Safestay plc

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

Final Results for the year Ended 31 December 2022

Safestay (AIM: SSTY), the owner and operator of an international brand of contemporary hostels, is pleased to announce its audited Final Results for the 12 months to 31 December 2022.

2022 Financial highlights

- Total revenues increased to £19.1million reflecting a return to near normal trading (2021: £6.4 million)
- 20% increase in average bed rate to £23.63 (2021: £19.70)
- EBITDA fell to £5.5m (2021 profit: £7.2m due to the sale of Barcelona Sea and Edinburgh hostels)
- Adjusted EBITDA increased to £5.9 million (2021 loss: £1.0 million)
- Loss after tax of £0.3m (2021: loss of 0.6m)
- Loss per share of 0.44p (2021: loss of 0.93p)
- Available cash balances of £5.2 million (2021: £4.5 million)

2022 Operational highlights

- Occupancy was 63%, still low compared to pre-covid levels of 77% (2019)
- Trading broadly uninterrupted with our 16 premium hostels open for 97% of the year
- Guest profile mostly made up of young travellers with large bookings from schools and colleges still relatively low against historic levels but showing signs of recovery
- Business overall more efficient and cost effective as a result of practices and efficiencies adopted during the covid period

Outlook

- Trading in the first four months of 2023 is significantly ahead of our budget showing the resilience of the travel market sectors in which Safestay operates
- Prospects for 2023 are encouraging on the basis that the hostels are:
  - Sustaining average room rate at or above 2022 levels
  - Benefiting from the return of large school and college bookings
  - Continuing to move occupancy back to historic levels

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

“2022 was our first near normal trading year since the start of the pandemic and it was therefore very pleasing to see that when allowed to trade, our hostels immediately attracted back a high level of guests. Looking ahead, if occupancy continues to grow into 2023, which we believe it will, and we are able to maintain our average bed rate levels, then the business is in a strong position. Overall, I believe we are a better business having weathered the pandemic and we are now back into growth mode from a stronger base both financially and operationally”.

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CHAIRMAN'S STATEMENT

Introduction

2022 was a good year for the business and marked the return to near normal trading. For the first time in two years, the portfolio was allowed to trade freely with all 16 premium hostels open for 97% of the year. The response from guests was immediate and positive, reflecting some pent-up demand but also a return to normal travelling patterns. Revenues increased threefold to £19.1 million and with a 20% increase in average bed rate, the Group recorded EBITDA of £5.5 million, down from £7.2 million in the prior year. The Group recorded adjusted EBITDA of £5.9 million up from a £1.0 million loss in the prior year.

We have a mature and well-established hostel portfolio all located in central parts of Europe's best known cities which collectively attract millions of young visitors every year. The pandemic did not change people's desire to visit and experience these cities, it only limited their ability to do so. Now that travel restrictions are lifted, we are seeing a return to normal trading with young travellers and other groups, such as families and commercial travellers, taking advantage of Safestay's network to stay centrally, economically and safely in Europe's leading cities.

Importantly, we entered 2022 in a good financial position having reduced debt and increased liquidity with the disposal of our Edinburgh and Barcelona Sea hostels during 2021. This resulted in gearing reducing to 54% and a strengthened financial position. In addition, the Group still has a valuable property portfolio with a mix of freehold and leaseholds across the 16 strong hostel portfolio.

2023 has begun well with trading in the first four months significantly ahead of budget. The Group is well placed to continue to build on the performance of the past twelve months, expanding its visitor base supported by investment in developing a new website and membership scheme both aimed at increasing the level of direct sales.

Financial Results

Revenue

Group revenue for the financial year ended 31 December 2022, increased to £19.1 million, above both the prior year and the last year before the pandemic with just one more hostel than in 2019 (2021: £6.4m; 2019: £18.4 million).

Room revenue grew to £17.1 million (2021: £4.9 million) and food & beverage revenue together with ancillary revenue was £2.0 million (2021: £1.3 million).

Adjusted EBITDA

The Directors consider that an adjusted EBITDA provides a key measure of performance since it removes the impact of the profit on disposal of the properties, which is not a trading activity, along with the benefit of rent concessions received. Adjusted EBITDA for the year to December 2022 was a £5.9 million profit (2021: £1.0m loss). Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional 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.

	2022	**2021**
	£'000	**£'000**
Adjusted EBITDA is as follows:		
Operating Profit after exceptional expenses	**1,766**	**3,393**
Add back:		
Depreciation	1,363	1,434
Right of Use Depreciation	2,210	2,243
Amortisation	150	96
Actual EBITDA	**5,488**	**7,166**
Impairment	-	-
Profit on disposal - Edinburgh	-	(7,511)
Loss on disposal – Barcelona Sea	-	554
Exceptional expenses	369	-
Rent concessions	-	(1,275)
Share based payment expense	42	72
Adjusted EBITDA	**5,900**	**(994)**

Finance Costs

Finance costs in 2022 were £2.6 million (2021: £2.7 million) as follows:

	2022	2021
Lease finance	1,404	1,741
Property financing costs	191	197
HSBC debt facility interests	853	695
Other finance charges	111	68
Finance costs	**2,559**	**2,701**

The Group has a ongoing loan facility with HSBC UK Bank plc, which ends in January 2025. The value of the loan at 31 December 2022 was £12.7m. The Group also has a £5.0 million government backed CBILS loan secured for 6 years on 16 December 2020, with repayments commencing 16 April 2022 reducing the balance to £4.25 million at 31 December 2022.

In addition, the Group has a government backed loan in Austria (£0.1 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 2022, the finance costs include £1.4 million of lease interest (2021: £1.7 million). The £0 (2021: £1.3 million) reduction negotiated with our landlords was treated as rent concessions in administrative expenses in full in the prior year.

Earnings per Share

Basic loss per share for the year ended 31 December 2022 was 0.44p (2021: loss 0.93p) based on the weighted average number of shares, 64,679,014 (2021: 64,679,014) in issue during the year.

The Group made a £0.3 million net loss in 2022 (2021 loss: £0.6 million).

Cash flow, capital expenditure and debt

Net cash generated from operations was £6.3 million (2021: (£1.3) million).

The Group had cash balances of £5.2 million at 31 December 2022 (2021: £4.5 million).

Outstanding bank debt at 31 December 2022 was £17 million (2021: £18 million). This includes a £12.7 million loan with HSBC (2021: £12.7 million), minus the £0.1 million amortised loan fees (2021: £0.1 million), the £5.0 million government backed CBILS loan received in December 2020 reduced by £0.75 million in 2022, and the Austrian loan £0.1 million. The lease liabilities amount to £33 million (2021: £33 million).

