

GENERATOR HOSTELS LTD
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019



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For the year ended 31 December 2019

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Generator Hostels Ltd

COMPANY INFORMATION

For the year ended 31 December 2019

Directors	Andre Guettouche Alastair Thomann Sharn Gill (resigned 7 September 2020) Jonathan Millet (resigned 23 October 2020) Jueane Thiessen
Company Number	03192617
Registered Address	Generator Hostels Limited Macnaughton House Compton Place London WC1H 9SD
Incorporation Date	30 April 1996

STRATEGIC REPORT

For the year ended 31 December 2019

REVIEW OF THE BUSINESS

The loss for the year attributable to shareholders amounts to £5,629,827 (2018: £2,850,142) and is detailed on the Statement of Comprehensive Income. Total equity decreased by the corresponding amount.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group operates in a highly competitive environment and is therefore exposed to actions from existing and new entrants to the market. This is overcome by the prime location of the hostels, a strong brand and a number of activities that differentiate the Company's offer, including marketing campaigns, public relations actions, a strong social media presence and investment in the real estate.

In 2019 the Company was still loss making as income from royalties, management and marketing fees did not sufficiently cover the head office costs. The deficit has been covered by the funding from the Group. It is expected that within 2-3 years expenses will be covered by the management fees from all operating hostels and the Company will start generating profits.

KEY PERFORMANCE INDICATORS

The business is a management company and continues to manage the expanding Group. Directors use a number of indicators to track the performance of the operating companies in the Group (KPIs), as these benchmarks form an indicator of valuation of the underlying investment.

KPIs	2019	2018
Occupancy (Beds)	78.80%	79.85%
ABR – Average Bed Rate	£27.04	£25.07
RevPAB - Revenue Per Available Bed	£21.32	£20.01

By order of the Board



Alastair Thomann

Director

Date 03/02/20

DIRECTORS' REPORT

For the year ended 31 December 2019

The Directors submit their report and the financial statements of Generator Hostels Ltd ("the Company") for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The results for the year are set out on page 5. No dividends will be distributed for the year ended 31 December 2019 (2018: £nil).

FUTURE DEVELOPMENTS

Following the significant impact of COVID-19 across all sites in 2020, the short-term focus of the Queensgate Generator S.à r.l Group (the Group) is restoring revenue and profitability to historic levels.

However, the Group is always reviewing potential development of existing assets. Other opportunities for growth are also being considered as the Group looks to expand the Freehand brand into the European market.

DIRECTORS

The following Directors have held office since 1 January 2019:

Andre Guettouche

Alastair Thomann

Sharn Gill (appointed 12 August 2019, resigned 7 September 2020)

Jonathan Millet (appointed 12 August 2019, resigned 23 October 2020)

Jueane Thiessen (appointed 12 August 2019)

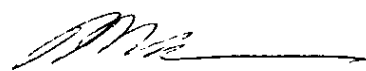
POST BALANCE SHEET EVENTS

The COVID-19 outbreak in Q1 2020 has had a significant impact on the operations of the Group after the year end, as it has on hostels and hotels around the world. There were breaches to loan covenants for the main Group facility (for the quarter ending September 2020) and Italian facility (for the quarters ending June and September 2020).

Post year-end financing has been received from shareholders and local Government's (in the form of grants, payroll assistance and loan funding). Additional debt funding is also expected to be received from new lenders imminently. The Group is fortunate to benefit from the strong support of its lenders and its shareholders and the Group's main European and US facilities are due to be extended and covenant waivers obtained where necessary, although this is yet to be formally agreed.

There are no other events or matters required to be disclosed in the financial statements

By order of the Board



Alastair Thomann
Director

Date 03/02/22

STATEMENT OF DIRECTORS RESPONSIBILITIES

For the year ended 31 December 2019

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable United Kingdom Accounting Standards, comprising FRS101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	Year to 31 December 2019 GBP	Year to 31 December 2018 GBP
Revenue	2	7,191,669	5,794,831
Gross profit		7,191,669	5,794,831
Administration expenses	3	(10,945,391)	(6,933,722)
Operating loss		(3,753,722)	(1,138,891)
Finance costs	4	(3,271,011)	(2,288,661)
Depreciation and amortisation	6	(466,151)	(363,972)
Finance income	5	396,284	447,762
Loss before tax		(7,094,600)	(3,343,762)
Income tax	7	1,464,773	493,620
Loss for the year		(5,629,827)	(2,850,142)
Other comprehensive income		-	-
Total comprehensive loss attributable to the shareholders		(5,629,827)	(2,850,142)

The loss for the year arises from the Company's continuing operations.

