

Registration number: 07026107

Secret Escapes Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2016



Secret Escapes Limited

Directors' Report for the Year Ended 31 December 2016

The directors present their report and the consolidated financial statements for the year ended 31 December 2016.

Directors of the group

The directors who held office during the year were as follows:

S A A T Saint

T J Valentine

A D Cole

B J B Holmes

L P M R E Laffy

T Hulme

The following directors were appointed after the year end:

A Wyniecki (appointed 2 October 2017)

N Gultekin (appointed 29 September 2017)

Employment of disabled persons

Secret Escapes is an equal opportunities employer and will continue to ensure that it offers career opportunities without discrimination. Full consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. The group has continued the employment wherever possible of any person who becomes disabled during their employment. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

Employee involvement

Secret Escapes regularly provides employees with financial and other relevant information about business performance and factors that may affect it. Secret Escapes holds regular meetings that are open to all employees and invites consultation where opportunities arise. This enables and encourages open discussion on key business issues, policies and the working environment and ensures that the suggestions and views of employees are taken into account.

Branches outside the United Kingdom

The group operates branches in Italy, Norway, the Netherlands and France in addition to the subsidiaries trading in Poland, Germany, Spain, Sweden, Denmark and the USA.

Going concern

The directors have considered the appropriateness of preparing the financial statements on a going concern basis. After making reasonable enquiries as the directors consider necessary (as detailed in note 2 to the financial statements), the directors have concluded that there is a reasonable expectation that the group has adequate resource to continue for the foreseeable future, and therefore the directors have adopted a going concern basis in the preparation of the financial statements for the year.

Secret Escapes Limited

Strategic Report for the Year Ended 31 December 2016

The directors present their strategic report and the audited financial statements for the year ended 31 December 2016.

Principal activity and results

The principal activity of the group is online travel agency. The group also generates revenue from digital marketing.

The loss for the year was £20,540,000 (2015: £21,557,000) and the directors do not recommend payment of a dividend (2015: Nil).

Fair review of the business

Secret Escapes has a vision to inspire the world to escape by offering affordable luxury travel. It is an online members-only travel agent, specialising in discounted flash sales on luxury hotels and holidays. Secret Escapes negotiates exclusive deals on hand-picked hotels and destinations at prices up to 70% lower than anywhere else online before marketing these offers to its database of over 40 million global members. Membership is free to the consumer, requiring only an email address to join.

Secret Escapes members enjoy access to curated hotels and holidays at prices lower than anywhere else online, while hotels using the Secret Escapes platform receive incremental trade and international exposure. A significant proportion of customers who book with Secret Escapes tell us they weren't planning their trip before they saw the deal on Secret Escapes.

The group also sells digital marketing opportunities to selected brands, primarily through advertising on our websites.

Secret Escapes started in the UK in 2011 and has since expanded to operate across 21 territories in Europe, the USA and Asia. It had over 33 million members by the end of 2016 with a further 7 million accessed via our partner brands. Secret Escapes takes a commission on transactions and gross bookings grew by 56% in 2016 to £273 million.

	Units	2016	2015	2014	2013	2012	2011
Gross bookings	£000s	272,832	175,398	111,480	66,029	25,354	2,036
Revenue	£000s	48,749	30,888	20,385	11,597	3,645	257
Mailing list size at year end	000s	33,313	23,506	11,281	5,471	2,412	467

Key corporate events

In September and October 2017 Secret Escapes undertook a Series D fundraising, raising £53m and obtained a £30m committed banking facility.

In September 2017 Secret Escapes announced the acquisition of the Czech Republic based Slevomat Group for CZK 1.6bn, the acquisition is expected to complete in October 2017.

During 2016, Secret Escapes' core of established businesses either increased profitability or moved into profitability. The more recently launched businesses continued to develop in line with expectations.

Secret Escapes Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

Marketing

Secret Escapes is a fast-growing brand and already has good awareness amongst online holiday shoppers in the UK along with a very high post-stay satisfaction score. This growth is powered by online and TV advertising to drive membership sign-ups. Sophisticated analytics allow the group to assign a cost to individual sign-ups and cohort analysis is used to monitor return on investment over the lifetime of a membership.

In line with accounting standards, acquisition marketing costs are fully expensed as incurred but once acquired, a cohort of members generates commission over the lifetime of their memberships. Cohort values are predictable and consistent with our oldest monthly cohorts continuing to make purchases after more than 5 years of membership. This analytical framework allows the group to accurately forecast the future sales from cohorts of previously acquired members and, although not recognised as such in the Balance Sheet, the membership base is a significant asset. Secret Escapes spends very little on marketing to existing members, with the main cost being payments to its email provider. This means that ongoing trade from previously acquired members comes at a very low cost.

Supply

Most hotels run at a steady occupancy rate with 60-80% of rooms occupied on any given night. Secret Escapes is able to offer hotels a route to filling the remaining 20-40% of rooms without cannibalising their trade through other channels. Many hotels run repeat sales, often featuring on the site on a quarterly basis.