The gearing ratio (exclusive of lease liabilities) is 54%.

Net asset value per share fell to 46p (2021: 47p).

The value of freehold and long leasehold properties has not materially changed in the period.

Operational Review

The business had to relaunch a number of times during the pandemic according to when governments allowed the hospitality industry to trade and this varied from country to country. In 2022, the hostels were open for close to 100% of the year during which momentum built without interruption, resulting in a strong summer period and better than expected trading in the traditionally weaker months. It is hard to decipher to what extent demand in 2022 relates to pent up frustration from those unable to travel during the pandemic and how much is down to trading returning to normal. However, given occupancy is still well below historic averages, we believe the business is simply returning to normal market conditions.

The business had to be re-set for Covid, with the operational cost base significantly reduced alongside the sale of two hostels in Edinburgh and Barcelona which ensured the Group's financial security. Furthermore, on 11 March 2022, the landlord of the Holland Park hostel agreed to a reduction in the base rent of £0.25m per year.

Currently, the portfolio is made up 16 premium hostels, 4 in the UK and 12 on the continent, together selling 725,778 beds at an average price of £23.63 per night in 2022.

From nearly a standing start, the hostels performed well overall in 2022, with the European sites representing 64% of sales and the UK representing 36%. Elephant & Castle and Glasgow performed well in the UK with Pisa and Lisbon also being particularly strong performers on the continent. For the hostel in Brussels, another strong performer, negotiations around a new lease are about to commence and there is the potential to take on extra areas in the building.

The majority of guests have been young travellers with large groups from colleges and schools only making up 10% of accommodation revenue whereas historically these made up around 28% of this revenue. There is a reasonable likelihood group bookings will improve significantly in 2023 as colleges and schools were perhaps more cautious to return and take longer to prepare for trips. In addition, there has been good custom from young families and single commercial travellers.

Our marketing policy is primarily focused on the digital space and we intend to launch a new website in June. This is expected to further drive traffic and direct bookings, particularly from individual travellers. Currently, our website is responsible for 14% of overall sales. The balance of bookings come from Groups and Online Travel Agencies ('OTAs').

Alongside the launch of the new website, the Group is planning a significant marketing campaign, in part to maximise the investment in the website, but also to promote a new membership scheme, encouraging members to take advantage of member only discounts available across the portfolio. Sarah Whiddett, our new Non-Executive Director, with her extensive marketing leadership experience will make a significant contribution to this.

Safestay is positioned at the premium end of the hostel market. In order to maintain our premium positioning, it is critical that we invest in maintaining a premium level of quality and feel across the portfolio. To this end, from 1 January 2023, we have allocated 3% of total revenues in order to maintain these high standards in our hostels.

We have also decided to brand the Group as Safestay Hostels and Hotels to be able to attract premium customers to some of our properties that have superior accommodation equivalent to hotel rooms. This will allow us to expand our market reach and price points.

We are currently formulating a COVID 19 business interruption insurance claim, as we believe our policy wording is similar to some recent successful outcomes for insured parties in our industry. Whilst a successful claim may result in a material payout to the Group, at this stage, there can be no certainty of any financially beneficial outcome.

The Board

Paul Hingston joined the board as CFO and Company Secretary on 21 February 2022. Paul has extensive leisure and travel sector experience, most recently he was Group Finance Director for Starboard Hotels Ltd. Nuno Sacramento resigned from his position as Chief Operating Officer on 17 June 2022. 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. Since the year end, in April 2023, Sarah Whiddett was appointed as a Non-Executive Director and has over 17 years' marketing leadership experience.

Outlook

2022 was a good year for our business as it demonstrated the continued customer appeal of our portfolio of premium hostels. Our trading results reflected this, with significant increases in sales and the average price per bed night. The current year has started strongly, with trading in the first four months significantly ahead of budget, and this together with careful revenue management and increased occupancy should result in a good outcome for this year.

Larry Lipman
Chairman
8 June 2023

STRATEGIC REPORT

Principal activity

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

The Business Model

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

- Development: Identifying potential properties in target cities, acquiring the leasehold or freehold in the properties and their contemporary, stylish refurbishment to fit with the brand

- Operational: Deploying a strong hostel expertise and cost control to achieve best in class operating margins
- Brand: Building the Safestay brand value
- Scale: Building the platform to efficiently add further hostels to the Group
- People: Investing in the right people where automation cannot be adopted
- Guest experience: Providing a comfortable, safe and enjoyable stay in our hostels for a reasonable price with a focus on customer satisfaction, a strong community experience and repeat stays.

Section 172(1) statement

The directors understand the importance of their section 172 duty and the need to act in a way the directors consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members, and in doing so have regard, amongst other matters to:

- the likely consequences of any decisions in the long term;
- the interests of employees;
- the need to foster business relationships with suppliers, customers and others;
- the impact of operations on the community and environment;
- the desirability of maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the 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. This communication channel was used throughout the pandemic to maintain a close connection with our customers when the hostels were closed during the Pandemic.

- **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.

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 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.

Review of business and future prospects

Key Metric

	2022	2021	2019
Occupancy %	63.0%	35.0%	77.3%
Average Bed Rate	£23.63	£19.70	£21.40

Room Revenues (£'000)	17,150	4,901	15,115
Total Revenues (£'000)	19,146	6,423	18,379
Net cash (used in)/generated from operations (£’000)	6,263	(1,323)	5,228
Net assets per share	46p	47p	55p

The occupancy is calculated by dividing the number of beds sold over the period with the number of beds available when the hostels were opened during the same period. It means that in 2022 and 2021 the occupancy was calculated specifically for those days when the hostels were not closed due to the COVID-19 pandemic. The underlying business generated revenues of £19.1 million (2021: £6.4 million; 2019: £18.4 million).

Operating profit was £1.8 million (2021: £3.4 million profit) and an underlying adjusted EBITDA of £5.9 million (2021: £1.0 million loss) for the year to 31 December 2022. Actual EBITDA is £5.5 million (2021: £7.2 million) and Loss before Tax is £0.7 million (2021: profit of £0.7 million). The comparisons are difficult due to the pandemic leading to the hostels only able to trade on a limited basis.

2022 was a successful year for the business demonstrating the continued customer demand for the premium hostel portfolio. Whilst still yet to return to pre-covid occupancy levels, the financial trading performance was very encouraging with sales increasing above 2019, albeit with one more hostel in 2022.