The accompanying notes form an integral part of these financial statements

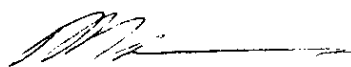
Generator Hostels Ltd**STATEMENT OF FINANCIAL POSITION**

For the year ended 31 December 2019

		31 December 2019	31 December 2018
	Notes	GBP	GBP
ASSETS			
Non-current			
Investments and other financial assets	9	10,290,730	9,894,444
Other intangible assets	10	1,233,525	1,292,493
Plant and equipment	11	184,878	176,736
Deferred tax asset	12	948,261	395,731
		<u>12,657,394</u>	<u>11,759,404</u>
Current			
Trade and other receivables	13	22,365,571	15,969,665
Cash and cash equivalents		2,287,354	322,279
		<u>24,652,925</u>	<u>16,291,944</u>
LIABILITIES			
Current			
Trade and other payables	14	17,233,336	6,453,658
Non-current			
Interest bearing long-term loans	15	46,980,090	42,870,970
		<u>(26,903,107)</u>	<u>(21,273,280)</u>
NET LIABILITIES			
EQUITY			
Share capital	16	100,000	100,000
Capital redemption reserve	16	69,098	69,098
Retained earnings		(27,072,205)	(21,442,378)
TOTAL EQUITY		<u>(26,903,107)</u>	<u>(21,273,280)</u>

For the year ending 31 December 2019 the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies. The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476. The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts. These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

These financial statements were approved and authorised for issue by the Board on 03/02/22 and signed on its behalf by:



Alastair Thomann
Director

Registered Company Number: 03192617

The accompanying notes form an integral part of these financial statements

Generator Hostels Ltd

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital GBP	Redemption reserve GBP	Retained earnings GBP	Total equity GBP
At 1 January 2018	100,000	69,098	(18,592,236)	(18,423,138)
Loss for the year	-	-	(2,850,142)	(2,850,142)
At 31 December 2018	<u>100,000</u>	<u>69,098</u>	<u>(21,442,378)</u>	<u>(21,273,280)</u>
Loss for the year	-	-	(5,629,827)	(5,629,827)
At 31 December 2019	<u>100,000</u>	<u>69,098</u>	<u>(27,072,205)</u>	<u>(26,903,107)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.2 REVENUE RECOGNITION

Royalties, Management fees and Marketing fees

Under management agreements, the Company's performance obligation is to provide hostel management and marketing services, and a licence to use the Company's trademarks and other intellectual property.

Base management fees are typically a percentage of total hostel revenues, treated as variable consideration. Base management fees are recognised as the underlying hotel revenues occur. All revenues are recognised over time, as the service is provided by the Company and consumed by the customer simultaneously

1.3 FINANCING COSTS

Financing costs comprise interest payable on borrowings calculated using the effective interest rate method. Attributable transaction costs are recognised initially in the carrying value of non-derivative financial instruments, and subsequently amortised using the effective interest rate method.

1.4 FOREIGN CURRENCY TRANSLATION

The financial statements of the Company are presented in Pound Sterling (GBP), which is the functional currency of the primary economic environment in which the Company operates.

Foreign currency transactions are recorded in the functional currency at the exchange rate prevailing on the date of the transaction. At each reporting date:

- monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. The related translation gains and losses are recorded in the statement of income for the year to which they relate;
- non-monetary assets and liabilities denominated in foreign currencies are recognised at the historical cost applicable at the date of the transaction.

1.5 LEASES

Leases are analysed based on the situations and indicators set out in IFRS 16 in order to determine whether they constitute leases. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

The following main factors are considered by the Company to assess a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration and where the supplier does not have the substantive right of substitution. Upon lease commencement, a lessee recognises a right-of-use asset and a lease liability under the cost model measured at cost less accumulated depreciation and accumulated impairment and lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease.

