overall, we delivered 848,633 bed nights in 2023. Soon we will boast 20 sites with 6 sites in the UK following the acquisitions of freehold properties in Brighton and Edinburgh, and 5 sites in Spain, including our new Cordoba site and the management contract for Calpe.

Our hostels delivered a strong performance in all geographies in 2023. Our UK sites performed well accounting for 37% of sales. London Elephant & Castle and London Kensington Holland Park both performed well in the UK with strong performances overseas from Athens, the Barcelona hostels and Pisa.

In August, we established a new office in Warsaw, employing five staff and intended to focus exclusively on driving group bookings from colleges, schools and universities. Pre-pandemic, this target group accounted for 38% of room revenue compared to 13% in 2023 and we believe there is a significant opportunity to build this back up to historic levels. We are already seeing the results of this investment with forward bookings for groups up materially at the beginning of the year at £2.7 million, against £0.9 million in 2023. Overall, total forward bookings are up twofold to £3.7 million.

We have invested in marketing and improved our online platforms as well as our social media presence. We upgraded our website to make it more user-friendly and effective in terms of showcasing sites and enabling seamless bookings in single or multiple hostels. Since we launched the website in July, we have attracted 2,215 new members to the site.

We are determined to maintain our premium offer and keep it relevant and attractive to our core client base and this requires investment. This year we allocated a total of 3% of revenues to refurbishing existing sites. Investments have been various and varied, including the roll-out of self-check in kiosks at our Elephant and Castle site.

In September 2023, the Board took the decision to look for a buyer for our hostel in Vienna. Following this decision, the Directors reclassified the Vienna hostel as a discontinued operation and the assets and liabilities were reclassified to held-for-sale.

In October 2023, we announced the purchase of a freehold property situated in the heart of Edinburgh for £4.3 million, which completed in December 2023. We are investing £1.2 million in the preparation and refurbishment of the Edinburgh site and look forward to seeing it in operation ahead of the crucial summer season.

The Board

In November 2022, Peter Zielke was appointed as Chief Operating Officer and took up the role on 1 February 2023. Peter is a highly experienced operator with extensive industry experience. In April 2023, Sarah Whiddett was appointed as a Non-Executive Director and has strong marketing leadership experience.

Stephen Moss announced his resignation as Chair of both the Remuneration and Audit & Risk Committee on 29 March 2024. I would like to thank Stephen, on behalf of the Board, for his

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invaluable contribution to the Group over the last 10 years. Following Stephen's resignation, Michael Hirst was appointed as Chair of both the Remuneration Committee and Audit & Risk Committee.

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Outlook

The pipeline for 2024 is extremely promising with forward sales at the beginning of the year significantly ahead of the level of the previous year. We are well-positioned in a challenging market and believe that there is an opportunity to drive occupancy rates and product mix through an increase in group and direct bookings. The Edinburgh site will make its first contribution this year and we are confident that it will be a great success. The acquisition of the Cordoba site further enhances our Spanish hostel offering and consolidates on our strong European portfolio. Our recent debt restructuring and resulting financial flexibility leave us in a strong position to take advantage of further opportunities should they arise. Further, with the addition of our first management contract at Calpe Seafront, we are aiming to start adding asset-light hostels to sit along side our expanding freehold and leasehold portfolio. Finally, the acquisition of the Brighton site will further establish Safestay as a key player in the UK hostel market.

Larry Lipman
Chairman
6 June 2024

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Business Model

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

- **Development:** Identifying potential properties in target cities, acquiring the leasehold or freehold in the properties and their contemporary, stylish refurbishment to fit with the brand
- **Operational:** Deploying a strong hostel expertise and cost control to achieve best in class operating margins
- **Brand:** Building the Safestay brand value
- **Scale:** Building the platform to efficiently add further hostels to the Group
- **People:** Investing in the right people where automation cannot be adopted
- **Guest experience:** Providing a comfortable, safe and enjoyable stay in our hostels for a reasonable price with a focus on customer satisfaction, a strong community experience and repeat stays.

Our Strategy

Openings and Opportunities

This year saw the opening of our new Commercial Hub in Warsaw. Operating in lockstep with our London-based headquarters, this new office is home to a diverse, multilingual team, working across sales, marketing and revenue management functions. The Commercial Hub will provide great opportunities to increase sales in low season, as well as our food and beverage offerings.

To complement the skills of our dedicated revenue management team, we also introduced an AI-powered yielding system that monitors and updates prices dynamically, across all bed categories. Prices are demand-driven and reviewed automatically in two-minute intervals.

Elevating experiences

Increasing occupancy and stay durations relies on delivering consistently superior experiences, and there's been a firm focus on customer sentiment this year. The re-introduction of TrustYou – an intelligent review management platform that consolidates guest feedback from across platforms into a single score – has enabled us to more easily harness, understand and act upon customer feedback.

We have also undergone a brand refresh, to reflect the continually evolving expectations of the travel and hospitality sector. This has been successfully rolled out across all our digital and print media, including our new-and-improved website. Here, the addition of an integrated booking engine has elevated the customer experience, reduced our reliance on online travel agents, and increased our share of valuable direct bookings.

Brand Awareness

2023 marked a significant step in refreshing the Safestay brand. As part of wider brand refresh, this year saw the launch of our new website, with enhanced booking engine functionality. Website searches converted into bookings at a rate of 11.65% (up from 8.65% in 2022), with a clear positive trend following the website relaunch in August 2023. Across the year, a strong 31.8% of bed nights

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were booked through direct and non-commissionable channels, and we expect this trajectory to continue trending upwards as a result of our ongoing digital investments.

Broadening our reach

Digital campaigns have centred around increasing our Google presence, and our enhanced partnership with Triptease – an innovative data-driven marketing platform – has helped boost our metasearch, paid search and retargeting results. In 2023, metasearch delivered 15% of our website bookings, with a Return on Ad Spend of 23.6x – a big jump from 17.3x in 2022. These initiatives will be further complemented by a new SEO programme, which we kicked off in March 2024.

We have also partnered with a new email marketing platform, GetResponse, to nurture our customer base, boost conversions and optimise marketing based on actionable insights.

A global picture

Our core markets remain the UK and Spain, with overnight stays improving by 20% and 26% respectively. However, our shift towards a multilingual digital marketing approach is already making headway in wider markets, with arrivals from France up by 26%, and Italy increasing by 28%. We continue to reach further afield too, cementing a strong following in South America. Overnight stays from here rose by 32%, while guest nights booked from Australia almost doubled, marking an increase of 81.3%.

Setting Foundations for the Future

With the opening of the Commercial Hub in Warsaw, we are well placed to consolidate our position at the leading edge of the European hostel market. The office is a one-stop shop for revenue management, sales and marketing, as well as critical HR functions. Five of our key countries now have local phone numbers to the Hub's call centre, and we can communicate effectively with guests, booker and hostel teams in eight different languages.

Since the Commercial Hub began operations, we've seen the daily sales conversion rate increase by 23.4%. This creates a strong business pipeline as we move towards becoming less reliant on a short-lead booking model.

Fostering talent for the long term

Our Safestay teams remain at the heart of the business, and this year saw the introduction of a number of new initiatives to foster talent, boost retention and improve staff engagement. Our Employee of the Quarter awards have been integrated into our rewards programme, and we also launched 'Be Our Guest', whereby staff enjoy complimentary stays in our properties, with discounts for our team members' friends and families.

We are continuing to build on these activities with a new intranet launching this year. Centralised policies and announcements will make it easier to access consistent, clear information, while opportunities for interaction and feedback will help boost engagement. We are also partnering with

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Mapal, an online training platform, that will host customer service modules and statutory health and safety sessions, in seven different languages – with additional translation functionality as required.

Unlocking digital experiences

Along with boosting our share of direct bookings, the new website gives our guests the option of pre-arrival online check-in, delivering the seamless experiences customers now expect across travel touchpoints. Meanwhile, the addition of check-in kiosks within hostels marks the start of a fully automated experience. This is currently in its trial phase at our London Elephant & Castle property, with the aspiration for keys to be delivered direct to guests' mobile devices. Launch of this functionality is expected in our new Edinburgh Cowgate hostel, opening summer 2024.

This will be the first property in the Safestay portfolio to operate without a reception desk, freeing up staff to focus on key customer service moments and tailored support. With searches on mobile devices outranking desktops by 2:1, these initiatives will underpin our mobile strategy moving forwards, and ensure we're meeting our guests on their devices of choice.

Cost Control

Operating in an inflationary landscape meant navigating wage increases in excess of 15% in some markets. Dynamic yield management played a strong part in mitigating cost pressures, as did the introduction of a number of HR and people-focused initiatives. A central, Group-wide scheduling and HR system has delivered closer payroll control, and enhanced staff engagement at the same time. A new invoicing system, Contina Document Capture, streamlined cost control activities. Further plans are in place to establish a purchase order system processing system with Continia, to further identify cost saving opportunities.

The Group have further looked to consolidate the buying power of the regions. With the acquisition of Edinburgh Cowgate, the UK hosts 5 properties. This opens opportunities for potential cost savings through agreements with suppliers. Following the announcements of the management contract for a hostel in Calpe, and the acquisition of a hostel in Cordoba, this takes the number of Spanish properties operating under the Safestay Brand to 5. This will create potential for cost saving opportunities which the Group will look to take advantage of in 2024.

During October 2023, new utility contracts were secured for the UK properties, resulting in a reduction in unit prices of up to 66%. Further opportunities are being investigated with our utility consultant.

Meanwhile, ongoing technology investments – including the introduction of mobile check-in facilities – will further increase staff productivity, without compromising our customer-centric approach. The new website, with enhanced booking engine functionality, combined with the commercial hub, will look to increase the percentage of direct bookings. This offers direct savings in commissions paid to third parties.

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Section 172(1) statement

The Directors are aware of their duty under Section 172(1) of the Companies Act 2006, to act in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so have regard to (amongst other matters):

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

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

Customers

Customer engagement levels is a key performance indicator of our business. We use this customer feedback to continuously improve our product and level of service in the hostels. The Group also directly engages with customers via social media to share information and collect further feedback.

Employees

Employees are at the heart of the hospitality industry and the Directors know that the long-term success of the Group and its ability to continue to extend its unique pan-European hostel network will rely on a strong Group culture, employees' wellbeing, and efficient succession planning. Some Board Meetings take place in hostels to encourage direct contact between the Board and the operational teams. Bi-annual meetings are organised with all managers to share best practice, Group information and help build a positive culture amongst the teams.

Suppliers

Where possible, the Group forms long-term relationships with suppliers, so that the Group and its suppliers have a more certain environment in which to operate. This also applies to landlords of the 12 hostels operated by the Group under lease agreements.

Shareholders

In addition to the annual general meeting, the Directors hold meetings with institutional shareholders following the release of year end and interim results and remain available for ad hoc meetings throughout the year. In addition, the Executive Directors have participated in shareholder conferences to present their business and strategy and obtain live and direct feedback from non-institutional shareholders. The Group website includes an investor section where shareholders can find all relevant information and reports.

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The Board believes communication with stakeholders helps to shape and adapt the Group's strategy and ultimately contributes to maintaining a high standard of business conduct. The D

directors will always assess the consequences of any decision over the long term. For example, decisions over whether to acquire or develop new properties follows a rigorous process involving long term financial assessment and commercial study, all in conjunction with the funding capabilities of the Group. Similarly, the Group uses customer satisfaction reports to help allocate the way funds are deployed under an annual capex improvement programme to enhance the experience of customers and ultimately safeguard brand equity.

The Group complies with the UK's Quoted Companies Alliance Corporate Governance code for Small and Mid-Size Quoted Companies (the "QCA Code") and further information is publicised in the investor section of the Group website. <https://www.safestay.com/investors/>

Engagement with the wider community

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

Anti-bribery

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

Social matters

Safestay provided jobs for 283 people in 2023.

The Group operates in 13 different countries and has established local operating entities in each of the countries where our hostels are located. This gives us the ability to hire employees locally and offer them employment contracts and social benefits in full compliance with each relevant jurisdiction. This also includes the relevant level of hospitality training as well as mandatory training courses.

Maintaining a reputation for high standards of business conduct

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

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

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- The ability to meet the Group's regulatory obligations, and to meet the expectations of relevant regulatory bodies.

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

Ensuring that members of the Company are treated fairly

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

Environment

The Group is mindful of the importance of reducing environmental impact wherever possible and has implemented several initiatives to achieve a sustainable future. The Group intends to continuously review and increase its efforts in this area. As an example, in all Safestay properties, we minimise the use of plastics wherever possible seeking more sustainable alternatives. This enables us to reduce our environmental footprint and helps us build a reputation with our guests as it meets their environmental expectations. We reuse and recycle the plastic we do use.

We are also constantly reviewing our CO2 emissions. We are committed to reducing Scope 1 and 2 emissions - for example, in the future, we would like to incorporate water-saving products in our showers to encourage our guests to be mindful of water wastage. We will also look to reduce Scope 3 emissions working only with trusted suppliers. Additionally, we are exploring the possibility of working with train and other public transport companies to reduce the carbon footprint of our guests.

We have a unique carbon impact tool which we offer to our guests. This gives them the opportunity to test their carbon impact by using an online carbon calculator on our website with the aim to increase the overall awareness and desire to act responsively during their journey.

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

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Employee diversity

The Group is committed to diverse representation at all levels. We were pleased to welcome to the Board this year our first female Director, Sarah Whiddett. We hope that this is the first of many steps in diversifying our recruitment at all levels, including the most senior.

The following table reports on the gender diversity of the Group’s employees at 31 December 2023:

	Male	Female
Directors	6	1
Senior Managers	3	4

Employment of disabled people

It is the policy of the Group to employ disabled persons in the job suited to their aptitudes, abilities and qualifications whenever practicable, endeavour to continue to employ those who become disabled whilst in the Group’s employment and to provide disabled employees with the same opportunities for promotion, career development and training as those afforded to other employees.

Human rights

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

Legal and ethical conduct

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

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Chief Financial Officer's review

The Group faced a challenging trading period in FY23 under the cost-of-living crises which saw impacts to consumer demand, alongside increases in utility and food costs as a result of the geopolitical situation still ongoing in Ukraine. Despite these challenges, the Group has had a strong year, delivering revenue (including discontinued operations) of £22.5 million (2022: £19.1 million) and Adjusted EBITDA (including discontinued operations) of £6.8 million (2022: £5.9 million).

Financial Key Performance Indicators

	2023	2022 As restated
Occupancy %	71.4%	63.0%
Average Bed Rate	£23.74	£23.62
Room Revenues (£'000):		
Continuing Operations	19,190	16,157
Discontinued Operations	953	993
Total	20,143	17,150
Total Revenues (£'000)		
Continuing Operations	21,493	18,148
Discontinued Operations	997	998
Total	22,490	19,146
Net cash generated from operations (£'000)		
Continuing Operations	7,673	6,556
Discontinued Operations	382	541
Total	8,055	7,097
Net assets per share	50p	46p
Adjusted EBITDA (£'m)		
Continuing Operations	6.7	5.6
Discontinued Operations	0.1	0.3
Total	6.8	5.9
Finance Cost (£'000)		
Continuing Operations	3,209	2,395
Discontinued Operations	239	164
Total	3,448	2,559
Earnings per share		
Continuing Operations	(1.46p)	(0.07p)
Discontinued Operations	(0.58p)	(0.16p)
Total	(2.04p)	(0.23p)

Occupancy is calculated by dividing the number of beds sold over the period with the number of beds available when the hostels were opened during the same period. This means that in 2022 and 2021 the occupancy was calculated specifically for those days when the hostels were not closed due to the COVID-19 pandemic. Occupancy for the period was 71.0% (2022: 63.0%), primarily driven through more normalised trading in the first half of 2023 compared to 2022.

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Average Bed Rate is calculated by dividing Room revenues by the number of beds sold over the period. Average Bed Rate for the period is £23.74 (2022: £23.62)

Revenue

Total revenue for the financial year ended 31 December 2023 increased to £22.5 million (2022: £19.1 million), up 18% on the previous year.

Room revenue was £20.1 million (2022: £17.2 million) and food & beverage revenue as well as ancillary revenue was £2.4 million (2022: £1.9 million).

Sales in the UK business increased by 20% to £8.3 million (2022: £6.9 million), accounting for 37% of revenue versus 36% the previous year. Sales of our Overseas businesses of £14.2 million (2022: 12.3 million) were up 16% on last year.

Adjusted EBITDA

The Directors considers that an adjusted EBITDA provides a key measure of performance since it removes the impact of non-trading activities. These non-trading activities are considered adjusting items. Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and one-off nonrecurring adjusting items ("adjusting items"). Following the introduction of IFRS16 from 1 January 2019, rent charges are no longer included in EBITDA as they are shown in lease finance and right-of-use depreciation.

Adjusting items comprise of professional fees relating to aborted acquisitions.

Adjusted EBITDA for the period was £6.8 million, up 15% compared to £5.9 million in 2022. EBITDA margins were down by 100 basis points to 30%, a reflection of a normalisation of payroll costs, which were artificially low in 2022 due to the COVID pandemic, as well as an abnormal increase in utility costs.