The financial position of the business is sound benefiting from the disposal of two hostels in 2021. The Barcelona Sea hostel was sold in February 2021 for a £0.7 million consideration, and the Edinburgh hostel was sold for £16 million in June 2021. The combination of these disposals and cost saving measures, has meant the Group had cash balances of £5.2 million, as at 31 December 2022.

The Group is currently not committed to any future acquisition projects or development. However, the Group is hoping to capitalise on this position to seize opportunities and aggregate a fragmented market.

Social matters

Safestay provided jobs for 226 for people in 2022.

The Group operates in 12 different countries and has established local operating entities in each of the countries where our hostels are located. This gives us the ability to hire employees locally and offer them employment contracts and social benefits in full compliance with each relevant jurisdiction. This also includes the relevant level of hospitality training as well as mandatory training courses.

Maintaining a reputation for high standards of business conduct

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

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

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

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/ .

Employee diversity

The Group is committed to diverse representation at all levels. We are mindful that there is still work to be done to achieve these goals and are looking to make significant progress in our recruitment, retention and promotion strategies as we emerge from the pandemic.

The following table reports on the gender diversity of the Group's employees at 31 December 2022:

	Male	Female
Directors	5	0
Senior Managers	2	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.

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 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 seven experienced non-executive and executive directors who all have a proven experience in hospitality and strong understanding of regulatory and compliance topics. Moreover, the Group works with local law firms in each country where it operates to gain access to the local expertise and guarantee full local compliance, notably via the obtention of relevant licenses. As opposed to other hospitality sectors, such as sharing economy or private rental, the hostel sector is built on strong regulation plus existing fundamentals and trade licences, which makes it less likely to require the introduction of more strict regulations.

Financial risk

The main £12.7 million facility with HSBC ends in January 2025. In December 2020, the Group received a £5.0 million CBILS (Coronavirus Business Interruption Loan Scheme) via HSBC. The CBILS is being repaid at a rate of £1.0 million per year from April 2022 until April 2027. The main £12.7 million facility is interest only from July 2021 following a £10.2 million repayment after the completion of the Edinburgh hostel disposal on 30 June 2021. These loans provide an efficient base from which to grow the business at a reduced 2.95% margin over SONIA for the main facility and 3.99% margin over base rate from year 2 for the CBILS. The CBILS was interest free in the first year.

Any increases in SONIA or base rate will increase the cost of these loans and therefore impact the net profit of the business (a 0.5% change in interest rate would impact the net profit before tax by £83,000 (2021: £89,000)). Strict financial controls are in place to ensure that monies cannot be expended above the available limits or to breach any banking covenants.

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

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

Safestay Plc are in the process of starting to refinance the loan facility, and the Directors are confident of achieving similar terms on a new facility.

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

Larry Lipman
Chairman
8 June 2023

Consolidated Income Statement for the Period Ended 31 December 2022

	Note	2022	2021 Continuing operations	2021 Discontinued operations	2021 Total
		£'000	£'000	£'000	£'000
Revenue	**2**	**19,146**	**5,810**	**613**	**6,423**
Cost of sales	**3**	(3,142)	(1,160)	(132)	(1,292)
Gross profit		**16,004**	**4,650**	**481**	**5,131**
Administrative expenses:					
Administrative expenses	**5**	(13,801)	(9,867)	(565)	(10,432)
Exceptional items – other operating income	**5**	-	1,737	-	1,737
Exceptional items – profit on disposal	**5**	-	-	7,511	7,511
Exceptional items – loss on disposal	**5**	-	-	(554)	(554)
Exceptional items – costs	**5**	(369)	-	-	-
Total administrative expenses		(14,170)	(8,130)	6,392	(1,738)
Operating profit		**1,834**	**(3,480)**	**6,873**	**3,393**
Finance costs	**6**	(2,557)	(2,627)	(74)	(2,701)
Profit/(loss) before tax		**(723)**	**(6,107)**	**6,799**	**692**
Tax	**8**	441	218	(1,509)	(1,291)
Profit/(loss) for the financial year attributable to owners of the parent company		**(282)**	**(5,889)**	**5,290**	**(599)**
Basic (loss) per share	**9**	(0.44p)			(0.93p)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2022

	2022 £'000	2021 £'000
(Loss) for the year	**(282)**	**(599)**
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations	134	169
Total items that may be reclassified to profit or loss	134	169
Items that will not be reclassified to profit or loss		
Property revaluation	-	5,039
Deferred tax on property revaluation	-	(1,399)
Total items that will not be reclassified to profit or loss	-	3,640
Total comprehensive (loss) for the year attributable to owners of the parent company	**(148)**	**3,210**

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

Consolidated Statement of Financial Position
31 December 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Property, plant and equipment (including right of use asset)	**11**	72,059	73,609
Intangible assets	**12**	9	18
Goodwill	**12**	12,014	12,146
Lease assets	**17**	453	562
Deferred tax asset	**18**	1,379	1,122
Total non-current assets		**85,914**	**87,457**
Current assets			
Stock		25	35
Trade and other receivables	**13**	1,121	1,227
Lease assets	**17**	139	78
Current tax asset		65	199
Cash and cash equivalents	**14**	5,226	4,482
Total current assets		**6,576**	**6,021**
Total assets		**92,490**	**93,478**
Current liabilities			
Borrowings	**16**	(925)	(926)
Lease liabilities	**17**	(1,764)	(1,922)
Trade and other payables	**15**	(3,128)	(2,062)
Current liabilities		**(5,817)**	**(4,910)**
Non-current liabilities			
Borrowings	**16**	(23,101)	(24,028)
Lease liabilities	**17**	(30,450)	(31,086)
Trade and other payables due in more than one year	**15**	-	(7)
Deferred tax liabilities	**18**	(3,364)	(3,314)
Total non-current liabilities		**(56,915)**	**(58,435)**
Total liabilities		**(62,732)**	**(63,345)**
Net assets		**29,758**	**30,133**
Equity			
Share capital	**19**	647	647
Share premium account	**19**	23,904	23,904
Other components of equity	**19**	18,417	18,510
Retained earnings		(13,210)	(12,928)
Total equity attributable to owners of the parent company		**29,758**	**30,133**

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 31 May 2023.