1.6 PLANT AND EQUIPMENT

Plant and equipment are stated at historical cost less accumulated depreciation and impairment. Depreciation is calculated to write down the cost less estimated residual value of all plant and equipment by equal annual instalments over their expected useful lives less estimated residual values, using the straight-line method. The rates generally applicable are:

- Fixtures, Fittings & Equipment 3 - 7 years straight line basis
- Computer equipment 5 years straight line basis

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

The assets residual value and useful lives are reviewed, and adjusted if required, at each reporting date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

1.7 FIXED ASSET INVESTMENTS

Interests in subsidiaries, associates and jointly controlled entities are assessed for impairment at each reporting date. 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 (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. Any impairments losses or reversals of impairment losses are recognised immediately in profit or loss.

1.8 INTANGIBLES ASSETS

Intangible assets are initially recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

- Software 5 years straight line basis

1.9 IMPAIRMENT (NON-FINANCIAL ASSETS)

At each reporting date the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant assets are carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.10 TAXATION

Income tax expense represents the sum of the deferred tax and current tax payable.

Current tax

The tax expense currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised 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 balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be recognised.

The carrying amount of deferred tax assets is reviewed at each reporting 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. Where assets are not yet trading or where it is not certain that sufficient taxable profits will arise within two years deferred tax is not recognised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset recognised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

1.11 FINANCIAL ASSETS

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial asset. Transaction costs that are directly attributable (other than financial assets or liabilities at fair value through profit or loss) are added to or deducted from the fair value as appropriate, on initial recognition.

Fair value through profit or loss

All of the Company's financial assets other than those which meet the criteria to be measured at amortised cost are subsequently measured at fair value at the end of each reporting period, with any fair value gains or losses being recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Financial assets at amortised cost

Financial assets are subsequently measured at amortised cost where they are:

- financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset gives rise to specified dates to cash flows that are solely payments of principal and interest.

Amortised cost is calculated using the effective interest method and represents the amount measured at initial recognition less repayments of principal plus cumulative interest, adjusted for any loss allowance.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortised cost, FVTOCI, lease receivables as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk.

The Company recognises lifetime ECL on all financial instruments where there has been a significant increase in credit risk since initial recognition. The assessment of whether lifetime ECL should be recognised is based on the likelihood or risk of default occurring since initial recognition.

Lifetime ECL represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. The 12-month ECL represent the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased, the following shall be taken into account:

- Actual or expected significant deterioration in the financial instrument's external or internal credit rating; or
- Significant deterioration in external market conditions; or
- Existing or forecast adverse changes in business, financial or economic conditions that will impact the debtor's ability to meet debt obligations; or
- Actual or expected deterioration in the operating results of the debtor; or
- Actual or expected significant adverse changes in the regulatory or technological environment of the debtor that will impact the debtor's ability to meet debt obligations.

Certain categories of financial asset, such as trade receivables, are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the generally average credit period of 30 to 90 days, as well as observable changes in the national or local economic conditions that correlate with default on receivables.

1.12 FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities are initially measured at fair value and subsequently held at amortised cost. Transaction costs that are directly attributable (other than financial assets or liabilities at fair value through profit or loss) are added to or deducted from the fair value as appropriate, on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.13 FINANCIAL RISK FACTORS

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Foreign exchange risk

The Company operates mainly in Europe and is exposed to the foreign exchange risk arising from Euro exposure. Foreign exchange risk arises from the future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The wider Group uses derivative financial instruments to hedge certain risk exposures.

Credit risk

Credit risk is managed on the Group level, except for credit risk relating to accounts receivable balances. The Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers.

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

1.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

1.15 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

IFRS 16 Leases

With effect from 1 January 2019, the Company has adopted IFRS 16 'Leases'. Lessees are required to recognise on the statement of financial position 'right-of-use' assets which represent the right to use underlying assets during the lease term and a lease liability representing the minimum lease payment for all leases. Depreciation of 'right-to-use' assets and interest on lease liabilities is charged to the income statement, replacing the corresponding operating lease rentals.

The Company has adopted IFRS 16 using the 'modified retrospective approach' from 1 January 2019 and therefore the comparative information has not been restated as permitted under the specific transition provisions in the standard.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

The Company had no leases which resulted in an impact to the financial statements as at 31 December 2019.