Digital trends and growth opportunities

Secret Escapes is well positioned for growth from the following digital trends;

E-commerce

- Permission marketing to an engaged membership via email and app-notifications drives predictable and inexpensive traffic to the website
- Secret Escapes provides experiential shopping for a curated group of customers, avoiding the risk of commoditisation

Travel

- Online Travel continues to be a leader in e-commerce and Secret Escapes is positioned well in the market by driving true incremental trade to hotels

Global

- Many of the deals on Secret Escapes are attractive to a global audience, allowing easy internationalisation
- The group's proven marketing techniques allow confident international testing and expansion

Mobile

- Much of Secret Escapes' traffic is already mobile, and the group anticipates the proportion of traffic via mobile devices to increase
- The group anticipates mobile apps contributing to member acquisition and incremental sales

Secret Escapes Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

Medium term outlook

The success of the territories that are already significantly profitable gives the group confidence in the model of flash sales in luxury travel. The group's primary focus in the medium term is on continuing to develop the product with group-wide, technology-led projects to leverage the audience the business has already secured, while ensuring continued growth in the existing markets. Secret Escapes does not require further funding in order to execute its current business plan, but may consider further fundraising in order to grow the business more aggressively, both through organic expansion and acquisitions.

Important non adjusting events after the financial period

In 2017 Secret Escapes obtained an ATOL licence from the Civil Aviation Authority.

In 2017 Secret Escapes has raised £53m from the issue of new equity and obtained a committed £30m banking facility.

In October 2017 Secret Escapes is expected to complete the acquisition of the Czech Republic based Slevomat Group for CZK 1.6bn.

Principal risks and uncertainties

Market

The group's business is impacted by the general risks associated with global travel and discretionary spending. A significant geographical, political or economic event that negatively impacts global air travel, such as the 2010 Eyjafjallajökull Ash Cloud, would adversely impact Secret Escapes' trade. Should such an event occur the group would be likely to reduce acquisition marketing in order to limit expenditure during the period of diminished trade and, in the example of a disruption to air travel, the group would increase promotion of hotels and holidays that do not require members to fly.

Foreign exchange movements

The group's business model involves transactions where cash receipts and payments may be in different currencies. Adverse movements in foreign exchange rates in the period between receipt of a booking and payment of the hotel or tour operator could cause unanticipated losses on a transaction. The group's geographical spread of members provides natural hedging of exchange rate risks and pricing includes some allowance for exchange rate movements. Exposure to exchange rate movements is dynamically monitored and an automated trading system is used to enter into trades when necessary to mitigate foreign exchange volatility. Whilst the group does not currently undertake foreign currency hedging through the use of forward contracts, the need to do so is reviewed periodically.

Liquidity risk and interest rates

In 2017 the group has raised £53m of equity and is documenting a £30m credit approved banking facility. After the acquisition of the Slevomat Group, the group will retain significant cash and debt facilities to mitigate liquidity risk. Its exposure to liquidity risk and net exposure to interest rate movements is considered to be low. Access to future funding is considered to be available, if required, from new and existing investors in the business to support the on-going expansion and growth of the group.

Secret Escapes Limited

Strategic Report for the Year Ended 31 December 2016
(continued)


Exit from the European Union

Following the UK referendum to leave the EU, there are a number of uncertainties about how any exit will be structured. The extent to which our operations and financial performance are affected in the longer term will only become clear as details emerge.

We have considered the possible consequences that Brexit could have upon our business and have concluded that whilst it does not raise any new risks, it does have the potential to impact a number of our existing risks, e.g. changes in market access and regulation, employment rights, exchange rates and economic uncertainty.

We will continue to monitor the risks and uncertainties arising from Brexit with mitigating strategies enacted as appropriate to the circumstances.

Approved by the Board on 13/10/17 and signed on its behalf by:


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S A A T Saint
Director

Secret Escapes Limited

Directors' Report for the Year Ended 31 December 2016

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Secret Escapes Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

Directors' liabilities

The company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.


Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 13/10/17 and signed on its behalf by:



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S A A T Saint
Director

Secret Escapes Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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 responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the members of Secret Escapes Limited

We have audited the financial statements of Secret Escapes Limited for the year ended 31 December 2016, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 8), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors to the financial statements.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

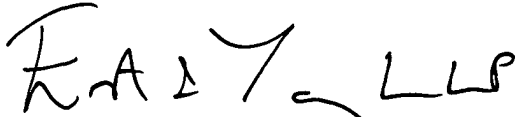
Independent Auditor's Report to the members of Secret Escapes Limited (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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



Fraser Bull (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Luton

Date: 13 October 2017

Secret Escapes Limited

Consolidated Income Statement for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Revenue	4	48,749	30,888
Cost of sales		<u>(8,447)</u>	<u>(5,241)</u>
Gross profit		40,302	25,647
Administrative expenses		(61,056)	(47,148)
Other operating income	5	<u>383</u>	<u>-</u>
Operating loss	6	(20,371)	(21,501)
Net finance income	10	<u>97</u>	<u>34</u>
Loss before tax		(20,274)	(21,467)
Income tax expense	11	<u>(266)</u>	<u>(90)</u>
Loss for the year		<u><u>(20,540)</u></u>	<u><u>(21,557)</u></u>

The above results were derived from continuing operations.