Signed on behalf of the Board of Directors

Larry Lipman

Consolidated Statement of Changes in Equity

31 December 2022

	Share Capital £'000	Share premium account £'000	Other Components of Equity £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2021	**647**	**23,904**	**14,629**	**(12,329)**	**26,851**
Comprehensive income					
Loss for the year	-	-	-	(599)	(599)
Other comprehensive income					
Property revaluation	-	-	5,039	-	5,039
Deferred tax on property revaluation	-	-	(1,399)	-	(1,399)
Movement in translation reserve	-	-	169	-	169
Total comprehensive income	-	-	3,809	(599)	3,210
Transactions with owners					
Share based payment charge for the period	-	-	72	-	72
Balance at 31 December 2021	**647**	**23,904**	**18,510**	**(12,928)**	**30,133**
Profit for the year	-	-	-	(282)	(282)
Other comprehensive income					
Movement in translation reserve	-	-	(134)	-	(134)
Total comprehensive income	-	-	(134)	(282)	(416)
Transactions with owners					
Share based payment charge for the period	-	-	42	-	42
Balance at 31 December 2022	**647**	**23,904**	**18,417**	**(13,210)**	**29,758**

Consolidated Statement of Cash Flows

31 December 2022

	Note	2022 £'000	2021 £'000
Operating activities			
Cash generated from operations	**21**	6,130	(1,272)
Income tax received/(paid)		133	(51)
Net cash generated/(used in) from operations		**6,263**	**(1,323)**
Investing activities			
Purchases of property, plant and equipment		(365)	(307)
Purchases of intangible assets		(5)	-
Proceeds on sale of fixed assets		-	16,658
Net cash (used in)/generated from investing activities		**(370)**	**16,351**
Financing activities			
Bank loans redeemed		-	(10,373)
Principal elements of lease payments		(3,495)	(1,810)
Interest paid		(656)	(488)
Loan repayments		(997)	-
Net cash used in financing activities		**(5,148)**	**(12,671)**
Cash and cash equivalents at beginning of year		**4,482**	**2,125**
Net increase in cash and cash equivalents		**744**	**2,357**
Cash and cash equivalents at end of year	**14**	**5,226**	**4,482**

Notes to the Consolidated Financial Statements

1 ACCOUNTING POLICIES FOR THE GROUP AND COMPANY FINANCIAL STATEMENTS

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

The Group and Company financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Company Act 2006.

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

The accounting policies have been applied consistently throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2022.

The financial information set out in this Preliminary Announcement does not constitute the Group's statutory financial statements for the years ended 31 December 2022 or 2021. The financial information has been extracted from the Group's statutory financial statements for the years ended 31 December 2022 and 2021. The auditors have reported on the 2022 financial statements; their report was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The statutory accounts for the year ended 31 December 2022 will be filed with the Registrar of Companies before the deadline of 30 June 2023. The statutory accounts for the year ended 31 December 2021 have been filed with the Registrar of Companies. **New standards and interpretations effective in the year**

New standards, amendments and interpretations not yet effective

IAS 12 “Income Taxes” and subsequent amendments have been endorsed by the IASB, EU and the UK. IAS 12, as amended, is effective for accounting periods beginning on or after 1 January 2023.

The amendments to IAS 12 outline that in certain instances, which may include the initial recognition of a lease or a decommissioning provision, IFRS requires simultaneous recognition of an asset and liability and consequently, there may be also offsetting temporary differences.

The impact of the changes above on the Group’s reportable segments will depend largely on the extent to which timing differences arise at different rates on Right of Use assets and Lease Liabilities. The combined impact of the changes is not expected to materially increase or decrease the profit or loss after tax, with deferred tax assets and liabilities generated on leasehold agreements expected to largely offset one another.

Going concern

The Group is reporting an Adjusted EBITDA profit of £5.9 million in 2022 as the business has recovered strongly from the pandemic and the hostels have been open for 97% of the year.

The Group started to generate cash from its operations in 2022 to finish with an available cash balance of £5.2 million at 31 December 2022.

The Group received £16.0 million proceeds from the disposal of the Edinburgh hostel which completed on 30 June 2021. Following completion, the £1 million overdraft facility was removed, and £10.2 million of HSBC debt was repaid. This means the Group now has a low gearing of 54%.

Management updates and adjusts the cash forecast for the next 18 months on a monthly basis. The most recent forecast prepared in April 2023 for the period to 31 December 2024, assumes as a prudent base case that the sales will gradually climb through the summer months. Sales for the first 4 months of the year are significantly ahead of 2022.

All the covenants of the debt facility for the past year have been satisfied based on interest cover and loan to value with significant headroom.

Safestay plc are in the process of starting to refinance the loan facility of £12.7m that is due to be renewed in January 2025. The Directors have considered the impact of this and are confident of achieving similar terms on a new facility on the basis of the excellent current trading performance and the strong cash flow resulting from this that is projected to continue for at least the next two years.

Additionally, the significant headroom on both of the covenants supports this view of the Directors.

Operating segments

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

Revenue

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

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

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

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

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

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

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

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

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

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

Government Grants

Monetary resources transferred to the Group by government, government agencies or similar bodies are recognised at fair value, when the Group is certain that the grant will be received. Grants will be recognised in the profit and loss account on a systematic basis, over the same period during which the expenses, for which the grant was intended to compensate, are recognised.

Grants relating to employee costs are disclosed in Staff Costs, note 10 of the accounts.

Exceptional Items

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

Taxation

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

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 acquire. Acquisition costs are expensed as incurred.

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

Deferred Consideration

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

Property, plant and equipment

Freehold property and Lease assets are stated at fair value and revalued periodically in accordance with IAS 16 Property Plant and Equipment. Valuation surpluses and deficits arising in the period are included in 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	50 years or term of lease if shorter

Land is not depreciated.

Leasehold land and buildings relate to Property from financing transactions related to Safestay Elephant and Castle. 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.

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

Stock

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

Financial assets measured at amortised cost

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

- **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.

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 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.

- **Retained earnings**

Retained earnings represent undistributed cumulative earnings.

- **Equity Instruments**

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

Other Components of Equity

- **Share premium account**

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

- **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-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.

<u>Judgements</u>

- The Group has identified certain costs and income as exceptional in nature in that, without separate disclosure, would distort the reporting of the underlying business. A degree of judgement is required in determining whether certain transactions merit separate presentation to allow shareholders to better understand financial performance in the year, when compared with that of previous years and trends This is set out in note 5.

- Extension options for leases: In accordance with IFRS 16, when the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. Management generally includes extensions when the option to extend can be unilaterally exercised by the tenant provided the hostel under lease is expected to continue to be profitable for the Group after the extension is exercised.