	2023	2022
	£'000	As restated £'000
Adjusted EBITDA is as follows:		
Operating Profit (including discontinued operations)	2,315	1,968
<i>Add back:</i>		
Depreciation	938	1,363
Right of Use Depreciation	2,408	2,210
Amortisation	18	81
Actual EBITDA	5,679	5,622
Impairment	1,028	-
Adjusting items (refer to note 5)	26	369
Share based payment expense	54	(92)
Adjusted EBITDA	6,787	5,899

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Finance Costs

Finance costs in Finance costs were £3.4 million (2022: £2.6 million) as follows:

	2023	2022
	£'000	£'000
Interest on bank overdrafts and loans	1,340	896
Amortised loan arrangement fees	68	68
Interest expense for lease arrangements (note 17)	1,725	1,404
Property financing expense	<u>315</u>	<u>191</u>

The Group recorded finance income of £36k (2022: £2k)

The Group has an ongoing loan facility with HSBC UK Bank plc, which renewed in January 2024. The value of the loan at 31 December 2023 was £12.7m (2022: £12.7 million). The Group also had a £5.0 million government backed CBILS loan secured for 6 years on 16 December 2020, with repayments, which commenced on 16 April 2022 reducing the balance to £3.25 million at 31 December 2023 (2022: £4.25 million).

The Group has refinanced all of its existing borrowings in January 2024 into a single £16 million Term Loan and added a new £2.5 million Revolving Credit Facility ("RCF") to support future growth plans. The new Term Loan and RCF are for 5 years and were provided by existing lender HSBC.

The Term Loan interest rates are £4.4 million at 3.955%, £10 million at SONIA but capped at 4.75% with a floor of 3% and £1.6 million at SONIA, all with an additional margin of 2.6%. The RCF has a rate of SONIA plus a margin of 2.85%. The Term Loan is repayable at £0.1 million per quarter from March 2025 together with a final payment at completion. Interest on both the Term Loan and RCF is payable quarterly from March 2024.

The Term Loan replaces the previous interest only £12.7 million facility with HSBC and enables the repayment of the outstanding CBILS loan of £3.25 million which carried a significantly higher interest rate.

In addition, the Group has a loan in Germany (£0.2 million). Since the introduction of IFRS 16 from 1 January 2019, our hostel leases have been accounted for as lease liabilities. At the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the statement of financial position. The rental charge is replaced with interest and depreciation. In 2023, the finance costs include £1.7 million of lease interest (2022: £1.4 million).

Earnings per Share

The Group made a loss after tax of £1.3 million in the period (2022 as restated: loss of £0.1 million). Earnings per share for the period were a loss of 2.04p compared to a loss of 0.23p in 2022 (as restated). This is largely driven by £1.0 million of impairment charges relating to Bratislava during the period.

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Cash flow, capital expenditure and debt

Net cash generated from operations was £8.1 million (2022 restated: £7.1 million) primarily due to the increase in trading performance.

The Group had cash balances of £2.0 million at 31 December 2023 (2022: £5.2 million). This reduction is because £4.3 million was paid from the Group's cash flow for the Edinburgh hostel acquisition.

Outstanding bank debt at 31st December 2023 was £16 million (2022: £17 million). This includes a £12.7 million loan with HSBC (2022: £12.7 million) minus the £0.1 million amortised loan fees (2022: £0.1 million), the £5 million government CBILS loan now reduced to £3.3 million at 31 December 2023 (2022: £4.3 million), and the German loan £0.2 million (2022: £0.2 million). The lease liabilities reduced to £25.9 million (2022: £32.2 million) primarily due to paying another year of rent and the classification of the Vienna disposal group as held for sale.

The gearing ratio (exclusive of lease liabilities) is 50% (2022: 56%).

Net asset value per share increased to 50p (2022: 46p). This is largely due to freehold and leasehold property revaluation across the portfolio.

Non-financial KPIs

The board also considers non-financial KPIs when evaluating the performance of the business. The Directors consider Guest Response scores to be a key metric of the business's performance and health.

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Principal risks and uncertainties

Management has completed a full review of the risks which may arise from within or outside the business and may have an impact on the Group.

The impact of the environment on the Group's operations has been assessed and there is a strategy to reduce this risk as explained in the Environment Section above. No other emerging risks have been identified at this point. There has been no identified change in the principal risks and uncertainties.

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

Business risks

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

A proportion of Safestay's business in the UK comes from Europe, including several school groups. In addition, over 60% of the turnover is coming from hostels located in mainland Europe. The business is therefore highly vulnerable to changes in the source market, schools' education, travel policies and any fluctuations arising in the market from the 'Brexit' process and travel restrictions implemented by the governments, or the school governance bodies.

Conversely, this balance between the UK and mainland Europe offers a natural hedging against fluctuations of each local market and currency where Safestay operates.

Post COVID-19 crisis, the demand in Safestay's markets has strengthened, as we expect that the existing supply within the competitor set will temporarily reduce, until the industry expands again. However, provision of new supply will increase again with the opportunity for real estate owners to repurpose and convert existing buildings previously used for retail or offices. Safestay's defence to such threats is the combination of our premium locations and high standard of accommodation and operations. As supply increases, the business's focus on revenue, customer service, and sales and marketing activity is key to protect and grow market share, brand loyalty and reputation.

There is also the risk of higher energy and other supply costs, but a new utility broker is helping to identify opportunities for reducing consumption and the growth in the average bed rate has shown that cost increases can be offset. Also, the cost pressure on consumers can result in a desire to stay in hostels rather than budget hotels.

IT and system risks

Safestay's property management and accounting systems are deployed via SaaS (software as a service). As such, the Group is dependent on robust internet connectivity and the resilience of the provider's third-party data centre and back-up protocols to operate. Whilst the arrangement carries

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risks, these are deemed to be reduced when compared to an in-house option which would lead to higher management overhead costs for the business. Management believes this current arrangement is more suitable to the business needs as well as being more cost effective due to the small size of our business. The other systems used are not deemed to be business critical.

The Group contracts the maintenance of the IT infrastructure with an external provider and has a cloud based back up system to secure all data which are not already covered via other SaaS suppliers. This is a more robust and flexible option compared to an in-house solution.

Expansion and regulatory risks

Accessing expansion opportunities at the right price and in the right locations is, by its nature, an opportunistic exercise. Whilst the leadership team has a track record in securing properties to support business growth, and the fact that the market should offer more real estate opportunities in the coming years, there is no guarantee that future opportunities can be secured, even if it is expected that the market will offer real estate opportunities when emerging from the COVID-19 crisis and existing property owners look for alternatives to office and retail asset classes.

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

Financial risk

In January 2024, the Group refinanced its existing borrowings into a single £16 million Term Loan and added a new £2.5 million Revolving Credit Facility ("RCF") to support future growth plans. The new Term Loan and RCF are for 5 years and were provided by existing lender HSBC.

The Term Loan interest rates are £4.4 million at 3.955%, £10 million at SONIA but capped at 4.75% with a floor of 3% and £1.6 million at SONIA, all with an additional margin of 2.6%. The RCF has a rate of SONIA plus a margin of 2.85%. The Term Loan is repayable at £0.1 million per quarter from March 2025 together with a final payment at completion. Interest on both the Term Loan and RCF is payable quarterly from March 2024.

The Term Loan replaces the previous interest only £12.7 million facility with HSBC and enables the repayment of the outstanding CBILS loan of £3.25 million, which carried a significantly higher interest rate.

Any increases in SONIA or base rate will increase the cost of these loans and therefore impact the net profit of the business (a 0.5% change in interest rate would impact the net profit before tax by £92,500 (2022: £83,500)). Strict financial controls are in place to ensure that monies cannot be expended above the available limits or to breach any banking covenants.

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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.

Financial risk management

The Group's financial instruments comprise bank loans, lease liabilities, cash and cash equivalents, and various items within trade and other receivables and payables that arise directly from its operations.

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

Interest rate risk

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

Liquidity risk

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

The business continued to manage its liquidity risk with the renewal of its debt facility with HSBC on the 13 January 2020 with a new facility of £12.8m until 2025. In addition, a £5.0m bank CBILs facility was secured for 6 years on 16th December 2020, which is interest free for the first year increasing to 3.99% above base rate from year 2. Repayment of CBILs facility commenced in April 2022. In January 2024, the Group refinanced its existing borrowings and added a £2.5 million Revolving Credit Facility ("RCF"). More details can be found in note 27, post reporting date events.

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

Foreign currency risk

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

Interest rate risk management

The Group is exposed to interest rate risk on its borrowings. The £17.7 million main facility has an interest rate of 2.95% above the London inter-bank offer rate (LIBOR). When the £10.2 million from

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the Edinburgh sale proceeds was used to reduce the debt in July 2021, LIBOR was replaced with 2.95% above SONIA. The £5 million CBILS in interest free in year 1 and has an interest rate of 3.99% above base rate from year 2 until it is fully repaid at the end of year 6. The Group carefully manages its interest rate risk on an ongoing basis. In January 2024, the Group refinanced its existing borrowings and added a £2.5 million Revolving Credit Facility ("RCF"). More details can be found in note 27, post reporting date events.

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 0.5% 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 2023, if interest rates were 0.5% higher or (lower) and all other variables were held constant, the Group's net profit would increase or decrease by £92,500 (2022: £83,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Liquidity risk management

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

For more details, refer to note 22.

The Strategic Report, from Pages 1 to 18, was approved by the Board of Directors and signed on its behalf by:

Paul Hingston
Chief Financial Officer

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Introduction from the Chairman

The Board of Directors (the “Board”) of Safestay plc (the “Company”) recognises the importance of, and is committed to, high standards of corporate governance. We believe strong corporate governance is the key to delivering high performance as a business and ensuring success for its stakeholders. Accountability to our stakeholders, including shareholders, guests, suppliers and employees is key to our governance approach.

Therefore, and in compliance with the updated AIM Rules for Companies, the Company has chosen to formalise its governance policies by complying with the UK’s Quoted Companies Alliance Corporate Governance Guidelines for Small and Mid-Size Quoted Companies (the “QCA Code”).

The annual financial statements for the Company for the period ending 31 December 2023 will be prepared in accordance with the Company’s obligations as an AIM company and the requirements of the QCA Corporate Governance Code.

All Directors are fully aware of their duties and responsibilities under the QCA Code. As at the date of this report, we consider we are in full compliance with the QCA Code, which is made up of 10 principles. Below, we explain how we have complied with each principle. We continue to review for best practice and will update this report accordingly as we do so, at least annually.

Larry Lipman
Chairman
6 June 2024

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The Quoted Companies Alliance's Ten Principles of Corporate Governance

The Group applies the Quoted Companies Alliances' code for corporate governance in order to ensure the long-term success of the Group. By applying the code, the Group will benefit from improved governance, and ultimately therefore promotion of long term value for shareholders.

Further details of how the Group applies each principle of the code is outlined below:

1. Establish a strategy and business model which promote long-term value for shareholders

The Group's strategy and business model is discussed within the Strategic report on pages 15 to 18. Our key strategic pillars are:

- Openings and Opportunities
- Elevating experiences
- Brand Awareness
- Setting Foundations for the Future
- Cost Control

The Group saw the opening of a new Commercial Hub in Warsaw during 2023. The office seeks to drive group sales, an area which pre pandemic, used to account for a more significant portion of the Group's revenue, and is an area that the Board feel is ripe for growth in 2024 and beyond. Alongside the commercial hub, the Group also introduced an AI-powered yielding system that monitors and updates prices dynamically based on demand.

The long term aim of the Group is continued expansion of the Portfolio that currently exists, evidenced by the purchase of the freehold properties in Edinburgh and Cordoba, along with our first management contract entered into to manage a hostel in Calpe. The Group constantly monitors a strong pipeline of potential properties and locations to further expand where the right opportunity arises.

Our Safestay team remains the heart of the business and so it is important to ensure that the staff feel valued. We introduced a number of initiatives, such as 'employee of the quarter' reward programmes to reward our high performing staff members. Additionally we also launched the 'Be Our Guest', where staff can enjoy complimentary stays in our properties, while offering generous discounts to our team members' friends and families.

Guest experience has and always will be a key driver of business success. The Group has introduced a review management platform to further understand guest feedback and sentiment and be able to respond more quickly to our guests' needs.

The key risks we face as a business are discussed in the strategic report on pages 15 to 18.

2. Seek to understand and meet shareholder needs and expectations – there is continuous communication with shareholders and the largest shareholder has a seat on the Board of Directors.

The Board understands the importance of ensuring and maintaining regular dialogue with shareholders. The Chairman and Chief Financial Officer ("CFO") are responsible for investor

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relations. The ultimate responsibility for ensuring a satisfactory dialogue with Shareholders sits with the Board. The Group's financial PR agency leads the preparation, coordination and communication of all dealings with the financial community and is the primary point of contact for shareholders and third parties.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success – this is explained in the Section 172(1) statement of the Strategic Report.

The Group considers the key stakeholders in the business to be its customers, employees, suppliers and shareholders.

The Board understands that the Group's long-term success relies heavily upon strong relations with each of their stakeholders and they must ensure that the needs of each are met.

The Board is committed to ensuring a continuous and open dialogue with its stakeholders, both internal and external. Further details can be found in the Section 172 Statement on Pages 16 to 17.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

In order to ensure that the Group has fully understood its exposure to risk, each key area of the business is reviewed on an annual basis to ensure that any key risks are identified and monitored. A risk register is maintained to track the risks identified as part of these reviews.

The risks outlined in the strategic report on pages 15 to 18 are those which the Board believes are the most significant to the Group's business model and most likely to prevent the Group from achieving its strategic objectives. There may be additional risks and uncertainties that are currently unknown or currently believed to be immaterial that may also have an adverse effect on the Group.

5. Maintain the board as a well-functioning, balanced team led by the chair

The Board consists of six Directors: three Executive Directors and three Non-Executive Directors. Two of the three Non-Executive Directors (Sarah Whiddett and Michael Hirst OBE) are independent, in line with the QCA Code Guidance. Paul Cummins, due to his employment with Phyrro Investments Limited (the largest shareholder in Safestay plc), is not considered to be independent. The Non-Executive Directors of the Board have been selected with the objective to further support the breadth of skills and experience of the Board and bring constructive challenge to the Executive Directors. They are also responsible for ensuring the effective running of the Board's Committees and ensuring that the Committees support the strategic priorities of the Board.

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The Board Members are:

- Larry Lipman – Chairman
- Paul Hingston – Chief Financial Officer
- Peter Zielke – Chief Operating Officer
- Michael Hirst – Independent Non-Executive Director and Chair of the Audit and Remuneration Committees
- Sarah Whiddett – Independent Non-Executive Director
- Paul Cummins – Non-Executive Director

The Executive Directors of the Company are employed on a full time basis. Non-Executive Directors are required to devote such time to the Group’s affairs as necessary to discharge their duties, and this may change from time to time. All Directors are required to attend all Board meetings and Committee meetings as necessary.

The attendance record of each of the Directors at full Board and the Sub-Committees of the Board is set out below:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Paul Cummins	24/24		
Paul Hingston	24/24	3/3	
Michael Hirst	24/24	3/3	1/1
Larry Lipman	24/24		
Stephen Moss	24/24	3/3	1/1
Sarah Whiddett	19/24		
Peter Zielke	23/24		

Please note that Paul Hingston attended the Audit Committee Meetings in an advisory capacity. Attendance of Executive Directors to Remuneration and Audit Committee meetings are by invitation only.

Due to the size of the business, the Board of Directors do not consider there is a need for a Nominations Committee. They will review this over time and evaluate the need for one in future periods.

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6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board considers that it has sufficient skills and experience to enable it to execute its duties and responsibilities effectively given the nature and size of the Group. The Directors have a wide range of skills and experience as outlined in the Director biographies on pages 25 to 27.

Where the Board considers that it does not possess the necessary expertise or experience, it will engage the services of professional advisers or consultants. The Directors receive regular updates from external advisers on legal requirements and regulations as well as remuneration matters and corporate governance best practice.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.

The Board has recently reviewed its Financial Position and Prospects Procedures Memorandum designed to outline the roles of the Board and the Sub-Committees amongst other things. This has given the Board a clear benchmark for which they can evaluate the Board's performance against.

In line with best practice and the newly applicable requirements of the QCA Code, the Board intends to undertake regular evaluations of the Board and the Sub-Committees.

8. Promote a corporate culture that is based on ethical values and behaviours

The culture of the Group is set by the Board, and the Directors are committed to promoting a culture of honesty and ethical behaviours. All new staff receive training and information on the values and culture of the Group as well as regular updates to these, to ensure that the culture and behaviours reflected in the business support the Group's long term strategy.

The Group is currently developing an intranet which will contain all employee policies, and will provide a key source of information for all employees on cultures and behaviours. The intranet will prove invaluable to ensure that our employees have the right training on the cultures and behaviours that will enhance our guests stay as much as possible. It will also outline best practice on operations relating to the hostels, to ensure unnecessary costs are not incurred.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board – this is covered by the Board's best practice review.

The Chairman has the ultimate responsibility for corporate governance, and ensures that the Directors have access to timely, accurate and clear information from which to base their decisions. They also ensure that the Committees are functioning appropriately, and the fiduciary requirements of the Board are being carried out.

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10. Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Group communicates with its shareholders through:

- The Annual Report and Accounts
- Half-Year report announcements
- RNS announcements
- AGM
- Investor relation programme
- The Company website (www.safestay.com)

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Directors' and senior management biographies

Larry Lipman (Chairman)

Larry 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.