Secret Escapes Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Loss for the year		(20,540)	(21,557)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation gains		<u>11</u>	<u>41</u>
Total comprehensive loss for the year		<u>(20,529)</u>	<u>(21,516)</u>

Secret Escapes Limited

(Registration number: 07026107)

Consolidated Statement of Financial Position as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	1,256	1,091
Intangible assets	13	3,816	3,931
		<u>5,072</u>	<u>5,022</u>
Current assets			
Trade and other receivables	15	8,789	6,530
Cash and cash equivalents	16	10,749	21,813
		<u>19,538</u>	<u>28,343</u>
Total assets		<u>24,610</u>	<u>33,365</u>
Equity and liabilities			
Equity			
Share capital	17	(2)	(2)
Share premium		(51,026)	(50,982)
Reserve credit for share based payments plan		(8,430)	(6,445)
Foreign currency translation reserve		(167)	(156)
Retained earnings		67,396	46,856
Equity attributable to owners of the company		<u>7,771</u>	<u>(10,729)</u>
Current liabilities			
Trade and other payables	22	(31,493)	(22,096)
Income tax liability		-	(71)
Deferred income		(888)	(469)
		<u>(32,381)</u>	<u>(22,636)</u>
Total equity and liabilities		<u>(24,610)</u>	<u>(33,365)</u>

Approved by the Board on 13/10/17 and signed on its behalf by:


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S A A T Saint
Director

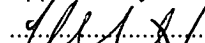
Secret Escapes Limited

(Registration number: 07026107)

Statement of Financial Position as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	1,075	1,048
Intangible assets	13	-	-
Investments in subsidiaries	14	3,570	4,197
		<u>4,645</u>	<u>5,245</u>
Current assets			
Trade and other receivables	15	8,587	7,098
Cash and cash equivalents	16	9,634	20,966
		<u>18,221</u>	<u>28,064</u>
Total assets		<u>22,866</u>	<u>33,309</u>
Equity and liabilities			
Equity			
Share capital	17	(2)	(2)
Share premium		(51,026)	(50,982)
Reserve credit for share based payments plan		(8,430)	(6,445)
Foreign currency translation reserve		(1)	-
Retained earnings		68,540	46,156
Total equity		<u>9,081</u>	<u>(11,273)</u>
Current liabilities			
Trade and other payables	22	(31,057)	(21,678)
Income tax liability		(2)	-
Deferred income		(888)	(358)
		<u>(31,947)</u>	<u>(22,036)</u>
Total equity and liabilities		<u>(22,866)</u>	<u>(33,309)</u>

Approved by the Board on 13/10/17 and signed on its behalf by:



S A A T Saint

Director

The notes on pages 20 to 53 form an integral part of these financial statements.

Secret Escapes Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £ 000	Share premium £ 000	Reserve credit for share based payments plan £ 000	Foreign currency translation £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2016	2	50,982	6,445	156	(46,856)	10,729
Loss for the year	-	-	-	-	(20,540)	(20,540)
Other comprehensive income	-	-	-	11	-	11
Total comprehensive income	-	-	-	11	(20,540)	(20,529)
New share capital subscribed	-	44	-	-	-	44
Share based payment transactions	-	-	1,985	-	-	1,985
At 31 December 2016	2	51,026	8,430	167	(67,396)	(7,771)

Secret Escapes Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016 (continued)

	Share capital £ 000	Share premium £ 000	Reserve credit for share based payments plan £ 000	Foreign currency translation £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2015	2	14,384	3,764	115	(25,299)	(7,034)
Loss for the year	-	-	-	-	(21,557)	(21,557)
Other comprehensive income	-	-	-	41	-	41
Total comprehensive income	-	-	-	41	(21,557)	(21,516)
New share capital subscribed	-	36,731	-	-	-	36,731
Share issue costs	-	(133)	-	-	-	(133)
Share based payment transactions	-	-	2,681	-	-	2,681
At 31 December 2015	2	50,982	6,445	156	(46,856)	10,729

Secret Escapes Limited

Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £ 000	Share premium £ 000	Reserve credit for share based payments plan £ 000	Foreign currency translation £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2016	2	50,982	6,445	-	(46,156)	11,273
Loss for the year	-	-	-	-	(22,384)	(22,384)
Other comprehensive income	-	-	-	1	-	1
Total comprehensive income	-	-	-	1	(22,384)	(22,383)
New share capital subscribed	-	44	-	-	-	44
Share based payment transactions	-	-	1,985	-	-	1,985
At 31 December 2016	2	51,026	8,430	1	(68,540)	(9,081)

Secret Escapes Limited

Statement of Changes in Equity for the Year Ended 31 December 2016 (continued)