- The Group has incurred tax losses, and therefore a material deferred tax asset has been recognised as these can be carried forward indefinitely and offset against probable future taxable profits after the market recovers in 2022 and the Group is expected to generate net profits from 2023 under his forecast model.

Estimates

- The fair-value of the assets and liabilities recognised on the acquisition of an operation or entity is determined using both external valuations and directors' valuations. Details of the fair values are set out in the note 24.

- Assessment of impairment of goodwill requires estimation of future cash flows, which are uncertain, discounted to present value which also requires estimation by management. The key assumptions used to calculate the value in use (VIU) to test the goodwill for each cash generating units (CGUs) are detailed in note 12. A Pre-tax discount rate of 9.7% (2021: 11.1%) has been calculated using weighted average cost of capital. An assessment was made on the differing risks between countries in which the hostels operate based on country risks. Based on the assessment it was concluded that the differences between discount rates between each CGU is not material. The assets are similar in nature, with all CGUs providing the provision of hostel accommodation and therefore similar cashflows and therefore the risk associated with the assets is considered to be consistent between CGUs. As such one discount rate has been utilised for the purposes of performing an impairment review.

- 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 2022.

2. SEGMENTAL ANALYSIS

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

	2022	2021
	£'000	£'000
Hostel accommodation	17,150	4,901
Food and Beverages sales	1,109	725
Other income	517	550
Rental income	370	247
Total Income	**19,146**	**6,423**
Like-for-like income	**19,146**	**5,810**

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 group.

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

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 revisit 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.

Pre-IFRS 16 EBITDA was calculated in the prior period segmental analysis such that the accounts can be understood on a comparable basis and included for information purposes. As this is the second year since transition, pre-IFRS 16 adjusted EBIDTA is not considered in the current year.

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	**2,574**	**278**	**1,007**	**(4,583)**	**(724)**
Finance costs	191	1	59	2,306	2,558
Depreciation & Amortisation	253	1,045	1,370	987	**3,654**
EBITDA	3,018	1,324	2,436	(1,290)	**5,488**
Exceptional & Share based payment expense	-	-	-	411	**411**
Rent concessions	-	-	-	-	**-**
Adjusted EBITDA	**3,018**	**1,324**	**2,436**	**(878)**	5,900
Total assets	36,539	16,570	25,233	14,147	**92,490**
Total liabilities	(9,164)	(12,088)	(12,672)	(28,808)	**(62,732)**

2021	UK	Spain	Europe	Shared services	Total
	£'000	£'000	£'000	£'000	£'000
Revenue	**2,422**	**1,363**	**2,638**	**-**	**6,423**
Profit/(loss) before tax	6,689	(2,279)	(1,169)	(2,549)	**692**
Finance costs	271	618	539	1,273	**2,701**
Depreciation & Amortisation	1,028	1,076	1,274	395	**3,773**
EBITDA	7,988	(585)	644	(881)	**7,166**
Exceptional & Share based payment expense	(7,511)	554	-	72	**(6,885)**
Rent concessions	(595)	(227)	(453)	-	**(1,275)**
Adjusted EBITDA	**(118)**	**(258)**	**191**	**(809)**	**(994)**
Total assets	34,975	19,144	25,024	14,335	**93,478**
Total liabilities	(10,731)	(13,432)	(12,461)	(26,721)	**(63,345)**

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

	2022	2021
	£'000	£'000
UK	36,005	35,862
Spain	15,636	18,102
Rest of Europe	22,733	23,164
Shared services	11,540	10,329
Total	**85,914**	**87,457**

3 COST OF SALES

	2022	2021
	£'000	£'000
Food and drinks	449	341
Direct room supplies and sales commissions	2,692	951
Total	**3,142**	**1,292**

4 DISCONTINUED OPERATIONS

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

5 ADMINISTRATIVE EXPENSES

	2022	2021
	£'000	£'000
Staff costs (see note 10)	5,380	3,331
Legal and professional fees	895	614
Property costs	513	482
Depreciation and amortisation	3,654	3,773
Share option expenses	42	72
Other expenses	3,316	2,160
	13,800	**10,432**

	2022	2021
	£'000	£'000
Exceptional items – other operating income		
Grant income	-	462
Profit on sale of Edinburgh Hostel	-	7,511
Rent concessions	-	1,275
	-	**9,248**
Exceptional items - costs		
Legal and other	369	-
Loss on sale of Barcelona Sea Hostel	-	554
	369	**554**

6 FINANCE COSTS

	2022	2021
	£'000	£'000
Interest on bank overdrafts and loans	853	695
Amortised loan arrangement fees	68	68
Other interest costs	43	0
Interest expense for lease arrangements (note 17)	1,404	1,741
Property financing costs	191	197
	2,559	**2,701**

Finance income for the period totalled £2k (2021: £1k).

7 LOSS FOR THE FINANCIAL YEAR

The audit fees disclosed in 2022 represent the fees payable for the audit for the period ended 31 December 2022 and the non-audit fees are those incurred in the period.

	2022	2021
	£'000	£'000
Profit/(Loss) for the financial period is arrived at after charging:		
Depreciation on owned assets	1,363	1,434
Depreciation of assets under lease liabilities	2,210	2,243
Amortisation of intangible assets	150	96
CLA Evelyn Partners Limited Auditor's remuneration for audit services	281	119

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

	2022	2021
	£'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	136	90
CLA Evelyn Partners Limited additional fees relating to first year 2021 audit.	116	0
CLA Evelyn Partners Limited audit of the subsidiaries' annual accounts	29	29
	281	**119**

8 TAX

The group tax charge is made up as follows:

	2022 £'000	2021 £'000
Current tax		
Corporation tax on profits for the year	-	103
Adjustments for corporation tax on prior periods	48	(123)
Other local taxes	(4)	116
Total current tax	**44**	**96**
Deferred tax	(505)	724
Adjustments for deferred tax in prior periods	20	559
Effect of increased tax rate on opening balance	-	(88)
Total tax charge	**(441)**	**1,291**

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

	2022 £'000	2021 £'000
Profit/(loss) before tax	**(724)**	**692**
Tax at the standard UK corporation tax rate of 19% (2021: 19%)	**(137)**	**131**
Fixed asset differences	34	54
Adjustment for tax rate differences in foreign jurisdictions	73	(154)
Adjustments for tax on prior periods	68	(122)
Other tax adjustments, reliefs and transfers	(4)	193
Remeasurement of deferred tax for changes in tax rates	(111)	(148)
Deferred tax not recognised	(26)	1,155
Factors affecting charge for the period		
Non-deductible items and other timing differences	(284)	(1,300)
Chargeable gains/(losses)	-	1,482
Foreign exchange differences	(54)	
Depreciation in excess of capital allowances	-	-
Group tax charge	**(441)**	**1,291**

Remeasurement of deferred tax for changes in tax rates is as a result of the UK tax rate being increased to 25% effective 1 April 2023.