Paul Hingston (Chief Financial Officer & Company Secretary)

Paul is a KPMG qualified FCA Chief Financial Officer with an MBA.

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

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

Peter Zielke (Chief Operating Officer)

Peter joined Safestay plc in February 2023. His international hospitality career spans over 25 years with management and director positions held in Germany, the UK, Russia, New Zealand and other countries. He started his career in his hometown Weimar, Germany at renowned Hotel Elephant. Most recently Director of Operations for the South-UK region for Kew Green Hotels, where he was in charge of Marriott International and IHG branded properties. He also gained considerable brand knowledge in previous roles at Hilton and Millennium & Copthorne Hotels at which he completed various operational strategy reviews. His expertise in optimising revenue, marketing and operational management is extremely valuable for Safestay in enhancing its market position. Peter was Chairman of the Gatwick Hotels Association until March 2023 and a member of various business focus groups.

Michael Hirst (Remuneration and Audit and Risk Committee Chair)

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

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

He is a former consultant to CBRE Hotels, the world's leading hotel experts. He also advises hospitality and tourism businesses and has acted as an arbitrator for the International Court of Arbitration in hotel dispute resolution.

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

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

Stephen Moss (Remuneration and Audit Committee)

Stephen is Chairman of Grosvenor Securities Limited, a Central London commercial property investment and development company. He is past Chairman of Bibendum PLB, the leading wine and spirit distributors and, prior to that, CEO of BCP Airport Parking which he grew to become the UK's largest airport car parking booking platform. Stephen founded Springboard in 1990, a charity which promotes careers in hospitality, leisure and tourism, of which he remains President, and its board and corporate partners include many of the UK's top hotel groups. He is now Chair of London Youth, Chairman of Trustees of London's top-ranked comprehensive school and of a leading demographic and social research think tank. In 1992 he was awarded an MBE for services to the restaurant industry and, in 2002, a CBE for his contribution towards education and training. Stephen stepped down from his role as non-executive director, as well as his roles as Chairman of the Remuneration and Audit Committee. The Board thanks him for his services and wishes him the best in the future.

Paul Cummins (Non-Executive Director)

Paul is a qualified chartered accountant and is currently Investment Director of Pyrrho Investments Ltd, Safestay's largest shareholder. He has previously worked at Nomura International in both Hong Kong and London as a proprietary trader, he also worked at KPMG in Hong Kong and BDO in London. He is currently Chairman of Pacific Jade Holdings Ltd, a Hong Kong based tax and company secretarial business.

Sarah Whiddett (Remuneration and Audit and Risk Committee)

Sarah Whiddett has over 17 years' leadership experience in Insight, CX and Marketing. Currently, she is a Strategic Client Partner for Kantar Insights & Consulting, a leading global data, insight and consultancy agency. Sarah, and her global matrix team, support clients with their brand strategy, innovation, creative and media activation, and consumer experience, through a mix of research, analytics and consultancy services. She was previously Chair and Director of AURA, the UK's biggest client-side research networking and events organisation, and prior to that held numerous leadership positions at food and drinks wholesaler Bidfood. Alongside these roles, Sarah has been involved in extensive public speaking and industry engagement, judging multiple industry awards, speaking at conferences and leading press engagement. Sarah was a Marketing Academy Scholar 2019 – selected as a group of 30 future leaders from a group of over 600 applicants, and was selected for the Kantar

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Women in Leadership program 2022. Sarah has been enlisted to the Safestay board in 2023 to support Safestay's growth ambition, utilising her marketing and consumer insight expertise.

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Audit Committee report

I am pleased to introduce the report of the Audit Committee for the year ended 31 December 2023.

Best practice recommends that all members of the Committee be Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that at least one such member has recent and relevant financial experience. Accordingly, the Committee comprises of both independent Non-Executive Directors, with Paul Hingston supporting in an advisory capacity.

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

Haysmacintyre LLP was appointed as external auditor of the Company to conduct the audit of the Company's financial statements for the financial year to 31 December 2023 and their re-appointment as auditor for the following financial year will be subject to approval by shareholders at the 2023 Annual General Meeting. External audit partners are rotated every five years. The current external audit partner is Laura Mott. The external auditors present in advance of the year end their approach to the forthcoming audit and present their findings from the audit following the completion of their work. The Committee assesses the performance of the external auditors on an annual basis and based on this review the Committee recommends the appointment, re-appointment or removal of the Company's external auditors to the Board.

The Committee was chaired by Stephen Moss and I was also part of the Committee. Following Stephen Moss's resignation in March 2024, Sarah Whiddett was appointed to the Committee.

The Committee meets at least annually with the Company's external auditors. The Committee has a minimum of 2 meetings per year. They review the audit plan at the start of the annual audit, plus the audit findings and the draft annual accounts before they are submitted to the Board for approval. The Committee generally also meets to follow up the audit action plan and risk assessment report during the year. The external auditors have unrestricted access to the Committee. Both the Committee and the Board keep the external auditor's independence under close scrutiny. The Group also receives a formal statement of independence and objectivity from the external auditors each year.

Two meetings were held in 2023, these were both attended by Michael Hirst and Stephen Moss, with Paul Hingston attending in an advisory capacity.

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

- Key assumptions used in the cash forecast prepared by the Directors in relation to the Going Concern note;
- Review of the management paper in relation to key assumptions used in the impairment test as at 31 December 2023 under IAS 36;

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- Review of the management paper in relation to the valuation of the assets under IAS 16 and IFRS16;
- Board governance, including the Committee and the procedure for assessing the Group's key risks.
- The classification of Vienna as discontinued operations and assets and liabilities held-for-sale under IFRS 5.
- Review of accounting relating to the acquisition of the freehold property in Edinburgh

Significant issues considered in relation to the financial statements

The Committee reviewed the financial statements, with particular attention to accounting policies and areas of judgement.

The key matters considered by the Committee in respect of the period ended 31 December 2023 are set out below:

- **Assets held for sale and discontinued operations:** The Committee reviewed Managements assessment on the application of IFRS 5 for the property located in Vienna to ensure that the judgements applied were deemed to be reasonable.
- **Impairment of goodwill and fixed assets:** The Committee reviewed Managements assessment of impairment on goodwill and fixed asset balances related to Bratislava. They challenged Managements assumptions of future cashflows to ensure they were reasonable.

Risk management and internal control

The Board has overall responsibility for maintaining sound internal control and risk management systems and has delegated responsibility to monitor their effectiveness to the Committee.

The system of internal control comprises high level Group-wide controls, controls operating within individual properties and controls over processes. Policies, procedures and clearly defined levels of delegated authority have been communicated across the Group, and Management has identified the key operational financial processes which exist within the business and implemented internal controls over these processes in addition to the higher-level review and authorisation-based controls. These policies are designed to ensure the accuracy and reliability of financial reporting and govern the preparation of financial statements. The Committee is satisfied that the system of controls is sufficient for a Group of Safestay's size and complexity.

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Internal Audit

The Group does not currently have an internal audit function, and the Committee supports Management's view that there is no need, at present, to establish an internal audit function given the operational scale of the business as well as the fact that where possible, the Group avoids cash payments.

The Committee will keep this under consideration and will review the need for an internal audit function on an annual basis.

Michael Hirst

Chair of the Audit Committee

6 June 2024

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Remuneration Committee Report

As Chair of the Remuneration Committee (“the Committee”), I am pleased to present the report of the Committee for the period ended 31 December 2023.

Membership, role and responsibilities

As an AIM-listed company, we are not required to comply with the Listing Rules of the Financial Conduct Authority, or the requirements of Schedule 8 (Quoted Companies Directors Remuneration Report) as amended by the provisions of The Large and Medium-sized Companies and Groups (Accounts and Report) Regulations 2008 (SI 2008/410) (the “Regulations”) or the UK Corporate Governance Code. However, noting the Company has chosen to comply with the UK’s Quoted Companies Alliance Corporate Governance Guidelines for Small and Mid-Size Quoted Companies (the “QCA Code”), the Board considers it appropriate for the Company to provide shareholders with additional information in respect of executive remuneration where appropriate.

I was appointed the Committee’s Chair following Stephen Moss’s resignation as chair of the Remuneration Committee in March 2024. I would like to thank Stephen for his services as Committee Chair. Following Stephen’s resignation, Sarah Whiddett was appointed to the Committee. Both Sarah and I are considered independent by the Board within the meaning of the QCA Code.

The Committee operates under Terms of Reference approved by the Board. The terms of reference are subject to an annual review by the Committee.

The Committee is responsible for reviewing the performance of the Executive Directors and within the terms of the agreed remuneration policy, determining their remuneration packages, including, where appropriate, bonuses and the grant of share options.

Activity during the year

The Committee met once during 2023, and all relevant Committee members were present at every meeting. During the period, the Committee discussed and agreed to approve the remuneration arrangements for the Executive Directors.

Remuneration policy

The objective of the Group’s remuneration policy is to attract, motivate, and retain high quality individuals who will contribute to the success of the Group.

The table below summarises the key elements of the remuneration policy for Executive Directors and Senior Management:

Corporate Governance Statement

Element	Link to remuneration policy/strategy	Operation	Maximum opportunity	Performance Metric
Base Salary	To help recruit and retain high performing Executive Directors. It should reflect the individuals skills and experience within the role.	Salaries will normally be reviewed annually taking into account performance, experience, responsibilities, relevant market information and the level of workforce pay increases.	Annual increases will usually be commensurate with those of the wider workforce. Further increases may be considered if there are significant changes in responsibility or scope of the role, sustained increase in the size of the business, or if there are significant movements in market rates. New joiners, where pay is initially set below market levels, may benefit from larger increases as their salary is progressed towards the market rate based on their development in the role.	A broad-based assessment of individual and Group performance is considered as part of any salary review.
Pension	To provide cost-effective, yet market-competitive, retirement benefits.	Contribution to a personal pension arrangement or cash in lieu of pension by way of a salary supplement.	Executive and Non-Executive Directors receive statutory minimum pension contributions, in line with legislation, and with all other UK employees.	None
Annual Bonus	To help recruit and retain high performing Executive Directors.	Executives are all eligible to receive bonus incentives, at the discretion of the Remuneration Committee. Any awards are deemed to be ad-hoc.	Bonuses are provided on an ad-hoc basis. It is the Committees preference to provide longer term incentive's to align the Executive Director's interests to the wider business.	None

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Corporate Governance Statement

Long Term Incentive Plan	To incentivize and reward long term performance and value creation. To aid retention and align the interest of Executive and Non-Executive Directors and shareholders in the long term.	Executives are both eligible to receive share option incentives, at the discretion of the Remuneration Committee. Any awards are deemed to be ad-hoc.	There is no limit to the number of share option awards available at any one time. However, the committee exercises judgement to ensure that any awards are commensurate to the employee/Executive Director who receives the award.	None
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Safestay plc

Corporate Governance Statement

Directors' service contracts

Larry Lipman has a contract terminable on 6 months' notice. All the other Directors have contracts terminable by either party upon three months' written notice except for Paul Cummins as he is employed by Phyrro Investments Limited.

The Directors' service contracts contain no provision for fixed termination payments.

Directors' emoluments (audited)

The emoluments of the Directors of the Company for the period ended 31 December 2023 were as follows:

Name	Salary and fees £'000	Pension £'000	Benefits in kind £'000	2023 Total £'000
Executive directors				
Larry Lipman	105	-	-	105
Paul Hingston	143	4	-	147
Peter Zielke	105	4	-	109
Non-executive directors				
Michael Hirst	33	-	-	33
Paul Cummins	9	-	-	9
Stephen Moss	31	-	-	31
Sarah Whiddett	20	-	-	20
Total	446	8	-	454

The comparative for the 31 December 2022 is as follows:

Name	Salary and fees £'000	Pension £'000	Benefits in kind £'000	2022 Total £'000
Executive directors				
Larry Lipman	100	-	-	100
Nuno Sacramento	63	2	-	65
Peter Harvey	16	-	-	16
Paul Hingston	122	3	-	125
Non-executive directors				
Michael Hirst	33	-	-	33
Paul Cummins	-	-	-	-
Stephen Moss	30	-	-	30
Total	364	5	-	369

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Corporate Governance Statement

Directors' interests in shares

The following Directors directly own share capital of the Company:

	Ordinary shares of 1p each	
	Fully paid number	Percentage %
Larry Lipman	346,054	0.5
Stephen Moss	233,988	0.4
Michael Hirst	97,142	0.1

Larry Lipman also owns one-third of the share capital of Safeland Holdings (2008) Corporation ("SHC") a corporation incorporated in Panama and 2% of Safeland plc, a company incorporated in the UK. SHC owned 3,112,484 ordinary shares in the Company, representing 4.8% of the Company's shares in issue as at 31 December 2023. SHC owned 83.4% of Safeland plc. Safeland plc owned 2,597,334 ordinary shares of the Company, representing 4.0% of the Company's shares in issue at 31 December 2023. Paul Cummins is not considered to be independent as he is employed by Pyrrho Investments Limited which is a significant shareholder in the Company, owning 19,025,638 ordinary shares representing 29.4% of the Company's shares in issue at 31 December 2023.

Directors' interests in options over the equity share capital of the Company at 31 December 2023 were:

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Corporate Governance Statement

	Granted	Lapsed	At 31 December 2023	Exercise Price	Exercisable From	Exercisable To
Larry Lipman	396,521		396,521	15 p	01/01/2024	31/12/2031
	300,000		300,000	15 p	01/01/2024	31/12/2031
	400,000		400,000	15 p	01/01/2024	31/12/2031
	37,100		37,100	9 p	01/01/2024	31/12/2031
	20,900		20,900	15 p	01/01/2024	31/12/2031
	25,700		25,700	13 p	01/01/2024	31/12/2031
	25,700		25,700	13 p	01/01/2024	31/12/2031
	23,900		23,900	14 p	01/01/2024	31/12/2031
	22,300		22,300	15 p	01/01/2024	31/12/2031
	22,300		22,300	15 p	01/01/2024	31/12/2031
	19,700		19,700	15 p	01/01/2024	31/12/2031
	18,600		18,600	15 p	01/01/2024	31/12/2031
	20,900		20,900	15 p	01/01/2024	31/12/2031
Michael Hirst	4,600		4,600	9 p	01/01/2024	31/12/2031
	2,600		2,600	15 p	01/01/2024	31/12/2031
	3,200		3,200	13 p	01/01/2024	31/12/2031
	3,200		3,200	13 p	01/01/2024	31/12/2031
	3,000		3,000	14 p	01/01/2024	31/12/2031
	2,800		2,800	15 p	01/01/2024	31/12/2031
	2,800		2,800	15 p	01/01/2024	31/12/2031
	2,400		2,400	15 p	01/01/2024	31/12/2031
	2,300		2,300	15 p	01/01/2024	31/12/2031
	2,600		2,600	15 p	01/01/2024	31/12/2031
Paul Hingston	400,000		400,000	15 p	01/01/2024	31/12/2031
Stephen Moss	11,200		11,200	9 p	01/01/2024	31/12/2031
	6,300		6,300	15 p	01/01/2024	31/12/2031
	7,700		7,700	13 p	01/01/2024	31/12/2031
	7,700		7,700	13 p	01/01/2024	31/12/2031
	7,200		7,200	14 p	01/01/2024	31/12/2031
	6,700		6,700	15 p	01/01/2024	31/12/2031
	6,700		6,700	15 p	01/01/2024	31/12/2031
	5,900		5,900	15 p	01/01/2024	31/12/2031
	5,600		5,600	15 p	01/01/2024	31/12/2031
	6,300		6,300	15 p	01/01/2024	31/12/2031
Peter Zielke	300,000		300,000	15p	01/01/2024	31/12/2031

The options granted in the first 7 months of 2021 were received by the existing Directors in exchange for a 40% reduction in their salary to reduce the operating costs of the Group during the lockdown period.

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Corporate Governance Statement

Approval

This report was approved by the Remuneration Committee and signed on its behalf by:

Michael Hirst OBE
Chair of the Remuneration Committee
6 June 2024

Safestay plc

Directors Report

The Directors present the Directors' report on the affairs of Safestay plc (the "Company") together with the audited consolidated financial statements, for the period ended 31 December 2023.

Directors' indemnity provisions

The Group 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.

Other substantial shareholdings

The Company had been notified of the following shareholdings which constitutes three per cent or more of the total issued ordinary shares of the Company as at 31 December 2023.

	Ordinary shares of 1p each	
	Fully paid Number	Percentage %
Pyrrho Investments	19,025,638	29.30
BGF	11,791,661	18.16
Mr Peter O'Reilly	4,758,767	7.33
Chelverton Asset Management	4,361,764	6.72
Bredbury Limited	3,129,665	4.82
Safeland Holdings (2008) Corporation	3,112,484	4.79
Safeland plc	2,597,334	4.00
Mr Peter Leslie Squire	2,150,000	3.31
Mrs JD Squire	2,000,000	3.08
Hargreaves Lansdown	1,995,723	3.07

Dividends

The Directors have not recommended the payment of a dividend for the year (2022: nil).