	Share capital £ 000	Share premium £ 000	Reserve credit for share based payments plan £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2015	2	14,384	3,764	(24,234)	(6,084)
Loss for the year	-	-	-	(21,922)	(21,922)
New share capital subscribed	-	36,731	-	-	36,731
Share issue costs	-	(133)	-	-	(133)
Share based payment transactions	-	-	2,681	-	2,681
At 31 December 2015	<u>2</u>	<u>50,982</u>	<u>6,445</u>	<u>(46,156)</u>	<u>11,273</u>

Secret Escapes Limited

Consolidated Statement of Cash Flows for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Cash flows from operating activities			
Loss for the year		(20,540)	(21,557)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	6	508	858
Foreign currency translation movement		(5)	41
Finance income	10	(97)	(35)
Finance costs	10	-	1
Share based payment transactions	21	1,985	2,681
Income tax expense	11	266	90
		<u>(17,883)</u>	<u>(17,921)</u>
Working capital adjustments			
Increase in trade and other receivables	15	(2,259)	(2,288)
Increase in trade and other payables	22	9,397	5,989
Increase in deferred income, including government grants		419	293
		<u>(10,326)</u>	<u>(13,927)</u>
Cash generated from operations			
Income taxes paid	11	(337)	(31)
Net cash flow from operating activities		<u>(10,663)</u>	<u>(13,958)</u>
Cash flows from investing activities			
Interest received	10	97	35
Acquisitions of property plant and equipment	12	(542)	(958)
Acquisition of intangible assets	13	-	(146)
Acquisition of investments in subsidiary undertakings (net of cash acquired)		-	(454)
		<u>(445)</u>	<u>(1,523)</u>
Net cash flows from investing activities			
Cash flows from financing activities			
Interest paid	10	-	(1)
Proceeds from issue of ordinary shares, net of issue costs	17	44	32,098
Proceeds from issue of convertible debt, net of issue costs		-	1,015
		<u>44</u>	<u>33,112</u>
Net cash flows from financing activities			
Net (decrease)/increase in cash and cash equivalents		(11,064)	17,631
Cash and cash equivalents at 1 January		<u>21,813</u>	<u>4,182</u>
Cash and cash equivalents at 31 December	16	<u>10,749</u>	<u>21,813</u>

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

1 General information

The company is a private company limited by share capital incorporated and domiciled in England and Wales.

The address of its registered office is:

4th Floor, 120 Holborn
London
EC1N 2TD

2 Accounting policies

Statement of compliance

The group financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the EU ("adopted IFRS's").

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation - group

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention accounting rules. The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

The group's financial statements are presented in pounds Sterling, rounded to thousands, which is considered to be the functional currency of the group.

Basis of preparation - company

The parent company financial statements were prepared under the historical cost convention accounting rules and in accordance with the Companies Act 2006 and Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). FRS 101 enables the financial statements of the parent company to be prepared in accordance with EU-adopted IFRS but with certain disclosure exemptions as detailed below.

The company's financial statements are presented in pounds Sterling, rounded to thousands, which is considered to be the functional currency of the company.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2016.

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment,
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations,
- the requirements of IFRS 7 Financial Instruments: Disclosures,

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement,
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (a) paragraph 79(a)(iv) of IAS 1;
 - (b) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - (c) paragraph 118(e) of IAS 38 Intangible Assets;
 - (d) paragraphs 76 and 79(d) of IAS 40 Investment Property; and
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets,

The basis for all of the above exemptions is because equivalent disclosures are included in the consolidated Financial Statements of the Group in which the entity is consolidated.

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2016 have had a material effect on the financial statements.

New standards, interpretations and amendments not yet effective

The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the company financial statements in future:

IFRS 9 - Financial Instruments

This standard addresses the classification, measurement and recognition of financial assets and liabilities. The standard is effective for accounting periods beginning on or after 1 January 2018. The full impact has not yet been assessed.

IFRS 15 - Revenue from contracts with customers

The standard deals with the revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for annual periods beginning on or after 1 January 2018. The full impact has not yet been assessed.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

IFRS 16 - Leases

The standard addresses the definition of a lease, and recognition and measurement of leases. It is likely that most operating leases will be accounted for on balance sheet for lessees. The standard is effective for periods beginning on or after 1 January 2019. The full impact has not yet been assessed.

Going concern

Despite the significant cash balance held by the group, given the loss in the year, and the liabilities and shareholders' deficit reported within the statement of financial position, the directors have a duty to be satisfied that there is sufficient evidence that adequate headroom exists within the forecast cash flow to ensure that the group can meet its liabilities as they fall due.

In reaching this conclusion the directors have considered the current trading and forecast results, forecast cash flow, and potential mitigating actions in the event of underperformance.

Subsequent to the year end the company has raised £53m in equity and £30m in a committed debt facility. After the acquisition of the Slevomat group for CZK1.6bn this will leave significant cash within the group.