The Group has a deferred tax liability of £3.364m as disclosed in note 18 related to the potential future gain on property revaluations.

Included within current tax are adjustments for corporation tax on prior periods of £68k and relates to Group losses.

9 LOSS PER SHARE

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

	2022 £'000	2021 £'000
Loss for the period attributable to equity holders of the Company	(282)	(599)

	2022	2021
Weighted average number of ordinary shares (000s) for the purposes of basic loss earnings per share	64,679	64,679
Effect of dilutive potential ordinary shares (000s)	4,767	4,537
Weighted average number of ordinary shares (000s) for the purposes of diluted profit/(loss) per share	69,446	69,216
Basic profit/(loss) per share	**(0.44p)**	**(0.93p)**

The total number of shares in issue as at 31 December 2022 was 64,679,014.

10 STAFF COSTS

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

	2022 Number	2021 Number
Hostel operation	222	176
Directors	4	5
	226	**181**

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

	2022	2021
	£'000	**£'000**
Wages and salaries	4,680	2,925
Social security costs	670	380
Pension costs	30	26
Total staff costs	**5,380**	**3,331**

Government grants claimed by the Group under coronavirus job retention schemes across the Group for 2022 total £0k (2021: £240k).

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

	2022	2021
	£'000	**£'000**
Short term employee benefits	364	332
Pension	5	6
Share based payment charges	42	72
	411	**410**

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.

11 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Right of Use Assets	Leasehold land and buildings	Leasehold improvements	Fixtures, fittings and equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 January 2021	**8,411**	**42,048**	**41,126**	**5,295**	**3,947**	**100,827**
Transfers	73	-	-	(73)	-	-
Additions	32	-	-	-	275	307
Acquired in business combination	-	-	-	-	-	-
Derecognition of sub-leased asset		(640)				(640)
Disposals	(17)	(1,610)	(13,402)	(201)	(576)	(15,806)
IFRS lease modification		(2,891)				(2,891)
Revaluation	1,072		3,967			5,039
Exchange movements	(87)	-	-	(54)	(92)	(233)
At 1 January 2022	**9,484**	**36,907**	**31,691**	**4,967**	**3,554**	**86,603**
Transfers	2,895	-	(2,895)	(305)	305	-
Additions	-	-	-	69	296	365
IFRS lease modification	-	(280)	-		-	(280)
Exchange movements	-	1,913	-	-	24	1,937
At 31 December 2022	**12,379**	**38,540**	**28,796**	**4,731**	**4,179**	**88,625**
Depreciation						
At 1 January 2021	**285**	**4,884**	**2,420**	**797**	**2,706**	**11,092**
Transfers	1	-	-	(1)	-	-
Charge for the year	154	2,243	671	254	355	3,677
Released on disposal	(1)	(261)	(1,094)	(14)	(405)	(1,775)
At 1 January 2022	**439**	**6,866**	**1,997**	**1,036**	**2,656**	**12,994**
Transfers	-	-	-	-	-	-
Adjustment on transition to IFRS16	-	-	-	-	-	-
Charge for the period	223	2,210	596	241	302	3,572
Released on disposal	-	-	-	-	-	-
At 31 December 2022	**662**	**9,076**	**2,593**	**1,278**	**2,957**	**16,566**
Net book value:						
At 31 December 2022	**11,717**	**29,465**	**26,203**	**3,453**	**1,222**	**72,059**

At 31 December 2021	9,045	30,041	29,694	3,931	898	73,609

Fixed asset transfers

As part of an internal review into the fixed asset register, it was identified that a number of assets had been incorrectly classified. In order to more accurately reflect the nature of the assets, the directors have transferred the assets to the correct asset class.

Freehold properties

The Freehold values relates to the 3 following hostels:

- The £3.5 million value of the freehold in **York** is based on the external valuations as at 31 December 2021 prepared by Cushman and Wakefield. The historic cost carrying value is £2.4 million which is the acquisition price in 2014.
- The freehold of the **Glasgow** property acquired in October 2019 for £3.2 million and which has undergone renovation for £0.4 million. The £4.9 million value of the freehold in Glasgow is based on the external valuations as at 31 December 2021 prepared by Cushman and Wakefield.
- The hostel in **Pisa** was acquired in June 2019 for £3 million, of which £2.1 million for the freehold. The £3.5 million value of the freehold in Pisa is based on the external valuations as at 31 December 2021 prepared by Cushman and Wakefield.

Right of Use Assets

The £36.5 million right of use assets all relate to properties operated by the Group as hostels.

Right of use assets as at 31 December 2021	**36,907**
IFRS 16 lease modification	(280)
Exchange differences	1,913
Right of use assets as at 2022	**38,540**

Leasehold, land and buildings

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

Leasehold improvements

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

Valuation process

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

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

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

Valuation methodology

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

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

Location	Discount rate	Capitalisation rate	Inflation rate	Running Yield
Elephant & Castle	8%	6%	2%	3.88% - 7.39%
Glasgow	11%	8.50%	2%	5.12% - 10.95%
York	10%	8%	2%	6.27% - 9.78%
Pisa	11%	8.50%	2%	6.82% - 10.77%

12 INTANGIBLE ASSETS AND GOODWILL

	Website	Leasehold rights	Goodwill	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2021	**134**	**1,697**	**15,060**	**16,891**
Disposals	-	(1,697)	(1,423)	(3,120)
At 31 December 2021	**134**	**-**	**13,637**	**13,771**
Additions	5	-	-	5
Exchange differences			(131)	(131)
At 31 December 2022	**139**	**-**	**13,504**	**13,645**
Amortisation and Impairment				
At 1 January 2021	**92**	**818**	**1,491**	**2,401**
Charge for the period	24	72	-	96
On disposals	-	(890)	-	(890)
At 31 December 2021	**116**	**-**	**1,491**	**1,607**
Charge for the period	14	-	-	14
At 31 December 2022	**130**	**-**	**1,491**	**1,621**
Net book value:				
At 31 December 2022	**9**	**-**	**12,014**	**12,023**
At 31 December 2021	18	0	12,146	12,164

Leasehold Rights

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

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 2022 are shown below.