Safestay plc

Directors Report

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required to prepare consolidated accounts under UK-adopted International Accounting Standards. 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 of the Company and the Group and the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards or UK-adopted International Accounting Standards, 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 2023, the Directors have authorised no such conflicts or potential conflicts in accordance with the above procedures.

Director Independence

The appointment of the Non-executive Director's is designed to provide balance between those with detailed knowledge of business operations, and those who are independent to provide the right levels

Safestay plc

Directors Report

of scrutiny's to the business operations. Both Sarah Whiddett and Michael Hirst are considered to be independent Non-Executive Directors, whilst Paul Cummins is not deemed to be independent due to his employment with Phyrro Investments Limited, who at the reporting date, had a 29.3% ownership in Safestay plc.

Going concern

In assessing the going concern position of the Group for the consolidated financial statements for the period ending 31 December 2023, the Directors have considered the Group's cash flow, liquidity, and business activities.

During 2023, the Group recorded an adjusted EBITDA of £6.8 million (2022: £5.9 million) as the business continued to recover well from the pandemic and for the first time since 2019, the hostels have been open for 100% of the year. Additionally, 2024 sales are significantly ahead of 2023 with the profit impact further enhanced by tight cost control and a changing sales mix from increased groups business.

The Group reduced its bank loan borrowings by £0.8m as the Group continued repaying CBILS (Coronavirus Business Interruption Loan Scheme). The Group reported a cash position of £1.9 million (2022: £5.2 million) which is largely reduced due to the acquisition of freehold property in Edinburgh for £4.3 million. During 2024, the Group refinanced all its existing borrowings in January 2024 into a single £16.0 million Term Loan and added a new £2.5 million Revolving Credit Facility ("RCF") to support future growth plans. The new Term Loan and RCF are for five years and were provided by existing lender HSBC.

As part of their going concern assessment, the Directors have prepared forecasts for a minimum period of twelve months from the date of approval of the financial statements. In addition, certain adverse scenarios have been considered for the purposes of stress and sensitivity testing. Refer to Note 1 for further information on the assumptions and judgements applied.

Upon consideration of this analysis and the principal risks faced by the Group, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, the Directors have concluded that it is appropriate to prepare these financial statements on a going concern basis.

Post balance sheet events

In January 2024, the Group refinanced its existing borrowings into a single £16 million Term Loan and added a new £2.5 million Revolving Credit Facility ("RCF") to support future growth plans. The new Term Loan and RCF are for 5 years and were provided by existing lender HSBC.

The Term Loan interest rates are £4.4 million at 3.955%, £10 million at SONIA but capped at 4.75% with a floor of 3% and £1.6 million at SONIA, all with an additional margin of 2.6%. The RCF has a rate of SONIA plus a margin of 2.85%. The Term Loan is repayable at £0.1 million per quarter from March 2025 together

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Directors Report

with a final payment at completion. Interest on both the Term Loan and RCF is payable quarterly from March 2024.

The Term Loan replaces the previous interest only £12.7 million facility with HSBC and enables the repayment of the outstanding CBILS loan of £3.25 million, which carried a significantly higher interest rate.

On 30 April 2024, the Group acquired a property located in Cordoba, Spain for a consideration of €2 million, funded through the Group's existing cash balance.

In June 2024, the Group acquired a freehold property located in Brighton, United Kingdom, for a consideration of £2.3 million, funded through both the Group's existing cash balances, and a £1.2 million loan from the trustees of the Sheldon Pension Fund and Sentpark Capital Limited.

The loan will be made to Safe Hostels Limited (a 100% owned subsidiary of Safestay plc) with Safestay plc providing a written guarantee. The interest rate on the loan is 1% per month and is serviced monthly, plus there are arrangement and exit fees of 1% each. The repayment date is 18 months after the drawdown date.

Statement of disclosure of information to the auditor

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and they are fair, balanced and understandable.

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

To the best of our knowledge:

- Company and Group financial statements, prepared in accordance with International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

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Directors Report

- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Future Developments

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

Employees and social matters

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

This report was approved by the Board of Directors and signed on behalf of the Board

Paul Hingston

Chief Financial Officer

6 June 2024

Independent Auditor Report to the Members of Safestay PLC

Independent auditor's report to the members of Safestay Plc

Opinion

We have audited the financial statements of Safestay Plc ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statement of Cash Flows, Consolidated and Company Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Reporting Financial Standards (IFRSs) as adopted by the United Kingdom.

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 2023 and of the Group's loss for the period then ended;
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the United Kingdom and in accordance with the requirements of the Companies Act 2006; and
- the Parent Company's financial statements have been property prepared in accordance with IFRS as adopted by the United Kingdom and in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

An overview of the scope of our audit

For the year ended 31 December 2023, the Group undertook all its trading activities through its wholly owned subsidiaries. The scope of our audit work was therefore the audit of the Group, which included the parent company and its subsidiaries. All audit work to respond to the risks of material misstatement of both the Group and Parent Company was performed directly by the group audit engagement team.

The scope of the audit and our audit strategy was developed by using our audit planning process to obtain and update our understanding of the Group, its activities, internal control environment, and likely future developments. Our audit testing was informed by this understanding of the Group and accordingly was

Independent Auditor Report to the Members of Safestay PLC

designed to focus on areas where we assessed there to be the most significant risks of material misstatement.

Audit work to respond to the assessed risks was performed directly by the group audit engagement team who performed full scope audit procedures on the six UK subsidiaries, being Safestay (HP) Limited, Safestay (Elephant & Castle) Limited, Safestay (Edinburgh) Limited, Safestay (Edinburgh) Hostel Limited, Safestay (York) Limited and Safestay (York) Hostel Limited. The remaining UK subsidiary, WXYZ2 Limited, is exempt from audit under the s479 parent company guarantee audit exemption and so was not subject to statutory audit with the remaining overseas subsidiaries subject to specific scope audit procedures. Specific scope audits were planned and performed to provide sufficient audit evidence based on the size of these subsidiaries compared to the size of the group and group materiality. Our group scoping ensured that we achieved at least 90% coverage of our key audit matters and at least 75% coverage across all other balances.

There have been no component auditors used in this engagement. All work was completed by the group audit engagement team.

Key audit matters

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

Key Audit Matter	How our scope addressed this matter
<p>Group Revenue (Note 2)</p> <p>The key risks surrounding income have been assessed individually, with risk assessments being performed for each element of revenue recognition.</p> <p>The possible risk of fraud in revenue recognition is reduced in respect of the automatic postings of daily accommodation and food & beverage sales. This is on the basis that these transactions are made up a large volume of small value</p>	<p>We have undertaken the following procedures to verify the appropriateness of revenue recognition:</p> <ul style="list-style-type: none">- Evaluated the processes and controls relating to the recognition of revenue and related balance sheet accounts;- Performed cash to revenue reconciliations for each trading entity;

Independent Auditor Report to the Members of Safestay PLC

Key Audit Matter	How our scope addressed this matter
<p>transactions which are recognised at the point of sale. As such the point of revenue recognition is non-complex and involves little judgement.</p> <p>Cut off risk is also not deemed to be significant as the recognition criteria is not complex or subjective. Accommodation revenue is recognised on the date of stay and food and beverage sales are recognised at the point of sale. The distinct recognition dates provides limited subjectivity in recognition and reduces risk of misstatement.</p> <p>Therefore, journals to revenue within the expected revenue cycle of journal postings are not considered to be a significant risk.</p> <p>However, as the Group is listed and revenue is a key KPI for the Group, there are incentive for the overstatement of revenue. Therefore, there remains a significant risk around the manual posting of journals to revenue, outside of the normal revenue cycle, to overstate reported revenue.</p>	<ul style="list-style-type: none"> - Performed reconciliations from the EPOS system to the trial balance of each subsidiary; - Performed cut off testing for accommodation revenue looking bookings straddling year end, ensuring that appropriate portions of revenue were recognised in the period of stay. - Utilised data analytics software to identify any unusual transactions that are posted outside of the 'normal' revenue cycle. We then substantively tested any exceptions to ensure they were free from material fraud or error; - Substantive testing was performed of transactions around year-end with verification of transactions to supporting documentation (EPOS reports and bank statements) challenging the appropriateness of revenue recognition. Comfort obtained over reliability of EPOS system through reconciliation of EPOS to bank receipts. - Our review also included an assessment of the appropriateness of the recognition of trade receivables, accrued income and the completeness of deferred income.
<p>Management override of controls</p> <p>Management is in a unique position to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits. The specific risk to the Group is the manipulation of journal entries</p>	<p>Controls Approach</p> <ul style="list-style-type: none"> - We have reviewed the controls of the business and performed walkthrough tests of the controls to determine any weaknesses which could lead to management override of controls. This was with particular reference to areas that we felt could have weaker controls in place. <p>Substantive Audit Approach</p>

Independent Auditor Report to the Members of Safestay PLC

Key Audit Matter	How our scope addressed this matter
<p>and accounting estimates, including assessments of asset impairment, assessments of debtor recoverability, discount rates used in the calculation of IFRS 16 leases and the valuation of the properties.</p>	<ul style="list-style-type: none"> - We considered and reviewed all areas requiring judgement or estimates in order to assess the appropriateness of the judgements and estimates made by Management. - We inquired with management personnel to understand their controls and risk assessment procedures and if they consider any other areas which may be susceptible to risk of material misstatement due to fraud; - We have tested a number of journal entries made as part of the year-end financial reporting process and those made in the year. These journals were selected based on our assessment of high-risk features, in particular journal entries posted with round sum values, blank descriptions, keywords or involving intercompany or related parties. We have ensured these are in the normal course of business, have a valid business rationale and have been appropriately authorised.
<p>Right of use assets and lease liabilities (IFRS16) (Note 11)</p> <p>The Group holds a significant number of its hostel properties on long term leasehold contracts.</p> <p>As at 31 December 2023, the Group recognised right of use assets with a carrying value of £23.2m and related lease liabilities totalling £25.9m. These assets and liabilities are material to the Group and there is a risk that they have been incorrectly calculated under IFRS16.</p> <p>The leasehold contracts contain clauses to increase rental charges if certain inflationary</p>	<p>As part of our audit procedures we:</p> <ul style="list-style-type: none"> - Obtained the IFRS 16 model and the underlying calculations for each lease and checked the arithmetic accuracy of these. - Obtained lease agreements for each property leased within the group and reviewed each agreement against the inputs of the model. - Obtained details of all lease modifications which were agreed during the year and compared the terms of each against the inputs of the model.

Independent Auditor Report to the Members of Safestay PLC

Key Audit Matter	How our scope addressed this matter
<p>thresholds are breached. There is a risk that the list of modifications is incomplete and/or the IFRS lease liability and right of use assets has not been correctly adjusted.</p> <p>A significant level of judgement is required to assess the Incremental Borrowing Rate (IBR) for both lease additions and modifications.</p>	<ul style="list-style-type: none"> - Reviewed and assessed management's assessment for the calculation of IBR rates for all lease additions and modifications and challenged the reasonableness of the assumptions of the assumptions made by management in respect of them. - Performed sensitivity analysis to assess the possible impact of changes to the IBR rate on the capitalised right of use asset and lease liability values.
<p>Valuation of freehold and leasehold property (Note 11)</p> <p>The Group owns four freehold properties, three in the UK and one in Pisa, Italy and one leasehold property in the UK.</p> <p>The Group carries all freehold and leasehold properties at a revalued amount, which is the fair value of the items at the date of the revaluation, less any subsequent accumulated depreciation and accumulated impairment losses.</p> <p>The fair value assessment is judgemental and includes assessing the appropriateness of the key assumptions used in the valuation by directors and external valuers.</p> <p>Management has obtained an external valuation for each of the freehold and leasehold properties in the current reporting periods.</p> <p>Increasing interest rates are expected to have had significant impacts on property valuations in the year, increasing the likelihood that the properties could be inappropriately valued.</p>	<p>As part of our audit procedures we:</p> <ul style="list-style-type: none"> - Obtained valuation reports from external valuers and challenged the reasonableness of the key assumptions, judgements and estimates within them. - Assessed key estimates such as discount rates, EBITDA forecasts and inflation rates in line with our work performed on forecasts within our impairment reviews noted below. - Verified these key estimates to supporting calculations, and / or third party sources where applicable. - Evaluated the experience, competence and independence of the external valuers to assess whether they had the required capabilities to provide the valuation services that they had been charged with. - Assessed whether movements in fair value have been appropriately recorded in the financial statements. - Reviewed the appropriateness of the accounting treatment of revaluation gains in the current and previous financial years, noting that they have previously been accounted for as an adjustment to cost

Independent Auditor Report to the Members of Safestay PLC

Key Audit Matter	How our scope addressed this matter
<p>Freehold and leasehold property valuations contain significant assumptions and judgements and therefore there is a risk that the valuation is not materially accurate or has been applied incorrectly in the financial statements.</p>	<p>rather than first eliminating accumulated depreciation and then adjusting cost for any gains in excess of depreciation. This was discussed with management and subsequently confirmed by them that historic revaluation gains should have first gone offset accumulated depreciation and so a prior year adjustment has been recognised in respect of this.</p> <ul style="list-style-type: none"> - Reviewed the appropriateness and completeness of disclosure of the prior year restatements included in the financial statements.
<p>Impairment of Goodwill (Note 12), investment in subsidiaries (Note 4 – Parent) and intercompany receivables Note 5 – Parent).</p> <p>Included in the Group’s Statement of Financial Position is Goodwill of £10.9m (2022: £12.0m).</p> <p>In addition, included in the Parent Company’s Statement of Financial Position are investments in subsidiaries of £9.3m (2022: £9.9m) and intercompany receivables of £21.1m (2022: £19.1m).</p> <p>Given that the Group, and a number of subsidiaries to which the balances relate are loss making, there is a risk that the Groups Goodwill, and Parent Company’s investment in subsidiaries and intercompany receivables should be impaired.</p> <p>The impairment review of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows and the assumptions made in relation</p>	<p>We obtained and critically assessed management’s impairment assessment of these balances, which largely related to forecasts of the subsidiaries’ performance to which these balances are attributable. As part of our audit procedures we:</p> <ul style="list-style-type: none"> - Challenged the reasonable of key assumptions used in the formation of expected future revenues by CGU. This included a review of projected occupancy and forecasted revenue per available room. - Assessed the reasonableness of revenue growth rates applied year on year, with reference to third party sources. - Assessed the completeness and accuracy of forecasted expenditure in line with actuals from the current year and contracts for committed expenditure in future periods. - Assessed the appropriateness of the discount factor used in the calculation of the present value of future forecasts. This involved an agreement to third party sources and contracted agreements.

Independent Auditor Report to the Members of Safestay PLC

Key Audit Matter	How our scope addressed this matter
<p>to the forecasted performance of the subsidiaries to which the balances relate.</p> <p>The effect of this is that the recoverable amount of Goodwill, Investment in subsidiaries and intercompany receivables has a high degree of estimation uncertainty and a potential range of reasonable outcomes greater than materiality for the financial statements. Therefore, there is a risk that they require impairment.</p>	<ul style="list-style-type: none"> - Ensured that forecasted future revenues were only included for the period up to the end of the contracted lease term, taking into account any options to extend - Assessed the sensitivity analysis presented by management detailing the headroom for each subsidiary. - Performed our own sensitivity analysis to assess the level of headroom regarding the balance of goodwill, investments in subsidiaries and intercompany receivables, where a prior year restatement was made between Safestay PLC and WXYZ2 Limited.
<p>Recognition of held for sale assets</p> <p>Discussions with management during our audit indicated that around year end there were ongoing discussions surrounding the disposal of the hostel in Vienna, operated by Safestay Hostel GmbH.</p> <p>Under IFRS 5, assets should be classified as held for sale if an entity has the intention and ability to transfer the assets to a buyer in its present conditions.</p> <p>It was determined during this audit that this classification criteria had been met and therefore audit testing was performed to ensure appropriate recognition of the held for sale assets and the discontinued operations.</p> <p>Included in the Groups Statement of Financial Position are liabilities held for sale of £506k and a net loss from discontinued operations of £376k.</p>	<p>As part of our audit procedures we:</p> <ul style="list-style-type: none"> - Reviewed board meeting minutes and other correspondence around year end to verify at which date the held for sale recognition criteria was met. - Assessed the appropriateness of whether the sale recognition criteria had been met prior to the year end, and we reviewed management’s assessments on the valuation of the Vienna property, ensuring that it is appropriately recognised at the lower of carrying amount and fair value less costs to sell. - Re-performed depreciation calculations ensuring that depreciation charges ceased at the point of recognition as held for sale. - Reviewed management’s accounting disclosures for the held for sale assets, ensuring that it is appropriately recognised within the face of the statement of financial position and within the notes to the accounts.