The directors recognise that there is uncertainty as to the amount and timing of cash flows to the group, however, based upon the business plan and their assessment of the ability of the group to continue within the current funding arrangements the directors have concluded that the group will continue in operational existence for the foreseeable future, and at least for a period of 12 months from the date of approval of these financial statements and so have adopted the going concern basis of accounting in preparing these financial statements.

Revenue recognition

Turnover represents net commissions from hotels and tour operators and digital marketing revenue.

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

The company does not take ownership of the products or services being sold and acts as an agent receiving commission from the supplier of the products or services being sold. Revenue therefore represents commission earned. Digital marketing revenue is recognised over the period where the service has been provided.

Finance income and costs policy

Finance income consists of income from cash investments and equivalents. Interest income is recognised in the Profit and Loss Account when earned, using the effective interest method.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Tax

The tax expense for the period comprises UK corporation tax and foreign tax due in respect of overseas trading. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable income.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at historical cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Historical cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the company and the cost of the item can be reliably measured. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Leasehold improvements	over the life of the lease
Furniture, fittings and equipment	20% - 33 1/3% on cost

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Goodwill

Secret Escapes performs its annual impairment test in December each year. The group considers the relationship between the book value and the future in-flows of cash when reviewing for indicators of impairment. The pre-tax discount rate applied to cash flow projections is 10.0% for the cash flows of the three-year period from 2017 onwards.

Growth rate estimates are based on industry standards, and three years is deemed an adequate lifetime given the type of asset. Management recognises that the speed of technological change and the possibility of new entrants could have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but in order to model for this scenario the assumed growth rate has been stress-tested by up to a 10% reduction in future cash in-flows, without impacting the impairment values.

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Other intangible assets	2 years straight line basis

Business combinations

Fixed asset investments relating to shares in group undertakings are stated at historical cost less provision for any diminution in value.

Impairment of non-financial assets

The carrying values of non-financial assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any impairment loss arises, the asset value is adjusted to its estimated recoverable amount and the difference is recognised in the statement of income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Share based payments

The group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the entity. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the binomial option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid to publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Financial assets and liabilities

Classification

The group's financial assets include cash and short-term deposits and trade and other receivables. The group's financial liabilities include operating payables.

Recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method.

Financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the estimated term of the financial instrument or, where applicable, over a shorter period, to the net carrying amount of the financial asset or liability.

Impairment

An impairment loss is recognised if the carrying amount of these assets exceeds the present value of future cash flows discounted at the initial effective interest rate. The impairment loss is recognised in the Statement of Income. Gains and losses on loans and receivables consist of interest income and impairment losses.

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires judgements, estimations and assumptions to be made that affect the reported values of assets, liabilities, revenues and expenses. The nature of estimation means that the actual outcomes could differ from those estimates. Significant areas of estimation for the group include the following:

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Fair values on acquisitions and contingent consideration

The fair value of tangible and intangible assets acquired on the acquisition of subsidiaries involves the use of valuation techniques and the estimation of future cash flows to be generated over a number of years. In addition the estimation of the contingent consideration payable requires estimation of the level of profitability of the business acquired. The estimation of the fair values requires the combination of assumptions including revenue growth, and increases in customer attrition rates. In addition the use of discount rates requires judgement.

Impairment of intangible assets and goodwill

The group considers whether intangible assets and/or goodwill are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of cash generating units (CGUs). This requires estimation of future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

Share-based payments

The group's employees have been granted share options by the parent company, Secret Escapes Limited. The fair value of the share options has been calculated using the binomial valuation model which requires a number of assumptions and estimates to be made, including the risk free interest rate, expected volatility of the share price and expected dividends payable over the life of the options.

4 Revenue

The analysis of the group's revenue for the year from continuing operations is as follows:

	2016 £ 000	2015 £ 000
Rendering of services	<u>48,749</u>	<u>30,888</u>

Revenue from rendering of services comprises of:

	2016 £ 000	2015 £ 000
Commissions from hotels and tour operators	46,310	29,479
Digital marketing revenue	2,046	1,320
Other income	393	89
	<u>48,749</u>	<u>30,888</u>

38% (2015 - 56%) of commission revenue arises from UK members with 62% (2015 - 44%) from overseas members. 69% (2015 - 90%) of digital marketing revenue arises in the UK, with the remaining 31% (2015 - 10%) arising from overseas.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

5 Other operating income

The analysis of the group's other operating income for the year is as follows:

	2016 £ 000	2015 £ 000
Sub lease rental income	<u>383</u>	<u>-</u>

6 Operating loss

Arrived at after charging/(crediting)

	2016 £ 000	2015 £ 000
Depreciation expense	389	240
Amortisation expense	101	79
Impairment loss	18	539
Foreign exchange losses/(gains)	1,566	(301)
Operating lease expense - property	1,398	548
Operating lease expense - plant and machinery	<u>24</u>	<u>19</u>