1.16 GOING CONCERN

The COVID-19 outbreak in Q1 2020 has had a significant impact on the operations of the hotels within the Queensgate Generator S.à r.l Group (the Group) after the year end, as it has on all hotels worldwide. It is too early to know the precise impact this will have on the short and medium term trading horizon as the situation continues to evolve and with different impacts and levels of support provided to businesses in the different countries in which the group operates.

However, the Group Directors are taking comprehensive steps to ensure that the business is able to continue in operation for the foreseeable future. Cost savings have been made wherever possible at both a marginal and fixed cost level, taking advantage of Government supported measures, such as loans and grants, furloughing of employees and tax deferral schemes for the period that these are available. Queensgate Generator has previously traded with strong EBITDA performance and it is the expectation of the Group Directors that normal operations will be able to resume relatively quickly once the restrictions in relation to COVID-19 and international travel are lifted with the group expecting to be ahead of many in the industry in terms of recovery.

The Company is a holding entity within the Group, but relies on the cashflows of entities within the wider Group. It is therefore, the status of the Group which is relevant in the assessment of the going concern assumption. The Group operates with five senior debt facilities, which in connection with the additional financing secured in February 2021, were amended to acknowledge and work with the adverse impact of COVID-19 restrictions, following breaches of covenants after the balance sheet date. At this time, it was ensured that covenants within the senior debt facilities were reset and not tested again until outside the review period. The prolonged restrictions in place in the key markets for the Group and the so called third wave of the pandemic across Europe, has resulted in forecasts being prepared which require additional cash financing to provide operational capital and to protect against further shocks.

The Group shareholders have been provided with the detailed forecasts for the business and have agreed to provide additional funding, of which only half is required in the base case scenarios. In downside stress tests, the case where the total cash support agreed is insufficient is deemed to be extremely unlikely, and so the Group Directors are confident that with the Group shareholder support in place the Group will be able to continue to trade and meet its liabilities as they fall due over a period of at least 12 months from the date of approval of these financial statements.

It should be noted, however, that there is currently no legal commitment from shareholders to provide the additional support which is required and so while the Group Directors have every confidence that this funding will be obtained, this is not certain. In the event that the funding were not obtained, then the Group would need to seek alternative financial support, which may not be achievable. As a result, a material uncertainty exists that may cast significant doubt on the Group's and the Parent company's

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

ability to continue as a going concern, and therefore, its ability to realise its assets and discharge its liabilities in the normal course of business.

The Directors of the Company have considered the situation of the Company with consideration to the larger Group and concluded that it is appropriate to prepare the financial statements using the going concern.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 REVENUE

	Year to 31 December 2019 GBP	Year to 31 December 2018 GBP
Management fees	4,280,379	3,187,693
Royalty fees	1,247,865	1,118,400
Marketing fees	1,663,425	1,488,738
	<u>7,191,669</u>	<u>5,794,831</u>

3 ADMINISTRATION EXPENSES

Key administration expenses to users of the financial statements include:

	Year to 31 December 2019 GBP	Year to 31 December 2018 GBP
a) Audit fees	-	8,500
b) Corporation tax compliance fees	4,000	4,000
c) Staff costs (including other agency personnel)	5,571,739	3,747,073
d) Legal and professional fees	1,311,145	685,614
e) Operating lease expenses	134,280	134,280

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 FINANCE COSTS

	Year to 31 December 2019 GBP	Year to 31 December 2018 GBP
Interest payable on related party borrowings	2,705,853	2,284,440
Foreign exchange losses/(gain) on related party loan	536,426	-
Bank charges	28,732	4,221
	<u>3,271,011</u>	<u>2,288,661</u>

The interest payable on related party borrowings was 6% (2018: 6%).

5 FINANCE INCOME

	Year to 31 December 2019 GBP	Year to 31 December 2018 GBP
Interest receivable on related party loan	396,284	427,638
Foreign exchange gains/(loss) on related party loan	-	20,124
	<u>396,284</u>	<u>447,762</u>

The interest receivable on related party loans was 6% (2018: 6%).