Independent Auditor Report to the Members of Safestay PLC

Key Audit Matter	How our scope addressed this matter
<p>Sale and leaseback</p> <p>In 2017 the Group entered into a sale and leaseback transaction in respect of one of its properties. The arrangement requires the Group to pay an annual rental charge, but also grants the right of re-purchase of the property either after 25 years from the commencement of the lease or at the end of the 150 year lease term.</p> <p>Management have considered that this transaction does not meet the definition of a sale of the asset and so rather than applying the requirements of IAS 17 (the accounting standard relating to leases applicable in 2017) to recognise a finance lease liability at the lower of the fair value of the asset and the present value of future minimum lease payments, instead the sales proceeds have been accounted for as a financing liability which is being amortised, using the effective interest method, over the term of the lease based on management’s judgement that they will not take the 25 year re-purchase option and instead will acquire it at the end of the lease term.</p> <p>Given the complexity of this transaction and that it is outside of the ordinary course of business for the Group we identified that there was a risk that the liability in respect of this had been incorrectly accounted for.</p>	<p>As part of our audit procedures we:</p> <ul style="list-style-type: none"> - Evaluated the accounting policy adopted by the Group for compliance with IFRSs as adopted by the UK, specifically obtaining management’s assessment of the substance of the financing transactions and assessing its reasonableness through reference to the requirements of IAS 17, other relevant accounting standards and associated technical guidance; - Assessed the appropriateness of management’s judgement with regards to whether or not they will trigger the 25 year re-purchase option; - Substantiated the terms of the sale and leaseback transaction to the sale and subsequent lease agreement for property; - Reviewed the mathematical accuracy of their calculations of the lease liabilities and insuring that the inputs in relation to cash flows agreed to the terms of the sale and lease agreements and that the effective interest rate estimated was appropriate; and - Reviewed the appropriateness of the disclosures within the financial statements to ensure that they are appropriate and complete.
<p>WXYZ2 Impairment (Parent Company only)</p> <p>During our review of impairment of investment in subsidiaries, we noted accounting entries for a group restructure in both 2014 and 2017 had been omitted from the financial statements.</p>	<p>As part of our audit procedures we have:</p> <ul style="list-style-type: none"> - Assessed the appropriateness and mathematical accuracy of management’s

Independent Auditor Report to the Members of Safestay PLC

Key Audit Matter	How our scope addressed this matter
The financial statements have been restated to include the accounting treatment for this transaction. This has been recognised as a prior period adjustment.	steps paper showing the calculation of all missing accounting entries; - Obtained the restructuring steps paper to confirm the substance of the transactions; - Reviewed Companies House to confirm the legal transfer of ownership of Safestay (Elephant & Castle) Limited to Safestay PLC on 22 March 2017; and - Reviewed the appropriateness of the disclosures, including the prior year adjustment, within the financial statements to ensure they are appropriate and complete.

Our application of materiality

The scope and focus of our audit were influenced by our assessment and application of materiality. We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

The materiality for the Group financial statements as a whole was set at £1,850,000. This was determined as being 2% of the Group's gross assets. Gross assets have been selected as a benchmark because net assets per share is it is a Key Performance Indicator of the Group and gross assets are a key driver of this. Gross assets also reflects the high asset base of the Group which is required to continue to operate its daily trade.

In addition to this, a lower area specific materiality was set at £382,000 for all areas except for leasehold and freehold property, and those intrinsically linked to them such as the revaluation reserve and goodwill. This was determined as 2% of revenue as it is also a Key Performance Indicator of the Group and stakeholders are principally interested in the underlying performance of the Group. Consideration was given as to whether a profit-based area specific materiality should be used however on the basis that the Group is loss making it was concluded that it was more appropriate to base the area specific materiality on revenue.

On the basis of our risk assessment and review of the Group's control environment, performance materiality was set at 65% of materiality, being £1,200,000 on full materiality and £248,300 on area specific materiality. The reporting threshold to the audit committee was set at 5% of materiality, being

Independent Auditor Report to the Members of Safestay PLC

£92,500 and £19,100 respectively. If in our opinion, differences below this level warranted reporting on qualitative grounds, these would also be reported.

We have determined Parent Company materiality to be £776,000. This was determined as being 2% of gross assets. Gross assets was selected as the benchmark as the Parent company is a holding company and does not generate revenue. Therefore, the gross asset position is considered to be the area of principal interest for the stakeholders. Additionally, an area specific materiality was set at £84,000 for all transactions related to the Income Statement. This was determined at 2% of total expenditure.

Because of our risk assessment and review of the Parent Company's control environment, performance materiality was set at 65% of materiality, being £504,000 for total materiality and £54,500 for area specific materiality. The reporting threshold to the Audit Committee was set at 5% of materiality, being £38,800 and £4,100 respectively. If in our opinion, differences below this level warranted reporting on qualitative grounds, these would also be reported.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included but was not limited to:

- Obtaining management's assessment of going concern and supporting cash flow forecasts covering up to 31 December 2028, and challenging the reasonableness of the assumptions, current and historic trading performance, estimates and judgements that support them.
- Reviewing and considering of the appropriateness of downside and stressed scenarios of trading performance and cash flow forecasts prepared by management;
- Reviewing and considering compliance with bank loan covenants during the period ended 31 December 2023 and as prospectively forecast;
- Challenging and assessing the underlying assumptions of the cashflow forecasts and considering whether the period of the forecast is appropriate and;
- Reviewing post balance sheet trading performance and cash flow to assess the reasonableness of management's forecasting, including an assessment of the impact of post balance sheet events including the group refinancing in January 2024.

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

Independent Auditor Report to the Members of Safestay PLC

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

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
 - the Parent Company financial statements are not in agreement with the accounting records and returns;
- or
- certain disclosures of directors' remuneration specified by law are not made; or

Independent Auditor Report to the Members of Safestay PLC

- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Based on our understanding of the Group and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to regulatory requirements for the Group and trade regulations, such as minimum wage regulation and food standards requirements and AIM listing rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, income tax, payroll tax and sales tax.

Independent Auditor Report to the Members of Safestay PLC

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to revenue and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Inspecting correspondence with regulators and tax authorities;
- Evaluating management's controls designed to prevent and detect irregularities;
- Discussion with management regarding the relevant laws and regulations that apply to the Group and its subsidiaries, with specific tests completed to ensure compliance with National Minimum Wage requirements and hygiene standards.
- Reviewing board meeting minutes for any details on ongoing legal cases or known regulatory breaches.
- Reviewing legal expenses to assess for evidence of contingent liabilities.
- Holding discussions with management regarding the risk of breaches of AIM rules, as well as discussing this with the Company's NOMAD;
- Reviewing revenue recognition throughout the year to ensure that it has been correctly accounted for. Specifically this involved targeted journals testing around manual journals posted to revenue and journals outside of the normal revenue cycle;
- Identifying and testing journals, in particular journal entries posted with round sum values, blank descriptions, keywords or involving intercompany or related parties.
- Challenging assumptions and judgements made by management in their critical accounting estimates, particularly in relation: to assumptions made in preparing value in use calculations for impairment assessments in respect of goodwill, tangible fixed assets and investments in subsidiaries; their assessment of the recoverability of intercompany debtors and the calculation of discount rates used in lease valuations and freehold property valuations;

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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.

Independent Auditor Report to the Members of Safestay PLC

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the 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.

Laura Mott (Senior Statutory Auditor)

For and on behalf of Haysmacintyre LLP, Statutory Auditors

10 Queen Street Place

London

EC4R 1AG

6 June 2024

Consolidated Income Statement for the Period Ended 31 December 2023

	Note	2023	2022
		Total	As restated
		£'000	Total
			£'000
Revenue	2	21,493	18,148
Cost of sales	3	(3,811)	(2,831)
Gross profit		17,682	15,317
Administrative expenses	5	(15,231)	(13,410)
Operating profit after exceptional items		2,451	1,907
Finance income and costs	6	(3,173)	(2,393)
Loss before tax		(722)	(486)
Tax	8	(226)	442
Loss for the year from continuing operations		(948)	(44)
Net loss from discontinued operations	4	(376)	(105)
Loss for the financial year attributable to owners of the parent company		(1,324)	(149)
Basic loss per share from continuing operations	9	(1.46p)	(0.07p)
Basic loss per share from discontinued operations	9	(0.58p)	(0.16p)
Diluted loss per share from continuing operations	9	(1.39p)	(0.06p)
Diluted loss per share from discontinued operations	9	(0.55p)	(0.15p)

Consolidated Statement of Comprehensive Income**Year ended 31 December**

	2023	2022
	£'000	As Restated £'000
Loss for the year	(1,324)	(149)
Exchange differences on translating foreign operations	7	134
Property revaluation	3,904	-
Deferred tax on property revaluation	(171)	-
Total comprehensive income for the year attributable to owners of the parent company	2,416	(15)

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

Consolidated Statement of Financial Position

31 December

		31 December 2023	31 December 2022	1 January 2022
			As Restated	As Restated
	Note	£'000	£'000	£'000
Non-current assets				
Property, plant and equipment (including right of use asset)	11	73,709	72,058	73,609
Intangible assets	12	71	9	18
Goodwill	12	10,896	12,014	12,146
Lease assets	17	297	453	562
Deferred tax asset	18	5,488	7,226	6,969
Total non-current assets		90,461	91,760	93,304
Current assets				
Inventory		26	24	35
Trade and other receivables	13	1,210	1,122	1,227
Lease assets	17	142	139	78
Current tax asset		134	66	199
Cash and cash equivalents	14	1,998	5,226	4,482
Total current assets		3,510	6,577	6,021
Total assets		93,971	98,337	99,325
Current liabilities				
Borrowings	16	(932)	(925)	(926)
Lease liabilities	17	(1,793)	(1,871)	(1,922)
Liabilities held for sale	4	(506)	-	-
Trade and other payables	15	(4,018)	(3,128)	(2,062)
Current liabilities		(7,249)	(5,924)	(4,910)
Non-current liabilities				
Borrowings	16	(22,354)	(23,095)	(24,028)
Lease liabilities	17	(24,250)	(30,349)	(31,086)
Trade and other payables		-	-	(7)
Deferred tax liabilities	18	(7,359)	(8,737)	(8,687)
Total non-current liabilities		(53,963)	(62,181)	(63,808)
Total liabilities		(61,212)	(68,105)	(68,718)
Net assets		32,759	30,232	30,607

Safestay plc

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Consolidated Statement of Financial Position

31 December

Equity				
Share capital	19	649	647	647
Share premium account	19	23,959	23,904	23,904
Other components of equity	19	21,952	18,158	18,384
Retained earnings		(13,801)	(12,477)	(12,328)
Total equity attributable to owners of the parent company		32,759	30,232	30,607

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

These financial statements were approved by the Board of Directors and authorised for issue on 6th June 2024.

Signed on behalf of the Board of Directors

Paul Hingston

Chief Financial Officer

Consolidated Statement of Changes in Equity

31 December

	Share Capital £'000	Share premium account £'000	Other Components of Equity £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2022	647	23,904	18,510	(12,928)	30,133
Prior year adjustment (note 25)	-	-	(126)	126	--
Transition to IAS 12 (see note 18)	-	-	-	474	474
Balance as at 1 January 2022 As Restated	647	23,904	18,384	(12,328)	30,607
Comprehensive income					
Loss for the year (as restated - see note 25)	-	-	-	(149)	(149)
Other comprehensive income					
Movement in translation reserve	-	-	(134)	-	(134)
Total comprehensive income	-	-	(134)	(149)	(283)
Transactions with owners					
Share based payment charge for the period (as restated)	-	-	(92)	-	(92)
Balance at 31 December 2022 (as restated)	647	23,904	18,158	(12,477)	30,232
Comprehensive income					
Loss for the year	-	-	-	(1,324)	(1,324)
Other comprehensive income					
Movement in translation reserve	-	-	7	-	7
Property revaluation reserve	-	-	3,904	-	3,904
Deferred tax on property revaluation	-	-	(171)	-	(171)
Total comprehensive income	-	-	3,740	(1,324)	2,416
Transactions with owners					
Issue of shares	2	55	-	-	57
Share based payment charge for the period	-	-	54	-	54
Balance at 31 December 2023	649	23,959	21,952	(13,801)	32,759

Safestay plc

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Consolidated Statement of Cash Flows

31 December

	2023	2022
Note	As Restated	
	£'000	£'000
Cash flow from operating activities		
Loss for the year	(1,324)	(149)
Tax charge	226	(442)
Depreciation, amortisation	3,364	3,587
Net finance costs	3,413	2,557
Share based payment charge	54	(92)
Lease modification	-	280
Impairment charges	1,028	-
(Increase)/decrease in inventories	(2)	11
Decrease in lease asset debtor	153	48
Decrease in trade and other receivables	136	104
Increase in trade and other payables	1,076	1,059
Cash generated from operations attributable to continuing operations	8,124	6,963
Income tax received/(paid)	(69)	134
Total net cash inflow from operating activities	8,055	7,097
Cash flow from investing activities		
Purchases of property, plant and equipment	(4,977)	(365)
Purchases of intangible assets	(80)	(5)
Interest received	35	2
Total net cash outflow from investing activities	(5,022)	(368)
Cash flow from financing activities		
Share issue	57	-
Principal elements of lease payments	(3,639)	(3,495)
Interest paid	(1,274)	(658)
Loan repayments	(1,000)	(997)
Total net cash outflow from financing activities	(5,856)	(5,150)
Cash and cash equivalents at beginning of year	5,226	4,482
Net cash flows (used in)/generating from operating, investing and financing activities	(2,823)	1,579

Safestay plc

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Consolidated Statement of Cash Flows

31 December

Differences on exchange		<u>(365)</u>	<u>(835)</u>
Cash and cash equivalents at end of year (including discontinued operations)	4, 14	<u>2,038</u>	<u>5,226</u>

Safestay plc

Notes to the Consolidated Financial Statements

1 General Information

Corporate Information

Safestay plc is a public limited company, limited by share capital, whose shares are publicly traded on the Alternative Investment Market (“AIM”) of the London Stock Exchange and is incorporated in the United Kingdom and registered in England and Wales. The registered number of the Group is 8866498 and its registered address is 1a Kingsley Way, London, N2 0FW.

Statement of Compliance

The Group and Company financial statements have been prepared in accordance with UK-adopted International Financial Reporting Standards (“IFRS”) in conformity with the requirements of the Company Act 2006.

Basis of preparation

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

The accounting policies have been applied consistently throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2023.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of Safestay plc and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company with adjustments made to their financial statements to bring their accounting policies in line with those used by the Group.

The financial results of subsidiaries are included in the consolidated financial information from the date that control commences, being where the Group controls more than 50% of a subsidiary’s share capital, until the date that control ceases. The consolidated financial information presents the results of the companies within the same group. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed below.

New standards, amendments and interpretations adopted

The Directors do not consider that there are any new standards or amendments applicable for the accounting period ending 31 December 2023 that would have a material impact on the Group’s accounting treatment.

New standards, amendments and interpretations issued but not yet effective

Notes to the Consolidated Financial Statements

The following standards are applicable for financial years beginning on/after 1 January 2024:

- IFRS10 – Sale or contribution of assets between an investor and its associate or joint venture
- IFRS16 - Lease liability in a sale and leaseback
- IAS 1 – Classification of liabilities as current or non-current
- IAS 1 – Non-current liabilities with covenants
- IFRS18 – Presentation and Disclosure in Financial Statements

When applied, none of these amendments are expected to have a material impact on the Group.

Going concern

In assessing the going concern position of the Group for the consolidated financial statements for the period ending 31 December 2023, the Directors have considered the Group's cash flow, liquidity, and business activities.

During 2023, the Group recorded an adjusted EBITDA of £6.8 million (2022: £5.9 million) as the business continued to recover well from the pandemic and for the first time since 2019, the hostels have been open for 100% of the year. Additionally, 2024 sales are significantly ahead of 2023 with the profit impact further enhanced by tight cost control and a changing sales mix from increased groups business.

The Group reduced their bank borrowings by £0.8m as the Group continued repaying CBILS (Coronavirus Business Interruption Loan Scheme). The Group reported a cash position of £1.9 million (2022: £5.2 million) which is largely reduced due to the acquisition of freehold property in Edinburgh for £4.3 million. During 2024, the Group refinanced all its existing borrowings in January 2024 into a single £16.0 million Term Loan and added a new £2.5 million Revolving Credit Facility ("RCF") to support future growth plans. The new Term Loan and RCF are for five years and were provided by existing lender HSBC.

As part of their going concern assessment, the Directors have prepared forecasts for a minimum period of twelve months from the date of approval of the financial statements. In addition, certain adverse scenarios have been considered for the purposes of stress and sensitivity testing.

A downside case was considered whereby EBITDA was reduced by 5% for the 18-month period to June 25. In this scenario, the Group has sufficient liquidity to remain in compliance with its covenant obligations.

A severe downside case whereby EBITDA was reduced by 20%. In this scenario, there would not be any expected breaches of the covenant obligations and doesn't factor in any mitigating actions such as reducing labour spend and controllable costs. This severe case was modelled to provide comfort over the Group's headroom on its covenants and is not considered to be a realistic scenario.

Upon consideration of this analysis and the principal risks faced by the Group, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, the Directors have concluded that it is appropriate to prepare these financial statements on a going concern basis.

Notes to the Consolidated Financial Statements

(A) Accounting Policies

Revenue

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

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

Revenue is stated net of VAT and is gross of travel agency commission with the Group being the principal in all third party booking arrangements. It comprises revenues from overnight hostel accommodation, the sale of ancillary goods and services such as food & beverage and merchandise.

Accommodation and the sale of ancillary goods and services are recognised when provided.

Income from the rent of student accommodation is recognised on a straight-line basis over the academic year to which the rent relates. In accordance with IFRS 16, the Group accounts for its subleases as operating leases as they do not transfer substantially all the risks and rewards of ownership to the lessee.