7 Auditors' remuneration

	2016 £ 000	2015 £ 000
Audit of these financial statements	55	55
Other fees to auditors		
Taxation compliance services	<u>10</u>	<u>56</u>
	<u>65</u>	<u>111</u>

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2016 £ 000	2015 £ 000
Wages and salaries	15,835	10,569
Share-based payment expenses	1,985	2,681
Social security costs	1,968	1,137
Pension costs, defined contribution scheme	241	139
	<u>20,029</u>	<u>14,526</u>

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2016 No.	2015 No.
Sales, marketing and administration	<u>368</u>	<u>254</u>

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2016 £ 000	2015 £ 000
Remuneration	496	454
Contributions paid to money purchase schemes	14	15
Non-executive directors' fees	12	12
	<u>522</u>	<u>481</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2016 No.	2015 No.
Received or were entitled to receive shares under long term incentive schemes	-	2
Exercised share options	2	-
Accruing benefits under money purchase pension scheme	<u>2</u>	<u>2</u>

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

9 Directors' remuneration (continued)

In respect of the highest paid director:

	2016 £ 000	2015 £ 000
Remuneration	263	231
Company contributions to money purchase pension schemes	5	8
	<u>268</u>	<u>239</u>

10 Finance income and costs

	2016 £ 000	2015 £ 000
Finance income		
Interest income on bank deposits	97	35
Finance costs		
Other finance costs	<u>-</u>	<u>(1)</u>
Net finance income	<u>97</u>	<u>34</u>

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

11 Income tax

Tax (credited)/charged in the income statement

	2016 £ 000	2015 £ 000
Foreign tax	<u>266</u>	<u>90</u>

The tax on loss before tax for the year is higher than the standard rate of corporation tax in the UK (2015 - higher than the standard rate of corporation tax in the UK) of 20% (2015 - 20.25%).

The differences are reconciled below:

	2016 £ 000	2015 £ 000
Loss before tax	<u>(20,274)</u>	<u>(21,467)</u>
Corporation tax at standard rate	(4,055)	(4,347)
Revenues exempt from taxation	-	(3)
Expenses not deductible	393	690
Unrelieved tax losses carried forward	4,423	4,164
Effect of exercise employee share options	(360)	(410)
Effect of foreign tax rates	(135)	(8)
Overseas tax expensed	<u>-</u>	<u>4</u>
Total tax charge	<u>266</u>	<u>90</u>

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016.

Deferred tax

Group

There are £64,000 of deductible temporary differences (2015 - £81,000) and £(10,983,000) of unused tax losses (2015 - £(7,745,000)) for which no deferred tax asset is recognised in the statement of financial position.

Company

There are £64,000 of deductible temporary differences (2015 - £81,000) and £(10,983,000) of unused tax losses (2015 - £(7,745,000)) for which no deferred tax asset is recognised in the statement of financial position.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Property, plant and equipment

Group

	Leasehold improvements £ 000	Furniture, fittings and equipment £ 000	Assets under construction £ 000	Total £ 000
Cost				
At 1 January 2015	221	428	-	649
Additions	632	326	-	958
Transfers	-	(10)	-	(10)
At 31 December 2015	<u>853</u>	<u>744</u>	<u>-</u>	<u>1,597</u>
At 1 January 2016	853	744	-	1,597
Foreign exchange movements	-	42	-	42
Additions	41	461	40	542
Disposals	(221)	-	-	(221)
At 31 December 2016	<u>673</u>	<u>1,247</u>	<u>40</u>	<u>1,960</u>
Depreciation				
At 1 January 2015	102	174	-	276
Charge for year	134	106	-	240
Transfers	-	(10)	-	(10)
At 31 December 2015	<u>236</u>	<u>270</u>	<u>-</u>	<u>506</u>
At 1 January 2016	236	270	-	506
Foreign exchange movements	-	30	-	30
Charge for the year	135	254	-	389
Eliminated on disposal	(221)	-	-	(221)
At 31 December 2016	<u>150</u>	<u>554</u>	<u>-</u>	<u>704</u>
Carrying amount				
At 31 December 2016	<u>523</u>	<u>693</u>	<u>40</u>	<u>1,256</u>
At 31 December 2015	<u>617</u>	<u>474</u>	<u>-</u>	<u>1,091</u>
At 1 January 2014	<u>119</u>	<u>254</u>	<u>-</u>	<u>373</u>

Included within the carrying amount of leasehold improvements above is £523,000 (2015 - £617,000) in respect of short leasehold land and buildings.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Property, plant and equipment (continued)

Company

	Leasehold improvements £ 000	Furniture, fittings and equipment £ 000	Assets under construction £ 000	Total £ 000
Cost				
At 1 January 2015	221	393	-	614
Additions	632	288	-	920
At 31 December 2015	853	681	-	1,534
At 1 January 2016	853	681	-	1,534
Additions	17	318	40	375
Disposals	(221)	-	-	(221)
At 31 December 2016	649	999	40	1,688
Depreciation				
At 1 January 2015	102	164	-	266
Charge for year	134	86	-	220
At 31 December 2015	236	250	-	486
At 1 January 2016	236	250	-	486
Charge for the year	132	216	-	348
Eliminated on disposal	(221)	-	-	(221)
At 31 December 2016	147	466	-	613
Carrying amount				
At 31 December 2016	502	533	40	1,075
At 31 December 2015	617	431	-	1,048
At 1 January 2014	119	229	-	348