6 DEPRECIATION AND AMORTISATION

	Year to 31 December 2019 GBP	Year to 31 December 2018 GBP
Amortisation	415,483	316,293
Depreciation	50,668	47,679
	<u>466,151</u>	<u>363,972</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

7 INCOME TAX

Reconciliation of effective tax rate:

	Year to 31 December 2019 GBP	Year to 31 December 2018 GBP
Current tax:		
UK corporation tax	(659,957)	(425,899)
Adjustments in respect of previous periods	(252,286)	(3,229)
Total current tax	<u>(912,243)</u>	<u>(429,128)</u>
Deferred tax charge/(credit) - current year	(552,530)	(64,492)
Total tax credit for the year	<u>(1,464,773)</u>	<u>(493,620)</u>
Loss on ordinary activities before tax	(7,094,600)	(2,850,142)
Tax on loss on ordinary activities at standard corporation tax in UK of 19% (2018: 19%)	(1,347,974)	(541,527)
Effects of:		
Expenses not deductible for tax purposes	100,276	96,358
Adjustment in respect of previous year	(341,054)	(3,229)
Impact of changes in tax rate	-	(48,117)
Other timing differences	123,979	2,895
	<u>(1,464,773)</u>	<u>(493,620)</u>

The Company has surrendered the benefit of its tax losses to its group undertaking for a consideration of £912,243 (2018: £477,245).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

8 EMPLOYEES

The average number of persons (including Directors) employed by the Company:

	Year to 31 December 2019	Year to 31 December 2018
Administration	39	31

The aggregate cost of these employees was:

	Year to 31 December 2019 GBP	Year to 31 December 2018 GBP
Wages and salaries	4,547,962	3,209,766
Payroll taxes	711,139	302,846
	<u>5,259,101</u>	<u>3,512,612</u>
 Total Directors' emoluments	 1,525,336	 1,405,443
Highest paid Director	850,000	813,646

No director was accruing pension benefit during the year (2018: £nil).

9 INVESTMENTS AND OTHER FINANCIAL ASSETS

	Shares	Investment Loans GBP	Total GBP
At 1 st January 2019	2,946,668	6,947,776	9,894,444
Additions	-	396,286	396,286
Loan repayments	-	-	-
At 31st December 2019	<u>2,946,668</u>	<u>7,344,062</u>	<u>10,290,730</u>

Investment loans mature between 20 December 2022 and 1 July 2023 where principal will be repaid and/or converted to capital under the terms of the respective agreements. The interest receivable on related party loans was 6% during 2019 (2018: 6%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Subsidiaries	Shareholding	Principal activity	Equity at 31 December 2019	Loss for the year to 31 December 2019
Generator Hostel Sweden AB	100%	Hostel OpCo	(SEK15,834,454)	(SEK15,696,100)
Generator Hostels Inc.	100%	Management Company	(USD535,381)	(USD290)

Subsidiaries	Registered address
Generator Hostel Sweden AB	Torsgatan 10, 111 23 Stockholm, Sweden
Generator Hostels Inc.	27-29 Glasshouse Street, London, W1B 5DF

The financial statements of the Company and its direct and indirect subsidiaries are consolidated in the financial statements of Queensgate Generator S.a r.l (formerly: Patron Generator S.a r.l) the parent company for the entire group, and no consolidation is prepared at the Company's level. The consolidated financial statements of Queensgate Generator S.a r.l. are available at its registered office, 15 Boulevard F. W. Raiffeisen, L-2411, Luxembourg.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 OTHER INTANGIBLE ASSETS

	Software GBP
Cost or valuation	
At 1 January 2019	2,043,200
Additions	356,515
Disposals	-
As at 31 December 2019	<u>2,399,715</u>
Amortisation	
At 1 January 2019	750,707
Charge for the year	415,483
Disposals	-
As at 31 December 2019	<u>1,166,190</u>
Net Book Value	
As at 31 December 2019	<u>1,233,525</u>
As at 31 December 2018	<u>1,292,493</u>