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

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

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

There are no significant judgements or estimations made in calculating and recognising revenue.

Revenue is not materially accrued or deferred between one accounting period and the next.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers ("CODM"), who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors. Currently the operating segments are the operation of hostel accommodation in the UK and Europe. An additional geographical area has been identified in respect of Spain as disclosed in note 2.

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

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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 based on tax rates that have been enacted or substantively enacted by the statement of financial position date.

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

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

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

Foreign currency translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are generally recognised in the income statement.

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

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

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

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

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

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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 acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition costs are expensed as incurred.

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

Prior Year Adjustments

Prior year adjustments are recognised where changes in accounting policy or misstatements identified in respect of previously reported amounts have a material impact on the prior year comparatives.

Assets and liabilities held for sale & discontinued operations

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through sale. Assets held in Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets included in Assets held for sale are not depreciated or amortised. Assets and liabilities classified as held for sale are presented in current assets and current liabilities separately from the other assets and liabilities in the balance sheet.

A discontinued operation is a component of the Group that has been disposed of, distributed or is classified as held for sale or distribution and that represents a separate major line of business. The results of discontinued operations are presented separately in the consolidated income statement, the consolidated statement of other comprehensive income and the consolidated statement of cash flows and comparatives are restated on a consistent basis.

Deferred Consideration

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

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Property, plant and equipment

Freehold property and Lease assets are stated at fair value and revalued periodically in accordance with IAS 16 Property Plant and Equipment. Valuation surpluses and deficits arising in the period are included in the statement of Comprehensive Income. All other property, plant and equipment are recognised at historical cost less depreciation and are depreciated over their useful lives. The applicable useful lives are as follows:

Fixtures, fittings and equipment	3-5 years
Freehold properties	50 years
Leasehold properties	Term of the lease

Land is not depreciated.

Leasehold land and buildings relate to property from financing transactions related to Safestay Elephant and Castle. The sale of the property in 2017 was agreed with an institutional buyer in exchange for 150 year geared ground rent leases. The significant risks and rewards of ownership were retained, and the exercise to repurchase these properties is “almost certain”. The contract took the legal form of the sale and leasebacks. However, the economic substance of the original transactions in 2017 meant that the lease has historically been treated as owned by Safestay. Therefore, the transactions are classified as leasehold land and buildings.

Impairment of property, plant and equipment

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

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

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

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.

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Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. The Directors consider each individual hostel to be a separate cash generating unit for impairment purposes and, as explained in note 12 to the financial statements, each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

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

Intangible assets

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

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

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

The leasehold rights and tenancy subleases relate to intangible assets acquired in a business combination as outlined in note 12.

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

The following useful lives are applied:

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

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

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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.

Inventory

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

Financial assets measured at amortised cost

Financial assets held at amortised costs are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets.

Cash and cash equivalents

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

Trade and other receivables

Trade and other receivables are measured at initial recognition at transaction price plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method. The Group recognises lifetime ECL for trade receivables and amounts due on contracts with customers. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors. Management have considered the ECL for trade receivables as immaterial given the majority of sale receipts are obtained prior to the stay.

Credit risk

The Group assesses impairment on a forward-looking basis using the expected credit loss method and has applied the simplified approach which uses the lifetime expected loss provision for all trade and other receivables. The Group has no significant history of non-payment; as a result, the expected credit losses on financial assets are not material.

Financial liabilities

The Group classifies its financial liabilities as other financial liabilities. Other financial liabilities are measured at fair value on initial recognition and subsequently measured at amortised cost, using the effective-interest method.

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Borrowings

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

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

Loan arrangement fees

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

Trade and other payables

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

Leases

The Group has leases for hostels across Europe. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. Leases of property generally have a lease term ranging from 5 years to 50 years.

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract the Group has the right to direct the use of the identified asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
 - The Group has the right to operate the asset; or
 - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

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Measurement and recognition of leases as a lessee

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

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

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

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

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

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

Measurement of the Right-of-use Assets

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

The Group as a lessor

As a lessor the Group classifies its leases as either operating or finance leases.

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

The Group accounts for its sub leases as finance leases with reference to the right-of-use asset arising from the head lease. The Group has not offset the assets and liabilities of the head lease and sub lease, nor the income and expenditure arising from these contracts. A lease receivable is

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recognised in the statement of financial position in respect of the net investment in the sub lease. The net investment in the sub lease is assessed annually for any indicators of impairment.

Equity

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

Share Capital

Share capital represents the nominal value of shares issued.

Share premium account

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

Retained earnings

Retained earnings represent undistributed cumulative earnings.

Equity Instruments

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

Other Components of Equity

Merger reserve

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

Revaluation reserve

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

Translation Reserve

Translation Reserve comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into presentational currency.

Share based payment reserve

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

The Group has applied the requirements of IFRS 2 Share based payment to share options. The fair value of the share options is determined at the grant date and are expensed on a straight-

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line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

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

Dividends

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

Critical accounting judgements and key sources of estimation and uncertainty

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

Judgements

- The Group has identified certain costs and income as exceptional in nature in that, without separate disclosure, would distort the reporting of the underlying business. A degree of judgement is required in determining whether certain transactions merit separate presentation to allow shareholders to better understand financial performance in the year, when compared with that of previous years and trends. This is set out in note 5. The value for these costs in the Consolidated Income statement for the period ending 31 December 2023 is £26,000 (2022: £369,000).
- Extension options for leases: In accordance with IFRS 16, when the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. Management generally includes extensions when the option to extend can be unilaterally exercised by the tenant provided the hostel under lease is expected to continue to be profitable for the Group after the extension is exercised.
- The Group has an option to repurchase the leasehold property at Elephant & Castle after 25 years. The Directors have considered whether the option would be exercised and have concluded that for commercial reasons, the option would not be taken. If the option were to be taken, the property finance liability at 31 December 2023 would be £8.7 million (2022: £8.4 million), and finance charges relating to the liability would total £0.5 million (2022: £0.4 million).
- The Group has identified that a portion of the newly acquired freehold property in Edinburgh has been leased out to a third party. The Directors have considered whether the portion of the property leased out to a third party constitutes investment property under IAS 40. The Director's concluded that due to the specific leasing arrangements with the third party, it was appropriate to consider the space as freehold property. If the treatment were to be considered as investment property, the property would be held at fair value per the valuation report of £1.8 million. Depreciation charges would not be

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affected under treatment as investment property for the period ending 2023 given the property was purchased in December 2023. The impact on depreciation charges for future periods would equate to a reduction in depreciation expense of £0.1 million per annum.

- The Group, where the interest rate implicit in the lease cannot be practicably determined, has used the incremental borrowing rate (based on a quoted rate from an external lender as at the date of inception or most recent modification of the lease) instead to calculate the present value of the minimum lease payments. The nature and therefore small changes in the incremental borrowing rate could have a material impact on the financial statements. At 31 December 2023, lease liabilities totalled £26.0 million (2022: 32.2 million) and finance charges relating to lease liabilities for the period totalled £1.9 million (2022: 1.4 million).

Estimates

- Assessment of impairment of goodwill, property, plant and equipment (including right of use assets) and the ability for the Group to continue as a going concern requires estimation of future cash flows, which are uncertain, discounted to present value which also requires estimation by management. The key assumptions used to calculate the value in use (VIU) to test the goodwill for each cash generating units (CGUs) are detailed in note 12. A Pre-tax discount rate of 9.7% (2022: 11.0%) has been calculated using weighted average cost of capital. An assessment was made on the differing risks between countries in which the hostels operate based on country risks. Based on the assessment it was concluded that the differences between discount rates between each CGU is not material. The assets are similar in nature, with all CGUs providing the provision of hostel accommodation and therefore similar cashflows and therefore the risk associated with the assets is considered to be consistent between CGUs. As such one discount rate has been utilised for the purposes of performing an impairment review. At 31 December 2023, Goodwill totalled £10.9 million (2022 : £12.0 million) and impairment charges totalled £0.9 million (2022: £nil). At 31 December 2023, property plant and equipment (including right of use assets) totalled £73.7 million (2022: £72.1 million) and impairment charges totalled £0.1 million (2022: £nil).
- As outlined in the accounting policy, the financial statements have been prepared under the historical cost convention except for the revaluation of the freehold properties and lease assets (in respect of Elephant and Castle). The Group is required to value property on a sufficiently regular basis by using open market values to ensure that the carrying value does not differ significantly from the fair value. The valuation, performed by qualified valuers is based on market observations and estimates on the selling price in an arms-length transaction, and includes estimates of future income levels and trading potential for each hostel as other factors including location and tenure. See note 11. The Group has used external valuations on freehold properties and leased assets under financing transactions, as outlined in note 11. Based on the market data assessed and internal assessment of each property, Management does not consider that the fair value differs materially from the carrying value. Management is confident that the carrying value is deemed reasonable at 31st December 2023.

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- The estimated useful lives which are used to calculate depreciation of property, plant and equipment are based on the length of time these are expected to generate income and be of benefit to the Group. Depreciation methods, useful economic lives and residual values are reviewed at each reporting date and adjusted if appropriate. Property plant and equipment totalled £73.7 million at 31 December 2023 (2022: £72.1 million) and depreciation charges totalled £3.3 million (2022: £3.3 million).
- The Group has recognised deferred tax assets for deductible temporary differences and unused tax losses that it believes are recoverable. The recoverability of recognised deferred tax assets is in part dependent on the Group's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses (before the latter expire). The Director's consider the likelihood that the Group will generate taxable profits is probable, and as such, recognises deferred tax assets related to tax losses in full. Deferred tax assets at 31 December 2023 totalled £5.5 million, of which £1.2 million (2022: £1.4 million) relates to losses. Deferred tax charges for the period ending 31 December 2023 totalled £0.2 million (2022: £0.5 million tax credit).

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2. SEGMENTAL ANALYSIS

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

	2023	2022
	£'000	£'000
Hostel accommodation	20,143	17,150
Food and Beverages sales	1,525	1,109
Other income	822	887
Total Income	22,490	19,146
Like for like income	21,493	18,148

Like-for-like income relates to all turnover less turnover associated with the discontinued operating segments.

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

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

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

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

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

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2023	UK	Spain	Europe	Shared services	Total
	£'000	£'000	£'000	£'000	£'000
Revenue	8,270	5,349	8,871	-	22,490
Profit/(loss) before tax (including discontinued operations)	2,293	(431)	(1,293)	(1,667)	(1,098)
Add back: Finance costs	315	278	494	2,326	3,413
Add back: Depreciation & Amortisation	432	1,198	1,194	540	3,364
EBITDA	3,040	1,045	395	1,199	5,679
Impairment	-	-	1,028	-	1,028
Adjusting Items & Share based payment expense	-	-	-	80	80
Adjusted EBITDA	3,040	1,045	1,423	1,279	6,787
Total assets	40,944	15,818	21,551	15,658	93,971
Total liabilities	(11,424)	(11,853)	(7,904)	(30,031)	(61,212)
2022	UK	Spain	Europe	Shared services	Total
	£'000	£'000	£'000	£'000	£'000
Revenue	6,864	4,464	7,818	-	19,146
Profit/(loss) before tax (as restated) (including discontinued operations)	2,574	278	1,009	(4,450)	(589)
Finance costs	191	1	59	2,306	2,557
Depreciation & Amortisation	253	1,045	1,369	987	3,654
EBITDA	3,018	1,324	2,437	(1,157)	5,622
Adjusting Items & Share based payment expense (as restated)	-	-	-	277	277
Adjusted EBITDA	3,018	1,324	2,437	(880)	5,899
Total assets	36,539	16,570	25,233	19,995	98,337
Total liabilities	(9,164)	(12,088)	(12,672)	(34,181)	(68,105)

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The Group's non-current assets (other than financial instruments and deferred tax assets) are located into the following geographic regions:

	2023	2022
	£'000	£'000
UK	40,472	36,005
Spain	14,976	15,636
Rest of Europe	19,650	22,733
Shared services	15,363	17,386
Total	90,461	91,760

3. COST OF SALES

	2023	2022
	£'000	£'000
Food and drinks	635	449
Direct room supplies and sales commissions	3,404	2,693
Total	4,039	3,142

4 DISCONTINUED OPERATIONS AND LIABILITIES HELD FOR SALE

Following the classification of the asset group of "Vienna Hostel" as held-for-sale in September 2023, the operational performance was classified as discontinued. The Hostel formed part of the Europe operating segment.

	2023	2022
	£000s	£000s
Revenue	996	998
Cost of sales	(228)	(311)
Gross profit	768	687
Administrative expenses	(905)	(628)
Operating profit	(137)	59
Finance income and costs	(239)	(164)
Profit/(loss) before tax	(376)	(105)
Loss after tax for discontinuing operations	(376)	(105)

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	2023	2022
	£000s	£000s
Property plant and equipment (including right-of-use asset)	3,884	-
Trade and other payables	(187)	-
Lease Liabilities	(4,291)	-
Cash and cash equivalents	40	
Trade and other receivables	48	-
Liabilities held for sale	<u>(506)</u>	<u>-</u>
	2023	2022
	£'000	As Restated £'000
Cash flow from operating activities		
Loss for the year	(376)	(103)
Tax charge	1	-
Depreciation, amortisation and impairment	264	259
Net finance costs	239	161
(Increase)/decrease in inventories	2	(2)
Decrease in trade and other receivables	(54)	(13)
Increase in trade and other payables	306	239
Net Cash generated from operations attributable to discontinued operations	<u>382</u>	<u>541</u>
Cash flow from investing activities		
Purchases of property, plant and equipment	(9)	(5)
Net cash used in discontinued investing activities	<u>(9)</u>	<u>(5)</u>
Cash flow from financing activities		
Principal elements of lease payments	(419)	(366)
Loan repayments	(80)	(72)
Net cash used in discontinued financing activities	<u>(499)</u>	<u>(438)</u>
Cash and cash equivalents at beginning of year	162	75
Net cash flows (used in)/generating from operating, investing and financing activities	(126)	98
Differences on exchange	4	(11)
Cash and cash equivalents at end of year	<u>40</u>	<u>162</u>

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Notes to the Consolidated Financial Statements

5. ADMINISTRATIVE EXPENSES

	2023	2022
	£'000	As Restated £'000
Staff costs (see note 10)	7,093	5,380
Legal and professional fees	781	895
Property costs	344	513
Depreciation and amortisation	3,364	3,654
Impairment of goodwill and fixed assets	1,028	-
Share option expenses	54	(92)
Adjusting items: one-off legal and other	26	369
Other expenses	3,446	3,319
	<u>16,136</u>	<u>14,038</u>

6. FINANCE COSTS

	2023	2022
	£'000	£'000
Interest on bank overdrafts and loans	1,340	896
Amortised loan arrangement fees	68	68
Interest expense for lease arrangements (note 17)	1,725	1,404
Property financing expense	315	191
	<u>3,448</u>	<u>2,559</u>

Finance income for the period totalled £36k (2022: £2k)

7. LOSS FOR THE FINANCIAL YEAR

The audit fees disclosed in 2023 represent the fees payable for the audit for the period ended 31 December 2023.

	2023	2022
	£'000	£'000
Profit/(Loss) for the financial period is arrived at after charging:		
Depreciation on owned assets	938	1,363
Depreciation of assets under lease liabilities	2,408	2,210
Amortisation of intangible assets	18	81
CLA Evelyn Partners Limited Auditor's remuneration for audit services	40	281
Haysmacintyre LLP Auditor's remuneration for audit services	<u>175</u>	<u>-</u>

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Notes to the Consolidated Financial Statements

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

	2023	2022
	£'000	£'000
Fees payable to Company's auditors for the audit of the Parent Company and consolidated financial statements:		
CLA Evelyn Partners Limited audit of the Group and Company's annual accounts	40	136
CLA Evelyn Partners Limited additional fees relating to first year 2021 audit.	-	116
CLA Evelyn Partners Limited audit of the subsidiaries' annual accounts	-	29
Haysmacintyre LLP audit of the Group and Company's annual accounts	110	-
Haysmacintyre LLP audit of the subsidiaries' annual accounts	65	-
	<u>215</u>	<u>281</u>

CLA Evelyn Partners audit charge in 2023 relates to agreed overruns relating to 2022 annual accounts agreed post signing of the 2022 annual accounts.

8 TAX

The Group tax charge is made up as follows:

	2023	2022
	£'000	£'000
Current tax		
Corporation tax on profits for the year	13	-
Adjustments for corporation tax on prior periods	-	48
Other local taxes	38	(4)
Total current tax	<u>51</u>	<u>44</u>
Deferred tax	96	(506)
Adjustments for deferred tax in prior periods	79	20
Effect of increased tax rate on opening balance	-	-
Total tax charge	<u>226</u>	<u>(442)</u>

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

	2023	2022
	£'000	As Restated £'000
Profit/(loss) before tax	(1,098)	(590)
Tax at the standard UK corporation tax rate of 23.52% (2022: 19%)	(258)	(112)
Fixed asset differences	43	34
Adjustment for tax rate differences in foreign jurisdictions	-	73
Adjustments for tax on prior periods	79	68
Other tax adjustments, reliefs and transfers	-	(4)
Remeasurement of deferred tax for changes in tax rates	1	(111)
Deferred tax not recognised	(16)	(26)
Factors affecting charge for the period		
Non-deductible items and other timing differences	356	(310)
Chargeable gains/(losses)	-	-
Foreign exchange differences	21	(54)
Deferred tax eliminated	-	-
Group tax charge	226	(442)

The Group has a deferred tax liability of £3.3 million (2022: £3.2 million) related to the potential future gain on property revaluations.