Included within the carrying amount of leasehold improvements above is £502,000 (2015 - £617,000) in respect of short leasehold land and buildings.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

13 Intangible assets

Group

	Goodwill £ 000	Other intangible assets £ 000	Total £ 000
Cost			
At 1 January 2015	4,495	350	4,845
Additions	-	146	146
Acquired through business combinations	407	58	465
At 31 December 2015	<u>4,902</u>	<u>554</u>	<u>5,456</u>
At 1 January 2016	4,902	554	5,456
Foreign exchange movements	-	26	26
At 31 December 2016	<u>4,902</u>	<u>580</u>	<u>5,482</u>
Amortisation			
At 1 January 2015	711	196	907
Amortisation charge	-	79	79
Impairment	407	132	539
At 31 December 2015	<u>1,118</u>	<u>407</u>	<u>1,525</u>
At 1 January 2016	1,118	407	1,525
Amortisation charge	-	101	101
Impairment	-	18	18
Foreign exchange movements	-	22	22
At 31 December 2016	<u>1,118</u>	<u>548</u>	<u>1,666</u>
Carrying amount			
At 31 December 2016	<u>3,784</u>	<u>32</u>	<u>3,816</u>
At 31 December 2015	<u>3,784</u>	<u>147</u>	<u>3,931</u>
At 1 January 2014	<u>3,784</u>	<u>154</u>	<u>3,938</u>

Amortisation and impairment charged for the year is included within administration expenses.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

13 Intangible assets (continued)

Impairment testing

Goodwill

Secret Escapes performs its annual impairment test in December each year. The group considers the relationship between the book value and the future in-flows of cash for each of its cash generating units (CGUs) when reviewing for indicators of impairment. The group considers that there are two CGUs, one being Travelist and the other being all other Secret Escapes business. Growth rates are based on industry standards, and four years is deemed an adequate lifetime given the type of asset. Management recognises that the speed of technological change and the possibility of new entrants could have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but in order to model for this scenario the assumed growth rate has been stress-tested by using a discount rate of 20%, and up to a 50% reduction in future cash in-flows, without impacting the impairment values. The discount rate used in the calculation of value in use as recoverable amount is 10% (2015 - 10%).

The amount of impairment loss included in profit and loss is £Nil (2015 - £407,000).

Customer mailing lists

The impairment in the year relates to the write down of the remaining intangible assets in Travista, following the transfer of its web domain and customer mailing lists to Secret Escapes Limited during the year. The company is now dormant and it not expected to generate self-sufficient cash flows in the future.

The amount of impairment loss included in profit and loss is £18,000 (2015 - £132,000).

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

13 Intangible assets (continued)

Company	Other intangible assets £ 000
Cost	
At 1 January 2015	192
Additions	89
At 31 December 2015	281
At 1 January 2016	281
Additions	270
At 31 December 2016	551
Amortisation	
At 1 January 2015	192
Impairment	89
At 31 December 2015	281
At 1 January 2016	281
Impairment	270
At 31 December 2016	551
Carrying amount	
At 31 December 2016	-
At 31 December 2015	-
At 1 January 2014	-

During the year the company purchased intangible assets for £270,000 from its subsidiary, Travista GmbH. The assets related to the web domain and the customer mailing list and have been fully written down in the year.

Amortisation charged for the year is included within administration expenses.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

13 Intangible assets (continued)

Impairment

Customer lists

The hive up of the assets of Travista GmbH during the year has resulted in an evaluation of specific cash flows arising from the assets, and the review indicates that the assets would not generate self-sufficient cash flows in the future without the group and therefore an impairment of the investment value of £270,000 is the considered result.

The amount of impairment loss included in profit and loss is £270,000 (2015 - £89,000).

14 Investments

Group subsidiaries

Details of the group subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the group	
			2016	2015
Secret Escapes LLC*	services company	USA Suite 2R, 138 West 25th Street, New York, NY10001, USA	100%	100%
Secret Escapes GmbH*	services company	Germany Reichenberger Straße 124, 10999 Berlin, Germany	100%	100%
Travelist Sp. z o.o.*	online travel agency	Poland ul. Cicha 7, 00-353, Warsaw, Poland	100%	100%
Travista GmbH*	dormant	Germany Reichenberger Strasse 124, 10999 Berlin, Germany	100%	100%
Secret Escapes AB*	services company	Sweden Fiskargatan 8, 116 20 Stockholm, Sweden	100%	100%
Secret Escapes ApS*	services company	Denmark c/o Brinkmann Kronborg Henriksen, Advokatpartnerselskab, Amaliegade 15 st, Denmark	100%	100%