11 PLANT AND EQUIPMENT

	Furniture, fittings and equipment GBP	Computer equipment GBP	Total GBP
Cost or valuation			
At 1 January 2018	144,545	248,400	392,945
Additions	6,066	53,068	59,134
Disposals	-	-	-
As at 31 December 2019	<u>150,611</u>	<u>301,468</u>	<u>452,079</u>
Depreciation			
At 1 January 2019	38,788	177,421	216,209
Charge for the year	18,708	31,960	50,668
Disposals	324	-	324
As at 31 December 2019	<u>57,820</u>	<u>209,381</u>	<u>267,201</u>
Net Book Value			
As at 31 December 2019	<u>92,791</u>	<u>92,087</u>	<u>184,878</u>
As at 31 December 2018	<u>105,757</u>	<u>70,979</u>	<u>176,736</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

12 DEFERRED TAX ASSET

	31 December 2019	31 December 2018
	GBP	GBP
Opening balance	395,731	331,239
Origination and reversal of timing differences	552,530	64,492
	<u>948,261</u>	<u>395,731</u>

The asset relates to timing differences that will be recovered against future profits in UK based Group companies.

13 TRADE AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
	GBP	GBP
Amounts owed by related party entities	20,765,381	15,532,579
Other debtors	1,506,935	363,934
Prepayment and accrued income	93,255	73,152
	<u>22,365,571</u>	<u>15,969,665</u>

All trade receivable amounts are short term. The carrying value is considered a fair approximation of their fair value.

All balances are unsecured and interest free.

14 TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
	GBP	GBP
Trade creditors	-	708,947
Amount due to the related party entities	15,764,137	4,274,101
Other taxation and social security	1,469,199	126,318
Accruals and deferred income	-	1,344,292
	<u>17,233,336</u>	<u>6,453,658</u>

All amounts are short term and the carrying value of trade payables, other payables and accruals are considered to be a reasonable approximation of fair value.

All balances are unsecured and interest free.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

15 INTEREST BEARING LOANS

	31 December 2019	31 December 2018
	GBP	GBP
Interest bearing long-term loans		
Amount due to related party entities	46,980,090	42,870,970

Amounts owed to the related party entities attract interest at 6% (2018: 6%), with interest being added quarterly to the principal loan balance. The loan is unsecured and matures in July 2023.

16 SHARE CAPITAL

	31 December 2019	31 December 2018
	GBP	GBP
Allotted, issued and fully paid:		
100,000 ordinary shares of £1 each	100,000	100,000

Ordinary shares

The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

Capital redemption reserve

This reserve relates to the nominal value of shares repurchased in prior accounting periods.

17 CONTINGENT LIABILITY

At 31 December 2019, the net VAT consolidated liability from Generator Hostel London Limited is £57,711 (2018: £68,635). The Company has submitted a group VAT election and in the event that other members of the group are unable to pay, the Company is subsequently jointly responsible for paying/claiming all VAT due from the group.

18 ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent is Queensgate Fusion Holdco 1 Sarl. The Company's shareholder is Queensgate Generator S.a r.l (formerly: Patron Generator S.a r.l), a company registered in Luxembourg. Queensgate Generator S.a r.l is parent undertaking of the smallest and the largest group for which consolidated accounts are drawn up, and of which the Company is a member.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

19 RELATED PARTY DISCLOSURE

The Company has taken advantage of the exemptions available under FRS101 not to disclose transactions with group companies where voting rights are wholly held within the group.

20 OPERATING LEASE COMMITMENTS

The Company has entered into the following commitments

	31 December 2019	31 December 2018
	GBP	GBP
Within one year	134,280	134,280
2-5 years	-	134,280
	<u>134,280</u>	<u>268,560</u>

21 EVENTS AFTER THE END OF THE REPORTING PERIOD

The COVID 19 outbreak in Q1 2020 has had a significant impact on the operations of the Group after the year end, as it has on hostels and hotels around the world. There were breaches to loan covenants for the main Group facility (for the quarter ending September 2020) and Italian facility (for the quarters ending June and September 2020).

Post year-end financing has been received from shareholders and local Government's (in the form of grants, payroll assistance and loan funding). Additional debt funding is also expected to be received from new lenders imminently. The Group is fortunate to benefit from the strong support of its lenders and its shareholders and the Group's main European and US facilities are due to be extended and covenant waivers obtained where necessary, although this is yet to be formally agreed.

There are no other events or matters required to be disclosed in the financial statements.