Included within current tax are adjustments for corporation tax on prior periods of £6k and relates to Group losses.

The Finance Bill 2021 included legislation to increase the main rate of corporation tax from 19% to 25% from 1 April 2023. This rate change is included above as the Finance Bill 2021 has been substantively enacted.

The Finance Bill 2023 includes legislation to implement the Organisation for economic Co-operation and Development ("OECD") Base Erosion and Profit Shifting ("BEPS") Pillar two income inclusion rule ("IIR") in the United Kingdom ("UK"). The legislation introduces a multination top-up tax ("MTUT") and the domestic top-up tax ("DTT") and both will apply to large multination enterprises for accounting periods beginning on or after 31 December 2023. The legislation is not thought to have any impact on the Group tax charge.

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9 PROFIT/(LOSS) PER SHARE

	2023	2022
		As restated
	£'000	£'000
Basic profit/(loss) per share from:		
Continuing Operations	(1.46p)	(0.07p)
Discontinued Operations	(0.58p)	(0.16p)
	<u>(1.46p)</u>	<u>(0.16p)</u>
Diluted profit/(loss) per share from:		
Continuing Operations	(1.39p)	(0.06p)
Discontinued Operations	(0.55p)	(0.15p)
	<u>(1.39p)</u>	<u>(0.15p)</u>

Basic loss per share has been calculated by dividing the loss attributable to shareholders by the weighted average number of shares in issue during the period.

Diluted loss per share has been calculated after adjusting the weighted average number of shares used in the basic calculation to assume the conversion of all potentially dilutive shares, such as share option awards.

The number of shares used in calculating basic and diluted loss per share are reconciled below:

	2023	2022
		As restated
Weighted average number of ordinary shares (000s) for the purposes of basic loss earnings per share	64,869	64,679
Effect of dilutive potential ordinary shares (000s)	3,441	3,398
	<u>68,310</u>	<u>68,077</u>

The total number of shares in issue as at 31 December 2023 was 64,935,414.

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10 STAFF COSTS

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

	2023	2022
	Number	Number
Hostel operation	277	222
Directors	6	4
	<u>283</u>	<u>226</u>

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

	2023	2022
	£'000	£'000
Wages and salaries	6,073	4,680
Social security costs	978	670
Pension costs	42	30
Total staff costs	<u>7,093</u>	<u>5,380</u>

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

	2023	2022
	£'000	£'000
Short term employee benefits	446	364
Pension	8	5
Share based payment charges	57	42
	<u>511</u>	<u>411</u>

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

Details of directors share options is provided in the Directors' Remuneration Report.

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Notes to the Consolidated Financial Statements

11 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Right Leasehold of Use Assets	Leasehold land and buildings	Leasehold improvements	Fixtures, fittings and equipment	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 1 January 2022	9,484	36,907	31,691	4,967	3,554	-	86,603
Prior Year Adjustment	(340)	-	(1,997)	-	-	-	(2,337)
At 1 January 2022 (as restated - see note 25)	9,144	36,907	29,694	4,967	3,554	-	84,266
Transfers	2,895	-	(2,895)	(305)	305	-	-
Additions	-	-	-	69	296	-	365
IFRS lease modification	-	(280)	-	-	-	-	(280)
Revaluation	-	-	-	-	-	-	-
Exchange movements	-	1,913	-	-	24	-	1,937
At 1 January 2023 as restated	12,039	38,540	26,799	4,731	4,179	-	86,288
Transfers	-	-	-	680	(720)	40	-
Reclassification as held for sale	-	(5,246)	-	-	(56)	-	(5,302)
Additions	2,522	-	-	4	337	2,114	4,977
IFRS lease modification	-	323	-	-	-	-	323
Revaluations	2,411	-	221	-	-	-	2,632
Exchange movements	27	(194)	-	24	(32)	-	(175)
At 31 December 2023	16,999	33,423	27,020	5,439	3,708	2,154	88,743
Depreciation							
At 1 January 2022	439	6,866	1,997	1,036	2,656	-	12,994
Prior Year Adjustment (as restated - see note 25)	(340)	-	(1,997)	-	-	-	(2,337)
At 1 January 2022 (as restated - see note 25)	99	6,866	-	1,036	2,656	-	10,657
Charge for the year	223	2,210	596	241	303	-	3,573
Revaluation	-	-	-	-	-	-	-
At 1 January 2023	322	9,076	596	1,277	2,959	-	14,230
Transfers	-	-	-	526	(526)	-	-
Reclassification as held for sale	-	(1,388)	-	-	(30)	-	(1,418)
Charge for the period	169	2,408	185	318	266	-	3,346

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Impairment	-	83	-	65	-	-	148
Revaluation	(491)	-	(781)	-	-	-	(1,272)
At 31 December 2023	-	10,179	-	2,186	2,669	-	15,034

Net book value:

At 31 December 2023	16,999	23,244	27,020	3,253	1,039	2,154	73,709
At 31 December 2022	11,717	29,464	26,203	3,454	1,220	-	72,058

Freehold properties

The Freehold values relates to the 4 following hostels:

- The £2.9 million value of the freehold in **York** is based on the external valuations as at 31 December 2023 prepared by Cushman and Wakefield. The historic cost carrying value is £1.9 million which is the acquisition price in 2014 of £2.4 million, less depreciation charges of £0.5 million.
- The freehold of the **Glasgow** property acquired in October 2019 for £3.2 million and which has undergone renovation for £0.4 million. The £4.9 million value of the freehold in Glasgow is based on the external valuations as at 31 December 2023 prepared by Cushman and Wakefield. The historic carrying value is £3.3 million, which is the acquisition price of £3.2 million plus renovations totalling £0.4 million, less depreciation charges of £0.3 million.
- The freehold of the **Edinburgh** property acquired in December 2023 for £4.3 million. The freehold value is based on the external valuations as at 31 December 2023 prepared by Cushman and Wakefield. At the reporting date, a portion of the property equivalent to the value of £2.1m is deemed to be not ready for use, and has been classified as an asset under construction.
- The hostel in **Pisa** was acquired in June 2019 for £3 million, of which £2.3 million for the freehold. The £6.7 million value of the freehold in Pisa is based on the external valuations as at 31 December 2023 prepared by Cushman and Wakefield. The historic carrying value is £2.0 million, which is the acquisition value of £2.3 million for the freehold, less depreciation charges of £0.3 million.

Right of Use Assets

The £38.4 million right of use assets all relate to properties operated by the Group as hostels.

Right of use assets as at 31 December 2022	38,540
IFRS 16 lease modification	323
Exchange differences	(194)
Transfer of assets to held-for-sale	(3,858)
Right of use assets as at 2023	34,811

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Leasehold, land and buildings

The Group has used external valuations on Elephant & Castle. The London Elephant & Castle leasehold was independently valued on 31 December 2023 at £27.2 million. The valuation was performed by Cushman and Wakefield. The Group has accounted for the finance transactions as interest-bearing borrowings secured on the original properties held. The historic carrying value is £16.3 million, which is the initial value at date of inception of the lease plus £2.5 million of additions, less £2.2 million of depreciation charges.

Leasehold improvements

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

Valuation process

The Group provides information to valuers, including profit and cashflow forecasts along with asset-specific business plans. These independent external valuers hold recognised and relevant and professional qualifications and have recent experience in the location and category of the properties being valued. The valuers use this and other inputs including market transactions for similar properties to produce valuations. These valuations and the assumptions they have made are then discussed and reviewed with the management as well as the directors. Cushman & Wakefield were engaged to value properties now valued at £46.0m.

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

Valuation methodology

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

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

Location	Discount rate	Capitalisation rate	Inflation rate	Running Yield
Elephant & Castle	9.5%	7.0%	2.5%	5.96% - 8.98%
Glasgow	11.8%	9.3%	2.5%	8.93% - 11.58%
Edinburgh	10.5%	8.0%	2.5%	4.25% - 8.39%
York	11.0%	8.5%	2.5%	7.02% - 10.90%
Pisa	11.0%	8.5%	2.0%	6.82% - 10.77%

Capital Commitments

Capital commitments totalling £0.7 million (2022: £nil) were recognised in relation to the ongoing capital refurbishment project at Edinburgh.

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12 INTANGIBLE ASSETS AND GOODWILL

	Website £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2022	134	13,637	13,771
Additions	5	-	5
Exchange differences	-	(132)	(132)
At 31 December 2022	139	13,505	13,644
Additions	80	-	80
Exchange differences	-	(238)	(238)
At 31 December 2023	219	13,267	13,486
Amortisation and Impairment			
At 1 January 2022	116	1,491	1,607
Charge for the period	14	-	14
At 31 December 2022	130	1,491	1,621
Impairment	-	880	880
Charge for the period	18	-	18
At 31 December 2023	148	2,371	2,519
Net book value:			
At 31 December 2023	71	10,896	10,967
At 31 December 2022 as restated	9	12,014	12,023

Goodwill

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

Impairment

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

Goodwill carrying values as at the 31 December 2023 are shown below.

CGU	2023	2023	2022	2022
	Goodwill	Headroom	Goodwill	Headroom
	£000s	m £000s	£000s	£000s
Madrid	2,173	-	2,217	-

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Paris	11	-	11	-
Gothic	712	1,307	726	2,449
Lisbon	1,328	220	1,355	1,010
Prague	207	248	211	475
Barcelona Passeig De Gracia	1,654	69	1,687	-
Vienna	5	184	5	1,626
Brussels	1,300	2,428	1,326	4,349
Pisa	779	2,924	795	4,507
Berlin	947	-	966	-
Athens	1,185	550	1,210	652
Bratislava	-	-	898	-
Warsaw	595	692	607	1,119
	10,896	8,622	12,014	16,187

Impairment charges relating to Bratislava totalled £0.9 million for the year ended 31 December 2023 (2022: £nil). No other impairments were deemed necessary by Management.

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

- A Pre-tax discount rate of 9.7% (2022: 11.0%) was calculated using weighted average cost of capital. An assessment was made on the differing risks between countries in which the hostels operate. Based on the assessment it was concluded that the differences between discount rates between each CGU are not material. The assets are similar in nature, with all CGUs providing the provision of hostel accommodation and therefore similar cashflows and therefore the risk associated with the assets is considered to be consistent between CGUs. As such one discount rate has been utilised for the purposes of performing an impairment review.
- Estimated 2023 average bed rate per property and increasing in line with a 5.0% inflationary increase in revenue and costs over the subsequent years.

Discount Rate

The Group calculates a WACC applying local government bond yields and tax rates. For reference the Group WACC for Safestay plc was 9.7% (2022: 11.0%). The discount rate applied to a CGU represents a pre-tax rate that reflects the market assessment of the time value of money as at 31 December 2023 and the risks specific to the CGU.

Sensitivity analysis

A sensitivity analysis was performed for the group of CGUs and management have concluded that no reasonably possible change in any of the key assumptions would result in the carrying value of the CGUs to exceeding their recoverable amount.

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13 TRADE AND OTHER RECEIVABLES

	2023	2022
	£'000	£'000
Trade and other receivables	741	620
Prepayments and accrued income	469	502
	<u>1,210</u>	<u>1,122</u>

Credit risk is the risk that a counterparty does not settle its financial obligation with the Company. At the year end, the Company has assessed the credit risk on amounts due from suppliers, based on historic experience, meaning that the expected lifetime credit loss was immaterial. Cash and cash equivalents are also subject to the impairment requirements of IFRS 9 – the identified impairment loss was none.

14 CASH AND CASH EQUIVALENTS

	2023	2022
	£'000	£'000
Cash and cash equivalents	<u>1,998</u>	<u>5,226</u>

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

15 TRADE AND OTHER PAYABLES

	2023	2022
	£'000	£'000
Due in less than one year		
Trade payables	395	663
Social security and other taxes	1,093	150
Other creditors	156	758
Accruals and deferred income	2,374	1,557
	<u>4,018</u>	<u>3,128</u>

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Notes to the Consolidated Financial Statements

16 BORROWINGS

	2023	2022
	£'000	£'000
At amortised cost		
Bank Loan repayable within one year	1,000	987
Loan arrangement fees	(68)	(62)
	<u>932</u>	<u>925</u>
Bank Loans repayable within more than one year	15,180	16,007
Property Finance Liability	7,174	7,088
	<u>22,354</u>	<u>23,095</u>

Included within borrowings is CBILS (Coronavirus Business Interruption Loan Scheme) obtained via HSBC. The government provide lenders with a guarantee on each loan, and it may be possible that there is a government grant in the form of the lower rate of interest than would likely have been payable in the absence of the government guarantee. However, in the absence of further information the total amounts are disclosed within finance costs. The loan will be repaid at a rate of £1 million per year from April 2022 until April 2027 and the balance at 31 December 2023 is £3.3 million (2022: £4.3 million). The interest rate is 3.99% margin over base rate from year 2 onwards and is interest free in the first year.

At 31st December 2021 a HSBC bank loan facility was taken out which was secured against the UK freehold and long leasehold properties. The facility ends in January 2025 and the interest rate is 2.95% margin over SONIA. The balance owing on the loan at the reporting date is £12.7 million (2022: £12.7 million)

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Notes to the Consolidated Financial Statements

17 LEASES

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

	2023	2022
	£'000	£'000
Current	142	139
Non-current	297	453
Total	439	592

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

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

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

2023

	Minimum lease receipts due						
	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	After 5 years	Total
Lease receipts	156	156	153	-	-	-	466
Finance income	(15)	(9)	(3)	-	-	-	(27)
Net present values	142	147	150	-	-	-	439

2022

	Minimum lease receipts due						
	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	After 5 years	Total
Lease receipts	159	159	159	162	-	-	640
Finance income	(20)	(15)	(9)	(3)	-	-	(48)
Net present values	139	144	150	159	-	-	592

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

	2023	2022
	£'000	£'000
Current	1,793	1,871
Non-current	24,250	30,349
Total	26,043	32,220

Total cash outflow for leases for the year ended 31 December 2023 was £3.6m (2022: £3.5m).

The Group has leases for hostels across Europe. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset and any additional consideration is recognised through the income statement. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (Note 11).

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

Lease payments are generally linked to annual changes in an index (either RPI or CPI). However, the Group has leases in Lisbon and Kensington Holland Park for which a portion of the rentals are linked to revenue. The variable portion of the lease in Lisbon and Kensington Holland Park are accounted for as a variable rent over the period it relates to.

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

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

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Notes to the Consolidated Financial Statements

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with variable payments linked to an index	No of leases with termination options
Hostel buildings	11	5 - 42 years	12	10	0	11	0

In addition to the above, there is the London Kensington Holland Park lease which ends in 2065. There are no such options as above.

There is a short term lease commitment relating to the commercial hub in Warsaw. The total commitment is £18k (2022: £nil).

Lease liabilities

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2023 is as follows:

2023

	Minimum lease payments due			Total
	Within 1 year	1-5 years	After 5 years	
Lease payments	3,156	11,740	24,642	39,538
Finance charges	(1,363)	(4,295)	(7,837)	(13,495)
Net present values	1,793	7,445	16,805	26,043

2022

	Minimum lease payments due			Total
	Within 1 year	1-5 years	After 5 years	
Lease payments	3,345	13,075	31,420	47,841
Finance charges	(1,474)	(4,876)	(9,271)	(15,621)
Net present values	1,871	8,199	22,149	32,220

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18 DEFERRED INCOME TAX

	Deferred tax assets	Deferred tax liabilities	Total
	£'000	£'000	£'000
Balance as at 1 January 2022	1,122	(3,314)	(2,192)
Transition to IAS 12	5,847	(5,373)	474
Balance at 1 January 2022 (as restated)	6,969	(8,687)	(1,718)
Recognised in the income statement	257	(82)	175
Recognised in other comprehensive income	-	32	32
Balance at 31 December 2022	7,226	(8,737)	(1,511)
Recognised in the income statement	(1,724)	1,549	(175)
Recognised included directly in equity	(14)	-	(14)
Recognised in other comprehensive income	-	(171)	(171)
Balance at 31 December 2023	5,488	(7,359)	(1,871)

The Group has recognised deferred tax assets of £1.2m (2022: £1.4m), which are expected to offset against future profits, in respect of tax losses. This is on the basis that it is probable that profits will arise in the foreseeable future, enabling the assets to be utilised. There are no unrecognised deferred tax assets (2022: £nil).

The adoption of the amendments to IAS 12, effective 1 January 2023, resulted in an increase in deferred tax assets of £5.8 million, an increase in deferred tax liabilities of £5.3 million and an increase in brought forward retained earnings at 1 January 2022 of £0.5 million. These differences arise from timing differences between right of use assets and lease liabilities under IFRS 16.