CGU	**Goodwill carrying value £'000**
Madrid	2,217

Paris	11
Gothic	726
Lisbon	1,355
Prague	211
Barcelona Passeig De Gracia	1,687
Vienna	5
Brussels	1,326
Pisa	795
Berlin	1,015
Athens	1,210
Bratislava	897
Warsaw	607
	12,014

No impairment has been deemed necessary by Management for the year ended 31 December 2022.

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 11.0% (2021: 9.7%) 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 has been used as the basis of our assessment to which the Directors' have applied an increase of a 7.5% in revenue and a 5% increase in cost relating to inflation for subsequent years.
- No hostels have a shortfall between the recoverable value and carrying value.

Sensitivity analysis

Management have reviewed all the properties and do not consider there to be an impairment.

Headroom between the carrying and recoverable value of an asset is dependent upon sensitivities to the following assumptions (other than the VIU assumptions outlined above):

Discount Rate

The group calculates a WACC applying local government bond yields and tax rates. For reference the Group WACC for Safestay plc was 11.0% (2021: 9.7%). 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 2022 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.

13 TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Trade and other receivables	620	865
Other debtors	-	230
Prepayments and accrued income	502	132
	1,122	**1,227**

Credit risk is the risk that a counterparty does not settle its financial obligation with the Group. At the year end, the Group 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

	2022 £'000	2021 £'000
Cash and cash equivalents	5,226	4,482

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

	2022 £'000	2021 £'000
Due in less than one year		
Trade payables	663	640
Social security and other taxes	150	107

Other creditors	758	642
Accruals and deferred income	1,556	673
	3,128	**2,062**
Due in more than one year		
Other payables	-	7
	3,128	**2,069**

16 BORROWINGS

	2022	2021
	£'000	**£'000**
At amortised cost		
Bank Loan	17,000	18,013
Property financing loans	7,088	7,078
Loan arrangement fees	(62)	(137)
	24,026	**24,954**
Loans repayable within one year	925	926
Loans repayable after more than one year	23,101	24,028
	24,026	**24,954**

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 2022 is £4.3m. The interest rate is 3.99% margin over base rate from year 2 onwards and is interest free in the first year.

Property financing loans relate to the sale and leaseback arrangement entered for Elephant & Castle.

At 31st December 2021 a HSBC bank loan 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.

17 LEASES

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

	2022	2021
	£'000	**£'000**
Current	139	78

Non-current	453	562
Total	**592**	**640**

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.

Variable lease income relating to performance of Casa Suecia have been excluded from the initial measurement of the lease asset and any additional consideration received is recognised through the income statement.

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**	**145**	**150**	**159**	**-**	**-**	**592**

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

	2022	**2021**
	£'000	**£'000**
Current	1,770	1,922
Non-current	30,450	31,086
Total	**32,220**	**33,008**

Total cash outflow for leases for the year ended 31 December 2022 was £3.3m (2021: £3.3m).

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 one lease in Lisbon which a portion of the rentals are linked to revenue. The variable portion of the lease in Lisbon is accounted for as a variable rent over the period it relates to.

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

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

Right-of-use asset	**No of right-of-use assets leased**	**Range of remaining term**	**Average remaining lease term**	**No of leases with extension options**	**No of leases with options to purchase**	**No of leases with variable payments linked to an index**	**No of leases with termination options**
Hostel buildings	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.

Lease liabilities

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2022 is as follows:

2022

	Minimum lease payments due			
	Within 1 year	**1-5 years**	**After 5 years**	**Total**
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**	**22,140**	**32,220**

2021

	Minimum lease payments due			
	Within 1 year	**1-5 years**	**After 5 years**	**Total**

Lease payments	3,085	11,915	32,606	47,606
Finance charges	(1,163)	(3,934)	(9,501)	(14,598)
Net present values	**1,922**	**7,981**	**23,105**	**33,008**

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. The expense incurred for short term and low value leases is £50k (2021: 50k).

18 DEFERRED INCOME TAX

	Deferred tax assets	Deferred tax liabilities	Total
	£'000	**£'000**	**£'000**
Balance as at 1 January 2021	**2,159**	**(1,758)**	**401**
Recognised in the income statement	(1,037)	(157)	(1,194)
Recognised in other comprehensive income	-	(1,399)	(1,399)
Balance at 31 December 2021	**1,122**	**(3,314)**	**(2,192)**
Recognised in the income statement	258	(82)	174
Recognised in other comprehensive income	-	32	32
Balance at 31 December 2022	**1,379**	**(3,364)**	**(1,985)**

The Group has recognised deferred tax assets of £1.4m (2021: £2.2m), which are expected to offset against future profits, in respect of tax losses. This is on the basis that it is probable that profits will arise in the foreseeable future, enabling the assets to be utilised.

19 EQUITY

CALLED UP SHARE CAPITAL

	£'000
Allotted, issued and fully paid	
64,679,014 Ordinary Shares of 1p each as at 1 January 2022 and 31 December 2022	647
	647

At the 31 December 2022, the ordinary shares rank pari passu. There are no changes to the voting rights of the ordinary shares since the balance sheet date.

SHARE PREMIUM

	£'000
At 1 January 2022	23,904

At 31 December 2022	**23,904**

OTHER COMPONENTS OF EQUITY

	Merger reserve £'000	Share based payment reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Total £'000
Cost					
At 1 January 2021	**1,772**	**438**	**12,356**	**63**	**14,629**
Share based payment charge	-	72	-	-	72
Property revaluation	-	-	5,039	-	5,039
Deferred tax on property revaluation	-	-	(1,399)	-	(1,399)
Exchange differences on translating foreign operations	-	-	-	169	169
At 31 December 2021	**1,772**	**510**	**15,996**	**232**	**18,510**
Exchange differences on translating foreign operations	-	-	-	(136)	(136)
Share based payment charge	-	42	-	-	42
At 31 December 2022	**1,772**	**552**	**15,996**	**96**	**18,416**

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 (2021: 609,000) and the average share price target for options issued in 2022 was 15p (2021: 15p).

Grant date	Exercise price per share (pence)	Period within which options are exercisable	Number of share options outstanding	
			2022	**2021**
12-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	38,550
14-Jul-17	50p	-	-	250,000
21-Jul-17	15p	01/01/2024 to 31/12/2031	500,000	500,000
11-Oct-18	15p	01/01/2024 to 31/12/2031	100,000	100,000
1-Jan-19	15p	01/01/2024 to 31/12/2031	500,000	500,000
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	900,000	900,000
31-Oct-20	9p	01/01/2024 to 31/12/2031	186,400	186,400
30-Nov-20	15p	01/01/2024 to 31/12/2031	104,900	104,900
31-Dec-20	13p	01/01/2024 to 31/12/2031	129,100	129,100
31-Jan-21	13p	01/01/2024 to 31/12/2031	129,100	129,100
28-Feb-21	14p	01/01/2024 to 31/12/2031	119,900	119,900
31-Mar-21	15p	01/01/2024 to 31/12/2031	111,900	111,900
30-Apr-21	15p	01/01/2024 to 31/12/2031	75,200	75,200
31-May-21	15p	01/01/2024 to 31/12/2031	66,400	66,400
30-Jun-21	15p	01/01/2024 to 31/12/2031	62,700	62,700
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	-
9-Nov-22	16p	01/01/2024 to 31/12/2031	30,000	-
25-Nov-22	16p	01/01/2024 to 31/12/2031	50,000	-
			4,767,389	**4,443,766**

The share options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The 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:

During 2022, it was agreed with the Business Growth Fund that Larry Lipman, the Chairman, will waive his 250,000 share options issued on 14 July 17. He has also agreed that if he exercised any of the remaining share options, he cannot sell these shares for two years.

	2022 Number of share options	2022 Weighted average exercise price	2021 Number of share options	2021 Weighted average exercise price
Brought forward 1 January	4,443,766	18.2p	4,634,166	38.0p
Forfeited in the period	(156,377)	50.0p	(800,000)	33.6p
Issued in the period	480,000	20.9p	609,600	15.0p
Outstanding at 31 December	**4,767,389**	**19.3p**	**4,443,766**	**35.9p**
Exercisable at end of the period	388,573	50.0p	2,327,789	42.8p

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 £42k taken though the income statement (2021: £72k).

The inputs are as follows:

	2022	2021
Closing price of Safestay plc	15.5p	19.5p
Weighted average share price	15.7p	20.3p
Weighted average exercise price	19.3p	35.9p
Expected volatility	52%	35%
Average vesting period	2.0 years	7.0 years
Risk free rate	1.47%	1.28%
Expected dividend yield	0.00%	0.00%

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

21 NOTES TO THE CASHFLOW STATEMENT

	2022	2021
	£'000	£'000
Profit/(loss) before tax	**(724)**	**693**
Adjustments for:		
Depreciation of property, plant and equipment and amortisation and impairment of intangible assets	3,586	3,773
Profit on disposal of fixed assets	-	(6,957)
Finance cost	2,558	2,545
Share based payment charge	42	72
Exchange movements	(836)	116
Lease Modifications	280	-
Rent concessions	-	(1,275)
Changes in working capital:		
Decrease in inventory	11	12
Decrease/(increase) in trade and other receivables	154	549
(Decrease) in trade and other payables	1,059	(800)
Net cash from operating activities	**6,130**	**(1,272)**

22 Related Party Transactions

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

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

	2022	2021
	£'000	£'000
Short term employee benefits	364	332
Pension	5	6
Share based payment charges	0	72
	369	**410**

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

Details of the 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 (2021:£50,000).

Safeland plc has 528,695 share options as at 31 December 2022 (2021: 528,695), valued at £48k.

23 FINANCIAL INSTRUMENTS

Capital management

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

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

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

	2022	**2021**
	£'000	**£'000**
Share capital	647	647
Share premium account	23,904	23,904
Retained earnings	(13,209)	(12,928)
Merger reserve	1,772	1,772
Share based payment reserve	551	510
Revaluation reserve	15,996	15,996
Translation reserve	96	231
Bank loans	17,000	18,007
Property financing loans	7,088	7,078
Lease liabilities	32,220	33,008

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 2022, the Group held the following financial assets:

	2022	2021
	£'000	£'000
Trade and other receivables (note 13)	1,187	1,227
Cash and cash equivalents (note 14)	5,226	4,482
	6,413	**5,709**

At 31 December 2022, the Group held the following financial liabilities:

	2022	2021
	£'000	£'000
Bank loans (note 16)	17,000	18,007
Property financing loans (note 16)	7,084	7,078
Lease liabilities (note 17)	32,220	33,008
Trade and other payables (note 15)	3,128	2,069
	59,432	**60,162**

All financial liabilities are measured at amortised cost.

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

	2022	2021
	£'000	£'000
Total liabilities	(62,732)	(57,962)
Cash and cash equivalents	5,226	4,482
Net Debt	**(57,506)**	**(53,480)**

Financial risk management

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

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

Interest rate risk

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

Liquidity risk

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

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 £12.7m until 2025. In addition, a £5.0m bank CBILs facility was secured for 6 years on 16th December 2020, which is interest free for the first year increasing to 3.99% above base rate from year 2. Repayment of CBILs facility commenced in April 2022.

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.

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 (losses)/gains 2022 £'000	**Equity (losses)/gains 2022 £'000**	**Profit before tax (losses)/gains 2021 £'000**	**Equity (losses)/gains 2021 £'000**
10% Strengthening of Sterling versus the Euro	(117)	(1,549)	315	(1,661)
10% Weakening of Sterling versus the Euro	129	1,704	(346)	1,827

Interest rate risk management

The Group is exposed to interest rate risk on its borrowings. The £12.7 million main facility has an interest rate of 2.95% above 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.

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 2022, 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 £83,000 (2021: £89,000). 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.

Liquidity and interest risk analysis

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

	Less than 1 year £'000	**1-2 years £'000**	**3-5 years £'000**	**Later than 5 years £'000**	**Total £'000**
Variable interest rate borrowings	1,379	1,577	16,659	-	19,615
Property financing borrowings	191	191	573	10,193	11,148

Trade and other payables	3,124	-	-	-	3,124
Lease liabilities	3,345	3,345	9,729	31,420	47,839
	8,039	**5,113**	**26,961**	**41,613**	**81,726**

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.

24 FAIR VALUES OF NON-FINANCIAL ASSETS

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

		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
	2021				
Freehold Property		-	-	9,484	9,484
Leasehold Property		-	-	31,691	31,691
		-	**-**	**41,175**	**41,175**
	2022				
Freehold Property		-	-	12,471	12,471
Leasehold Property		-	-	28,796	28,796
		-	**-**	**41,267**	**41,267**

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

25 BUSINESS COMBINATIONS

See accounting policy in note 1.