The summary of deferred tax asset by type is as follows:

	Deferred tax assets	Deferred tax liabilities	Total
	£'000	£'000	£'000
2023			
Fixed asset timing differences	4,567	(7,359)	(2,792)
Short term timing differences	2	0	2
Losses carried forward	919	-	919
	5,488	(7,359)	(1,871)

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2022 (as restated)	Deferred tax	Deferred tax	Total
	assets	liabilities	
	£'000	£'000	£'000
Fixed asset timing differences	5,914	(8,737)	(2,823)
Losses carried forward	1,312	-	1,312
	7,226	(8,737)	(1,511)

19 EQUITY

CALLED UP SHARE CAPITAL

	£'000
Allotted, issued and fully paid	
64,679,014 Ordinary shares of 1p each at 31 December 2022	647
Shares issued in the year	2
64,935,414 Ordinary Shares of 1p each at 31 December 2023	649

At the 31 December 2023, the ordinary shares rank pari passu. There are no changes to the voting rights of the ordinary shares since the reporting date. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share the meetings of the Company. Ordinary shareholders are also entitled to repayment of capital.

In addition to called up share capital, there are 3,441,189 (2022 as restated: 3,397,589) potential shares relating to share options. The value of shares relating to share options totals £34k (2022 as restated: £34k).

SHARE PREMIUM

	£'000
At 31 December 2022	23,904
Share issue	55
At 31 December 2023	23,959

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OTHER COMPONENTS OF EQUITY

	Merger reserve £'000	Share based payment reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Total £'000
Cost					
At 1 January 2022	1,772	510	15,996	232	18,510
Prior Year Restatements (see note 25)	-	(126)	-	-	(126)
At 1 January 2022 as restated	1,772	384	15,996	232	18,384
Share based payment charge	-	(92)	-	-	(92)
Property revaluation	-	-	-	-	-
Deferred tax on property revaluation	-	-	-	-	-
Exchange differences on translating foreign operations	-	-	-	(134)	(134)
At 31 December 2022 as restated	1,772	292	15,996	98	18,158
Share based payment charge	-	54	-	-	54
Property revaluation	-	-	3,904	-	3,904
Deferred tax on property revaluation	-	-	(171)	-	(171)
Exchange differences on translating foreign operations	-	-	-	7	7
At 31 December 2023	1,772	346	19,729	105	21,952

20 SHARE BASED PAYMENTS

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

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

480,000 share options were granted in the period (2022: 609,000) and the average share price target for options issued in 2023 was 24p (2022: 15p).

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Grant date	Exercise price per share (pence)	Period within which options are exercisable	Number of share options outstanding	
			2023	2022
2-May-14	15p	01/01/2024 to 31/12/2031	396,521	396,521
12-May-14	50p	01/01/2024 to 31/12/2031	528,695	528,695
21-May-14	50p	21/05/2017 to 20/05/2024	132,173	132,173
1-Jan-19	15p	01/01/2024 to 31/12/2031	300,000	300,000
26-Jun-19	15p	01/01/2024 to 31/12/2031	100,000	100,000
5-Sep-19	15p	01/01/2024 to 31/12/2031	100,000	100,000
2-Jan-20	15p	01/01/2024 to 31/12/2031	600,000	600,000
31-Oct-20	9p	01/01/2024 to 31/12/2031	78,900	140,100
30-Nov-20	15p	01/01/2024 to 31/12/2031	44,400	78,800
31-Dec-20	13p	01/01/2024 to 31/12/2031	54,600	97,000
31-Jan-21	13p	01/01/2024 to 31/12/2031	54,600	97,000
28-Feb-21	14p	01/01/2024 to 31/12/2031	50,800	90,100
31-Mar-21	15p	01/01/2024 to 31/12/2031	47,400	84,100
30-Apr-21	15p	01/01/2024 to 31/12/2031	47,400	47,400
31-May-21	15p	01/01/2024 to 31/12/2031	41,800	41,800
30-Jun-21	15p	01/01/2024 to 31/12/2031	39,500	39,500
31-Jul-21	15p	01/01/2024 to 31/12/2031	44,400	44,400
14-Apr-22	15p	01/01/2024 to 31/12/2031	400,000	400,000
9-Nov-22	16p	01/01/2024 to 31/12/2031	30,000	30,000
25-Nov-22	16p	01/01/2024 to 31/12/2031	50,000	50,000
15-Aug-23	24p	01/01/2024 to 31/12/2031	300,000	-
			3,441,189	3,397,589

The share options are exercisable at a price equal to the average quoted market price of the Group's shares on the date of grant. The share options that have been issued in 2022 have a vesting period to 1 January 2024 and have no minimum price condition. The options are forfeited if the employee leaves the Group before the options vest. Details of these share options are summarised in the table below:

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	2023	2023	2022	2022
	Number of share options	Weighted average exercise price	As restated Number of share options	As restated Weighted average exercise price
Brought forward 1 January	3,397,589	21.5p	4,443,766	18.2p
Forfeited in the period	-	-	(1,526,177)	18.3p
Exercised during the period	(256,400)	12.9p	-	-
Issued in the period	300,000	24.0p	480,000	20.9p
Outstanding at 31 December	3,441,189	22.4p	3,397,589	21.5p
Exercisable at end of the period	132,173	50.0p	388,573	50.0p

No options were exercised in the period.

The fair value of the share options was calculated using the Black Scholes model. There is a charge of £60k taken through the income statement (2022: £42k).

The inputs are as follows:

	2023	2022
Closing price of Safestay plc	23.5p	15.5p
Weighted average share price	23.6p	15.7p
Weighted average exercise price	24.2p	19.3p
Expected volatility	25%	52%
Average vesting period	1.0 years	2.0 years
Risk free rate	1.93%	1.47%
Expected dividend yield	0.00%	0.00%

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

21 RELATED PARTY TRANSACTIONS

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

The remuneration of the Directors, who are the key management personnel of the Group, is set out below:

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	2023	2022
	£'000	£'000
Short term employee benefits	446	364
Pension	8	5
Share based payment charges	57	42
	<u>511</u>	<u>411</u>

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 and in note 20 of the accounts. The Directors share options have been audited.

Safestay plc has a common directorship with Safeland Plc. In the year, Safestay plc rented premises from Safeland plc on non-commercial terms. Total rent paid to Safeland plc was £50,000 (2022: £50,000).

22 FINANCIAL INSTRUMENTS

Capital management

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

The Board's policy is to maintain a strong capital base with a view to underpinning investor, creditor and market confidence and sustaining the future development of the business. The Board regularly monitors cash balances across the Group and evaluates borrowing levels to ensure an appropriate gearing ratio is maintained. Through the Board's careful monitoring of its capital, it has allowed us to purchase a freehold property in the year entirely through cash generated from business operations. It has also successfully refinanced in January 2024 to more favourable terms (please refer to note 27 for more information) which will reduce the cash outflows relating to interest charges and capital repayments. Capital consists of ordinary shares, other capital reserves and retained earnings. To this end, the Board monitors the Group's performance at both a corporate and individual asset level and sets internal guidelines for interest cover and gearing.

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

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	2023	2022
	£'000	As Restated £'000
Share capital	649	647
Share premium account	23,959	23,904
Retained earnings	(13,801)	(12,477)
Merger reserve	1,772	1,772
Share based payment reserve	346	292
Revaluation reserve	19,279	15,996
Translation reserve	105	98
Bank loans	16,180	17,000
Property Finance Liability	7,174	7,088
Lease liabilities	26,043	32,220

The Group has no externally imposed capital requirements.

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 2023, the Group held the following financial assets:

	2023	2022
	£'000	£'000
Trade and other receivables (note 13)	1,210	1,122
Cash and cash equivalents (note 14)	1,998	5,226
Cash and cash equivalents from discontinued operations (note 4)	40	-
	3,248	6,348

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At 31 December 2023, the Group held the following financial liabilities:

	2023	2022
		As Restated
	£'000	£'000
Bank loans (note 16)	16,180	17,000
Property financing liabilities (note 16)	7,174	7,088
Lease liabilities (note 17)	26,043	32,220
Trade and other payables (note 15)	4,018	3,128
	<u>53,415</u>	<u>59,436</u>

All financial assets and liabilities are measured at amortised cost.

The carrying amounts of the Group's bank loans and overdrafts, lease obligations and trade and other payables approximate to their fair value. Total financial liabilities excludes deferred tax balances.

	2023	2022
		As Restated
	£'000	£'000
Total liabilities (excluding deferred tax)	(53,853)	(59,367)
Cash and cash equivalents (note 14)	1,998	5,226
Cash and cash equivalents from discontinued operations (note 4)	40	-
Net Debt	<u>(51,815)</u>	<u>(54,141)</u>

Financial risk management

The Group's financial instruments comprise bank loans and overdrafts, Lease liabilities, cash and cash equivalents, and various items within trade and other receivables and payables that arise directly from its operations.

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

Foreign currency risk

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

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

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

The Group have performed a sensitivity analysis to determine the impact of a fluctuation in exchange rate on the business. The Group have assumed that 10% fluctuation in exchange rate reasonably reflects the change in the currency pair over the last 12 months:

	Profit before tax	Equity	Profit before tax	Equity
	(losses)/gains	(losses)/gains	(losses)/gains	(losses)/gains
	2023	2023	2022	2022
			As Restated	As Restated
	£'000	£'000	£'000	£'000
10% Strengthening of Sterling versus the Euro	(157)	(1,590)	(117)	(1,549)
10% Weakening of Sterling versus the Euro	172	1,749	129	1,704

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.

The Group is exposed to interest rate risk on its borrowings. The £17.7 million main facility has an interest rate of 2.95% above the London inter-bank offer rate ("LIBOR"). When the £10.2 million from the Edinburgh sale proceeds was used to reduce the debt in July 2021, LIBOR was replaced with 2.95% above SONIA. The £5 million CBILS in interest free in year 1 and has an interest rate of 3.99% above base rate from year 2 until it is fully repaid at the end of year 6. The Group carefully manages its interest rate risk on an ongoing basis. When the bank loan was refinanced in 2020, LIBOR and the bank base rates were significantly lower, and therefore the Board did not implement an active risk management policy. Given that the majority of the loans are held in the United Kingdom, the Board considers the United Kingdom interest rate level as the key concentrated risk. Changes in interest rates for loans held in other countries are not expected to have a material impact on the Group.

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 0.5% 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.

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Based on bank borrowings, at 31 December 2023, if interest rates were 0.5% higher or (lower) and all other variables were held constant, the Group's net profit would increase or decrease by £92,500 (2022: £83,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Credit Risk

Credit risk arises from the Group's cash balances held with counterparties and trade and other receivables. Credit risk is the risk of financial loss to the Group if a third party owing monies to the Group fails to meet its contractual obligations. The Group limits its exposure to credit risk from trade receivables by establishing policies to limit the levels of cash owed by third party customers, such as guests paying in advance of their stays. Lease income relating to Edinburgh and Madrid operates on normal payment terms of 30 days. Where payments are not made within these normal payment terms, the credit risk is considered to have increased since initial recognition and when the customer defaults on their debts, it is determined that the receivables are credit-impaired. The Group defines a default as aged debtor balances of over a year, or if other information comes to light that suggests a customer can not satisfy their debts. In the case of a default, the Group would provide in full for any balance outstanding for that customer.

Trade receivables are measured at amortised cost and total £0.8 million at 31 December 2023 (2022: £0.6 million). Based on the comments above the Group does not consider there to be any significant concentrations of risk in relation to trade and other receivables. In addition, based on historical default rates and adjusted forward-looking macroeconomic data, the Group has assessed the expected lifetime credit loss in respect to be £nil (2022: £nil).

All cash balances are held with reputable financial institutions and the Board monitors its exposure to counterparty risk on an ongoing basis. The Group attempts to mitigate credit risk by assessing financial counterparties.

Given the nature of the Group's operations, the Directors do not consider the Group's credit risk, which arises mainly from cash held with mainstream UK banks, to be significant.

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The Group's financial assets, which are exposed to credit risk, are as follows:

	2023	2022
	£'000	£'000
Trade receivables	789	620
Cash and cash equivalents	1,998	5,226
	2,787	5,846

The directors are not aware of any factors affecting the recoverability of outstanding balances as at 31 December 2023.

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 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. Liquidity risk is considered across all regions in which the Group operates in, on the basis that short term debt obligations arise through normal trading. The concentration of the risk exists most in the UK, due to the fact that the Group debt obligations are held there.

The business continued to manage its liquidity risk with the renewal of its debt facility with HSBC on the 13 January 2020 with a facility of £12.8m until 2025. In addition, a £5.0m bank CBILs facility was secured for 6 years on 16th December 2020, which is interest free for the first year increasing to 3.99% above base rate from year 2. Repayment of CBILs facility commenced in April 2022.

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

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Liquidity and interest risk analysis

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

	Less than			Later than	Total £'000
	1 year £'000	1-2 years £'000	3-5 years £'000	5 years £'000	
Variable interest rate borrowings	2,312	14,052	2,371	-	18,735
Property finance liabilities	219	219	657	30,660	31,755
Trade and other payables	4,018	-	-	-	4,018
Lease liabilities	3,434	3,434	9,796	29,546	46,210
	9,983	17,705	12,824	60,206	100,718

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

The repayment of the £5 million CBILS started in April 2022. It was agreed with HSBC that the main debt facility would be interest only from July 2021 after the disposal of Edinburgh, which involved a £10.2 million debt repayment to HSBC. As of January 2024, Safestay PLC refinanced, consolidating the current debt positions and adding a Revolving Credit Facility of £2.5 million. More details of this can be found in note 27, Post Reporting Date Events.

23 FAIR VALUES OF NON-FINANCIAL ASSETS

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2022				
As restated				
Freehold Property	-	-	11,717	11,717
Leasehold Property	-	-	26,203	26,203
	-	-	37,920	37,920
2023				
Freehold Property	-	-	16,999	16,999
Leasehold Property	-	-	27,020	27,020
	-	-	44,019	44,019

Notes to the Consolidated Financial Statements

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.

24 OTHER COMMITMENTS AND GUARANTEES

The bank loan held by the Group of £16.0 million is scored against the Group's assets, including freehold properties of £17.0 million, leasehold properties totalling £27.0 million and trade and other receivables relating to UK properties.

The Group also has guarantees totalling £1.0 million in relation to ongoing leases.

25 PRIOR YEAR RESTATEMENTS

In prior periods, revaluation gains were incorrectly allocated against cost rather than firstly being offset against accumulated depreciation with any remaining surplus then being allocated against cost. Therefore, an adjustment has been made to the prior year comparatives to reduce the cost and accumulated depreciation of freehold and leasehold property at 1 January 2022 by £0.4 million and £2.6 million respectively. This adjustment has no impact on the overall net book value of property plant and equipment, or on the Income Statement or Statement of Financial Position for the period.

Following a review of the share options workings for the year ended 31 December 2023, it was noted that in prior years 1.4 million share options in relation to option holders who had since left the business and were no longer entitled to those options, had not been cancelled. The impact of this has been that the share option charge in prior years has been overstated. Therefore a prior year adjustment to the 2022 comparatives has been made in respect of this which has resulted in a reduction in the share based payment reserve of £0.1m at 1 January 2022 and a corresponding increase in retained earnings of £0.1m at 1 January 2022. In addition, the 2022 comparative for administrative expenses has been adjusted to reflect a reduction in the share option charge of £0.1m for 2022 arising from this. The overall impact of these adjustments is therefore to reduce the loss for the year ended 31 December 2022 by £0.1 million compared with amounts previously reported.

The impact of the above on earnings per share (including discontinued operations) is:

	2022	2021
Basic Earnings per share	0.02p	0.02p
Diluted Earnings per share	0.02p	0.02p

26 CHANGES IN ACCOUNTING ESTIMATES

During the period, the Directors reviewed the useful economic life of the leasehold property at Elephant & Castle and determined that the useful economic life should be extended from 50 years to 150 years, in line with the term of the lease of the property. The impact of the change in accounting estimate results in a decrease in depreciation of £0.4 million in the current period. The impact on future periods will be a decrease in depreciation charges of £0.4 million per annum.

27 POST REPORTING DATE EVENTS

In January 2024, the Group refinanced its existing borrowings into a single £16 million Term Loan and added a new £2.5 million Revolving Credit Facility ("RCF") to support future growth plans. The new Term Loan and RCF are for 5 years and were provided by existing lender HSBC.

The Term Loan interest rates are £4.4 million at 3.955%, £10 million at SONIA but capped at 4.75% with a floor of 3% and £1.6 million at SONIA, all with an additional margin of 2.6%. The RCF has a rate of SONIA plus a margin of 2.85%. The Term Loan is repayable at £0.1 million per quarter from March 2025 together with a final payment at completion. Interest on both the Term Loan and RCF is payable quarterly from March 2024.

The Term Loan replaces the previous interest only £12.7 million facility with HSBC and enables the repayment of the outstanding CBILS loan of £3.25 million, which carried a significantly higher interest rate.

On 30 April 2024, the Group acquired a property located in Cordoba, Spain for a consideration of €2 million, funded through the Group's existing cash balance.

In June 2024, the Group acquired a freehold property located in Brighton, United Kingdom, for a consideration of £2.3 million, funded through both the Group's existing cash balances, and a £1.2 million loan from the trustees of the Sheldon Pension Fund and Sentpark Capital Limited.

The loan will be made to Safe Hostels Limited (a 100% owned subsidiary of Safestay plc) with Safestay plc providing a written guarantee. The interest rate on the loan is 1% per month and is serviced monthly, plus there are arrangement and exit fees of 1% each. The repayment date is 18 months after the drawdown date.