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

14 Investments (continued)

First Exclusive Travel services company slu*	Spain	100%	100%
	PI Catalunya (Edifici Triangle), 1, 4t. Barcelona, Spain		
Evasiones Secretes services company	France	100%	0%
	153 Boulevard Haussmann, 75008 Paris, France		
Secret Escapes transportation Transport Limited services company	UK	100%	0%
	4th floor, 120 Holborn, London, EC1N 2TD		
Secret Escapes Pte services company Limited	Singapore	100%	0%
	16a Duxton Road, Singapore, 089482		

* indicates direct investment of the company

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

14 Investments (continued)

Summary of the company investments

	2016 £ 000	2015 £ 000
Investments in subsidiaries	<u>3,570</u>	<u>4,197</u>
Subsidiaries		£ 000
Cost or valuation		
At 1 January 2015		4,471
Revaluation		(26)
Additions		<u>469</u>
At 31 December 2015		<u>4,914</u>
At 1 January 2016		4,914
Additions		12
Repayment of inter-group loans		<u>(639)</u>
At 31 December 2016		<u>4,287</u>
Provision		
At 1 January 2015		259
Provision		<u>458</u>
At 31 December 2015		<u>717</u>
At 1 January 2016		717
Provision		<u>-</u>
At 31 December 2016		<u>717</u>
Carrying amount		
At 31 December 2016		<u>3,570</u>
At 31 December 2015		<u>4,197</u>
At 1 January 2014		<u>4,212</u>

During the year the company received repayment of the loans due from the original owners of the Travelist business that was acquired in 2014, amounting to £639,000. Additions in the year related to the creation of 3 new subsidiary companies: Evasiones Secretes, Secret Escapes pte Limited and Secret Escapes Transport Limited

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

15 Trade and other receivables

	Group		Company	
	2016 £ 000	2015 £ 000	2016 £ 000	2015 £ 000
Trade receivables	4,213	2,605	3,699	2,577
Receivables from related parties	-	-	738	949
Prepayments	2,734	1,849	2,683	1,788
Other receivables	1,842	2,076	1,467	1,784
	<u>8,789</u>	<u>6,530</u>	<u>8,587</u>	<u>7,098</u>
Less non-current portion	<u>-</u>	<u>-</u>	<u>-</u>	<u>(576)</u>
Total current trade and other receivables	<u>8,789</u>	<u>6,530</u>	<u>8,587</u>	<u>6,522</u>

Details of non-current trade and other receivables

Company

£Nil (2016 - £576,000) of receivables from related parties is classified as non current. This relates to three loans with an original principal value of PLN 1m each due from subsidiary Travelist Sp. z o.o. to the company. The company acquired the loans in 2014 at the time of the acquisition of Travelist Sp. z o.o. Interest is levied at 5.0% pa and the loans were repaid in full 2016.

The remaining amounts receivable from related parties are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The amount of write-down of trade receivables recognised as charge in the year was £29,000 for the group (2015 - £Nil) and £29,000 for the company (2015 - £NIL). This is included in administrative expenses.

Trade receivables are stated after provisions for impairment of £29,000 for the group (2015 - £402,000) and £29,000 for the company (2015 - £NIL).

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in the financial instruments note.

The group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial risk management and impairment note.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

15 Trade and other receivables (continued)

Trade receivables above includes cash in transit balances as well as amounts (detailed below) that are past due at the end of the reporting period and which an allowance for doubtful debts has not been recognised as the amounts are still considered recoverable.

Age of trade receivables that are not impaired

	Group		Company	
	2016 £ 000	2015 £ 000	2016 £ 000	2015 £ 000
Not past due	853	256	921	255
7 to 30 days	35	81	34	81
31 to 60 days	343	35	343	35
61 to 90 days	197	181	197	181
3 to 6 months	116	8	116	8
6 months to 1 year	69	12	69	12
Over 1 year	40	-	40	-
	<u>1,653</u>	<u>573</u>	<u>1,720</u>	<u>572</u>
Average age (days)	<u>116</u>	<u>77</u>	<u>116</u>	<u>77</u>

The provision for impairment of trade receivables (analysed below) is the difference between the carrying value and the present value of the expected proceeds.

Age of impaired trade receivables

	Group		Company	
	2016 £ 000	2015 £ 000	2016 £ 000	2015 £ 000
7 to 30 days	-	-	-	-
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
91 to 120 days	-	-	-	-
3 to 6 months	-	-	-	-
6 months to 1 year	-	-	-	-
Over 1 year	29	-	29	-
	<u>29</u>	<u>-</u>	<u>29</u>	<u>-</u>

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

16 Cash and cash equivalents

	Group		Company	
	2016 £ 000	2015 £ 000	2016 £ 000	2015 £ 000
Cash at bank	10,407	21,813	9,337	20,966
Other cash and cash equivalents	342	-	297	-
	<u>10,749</u>	<u>21,813</u>	<u>9,634</u>	<u>20,966</u>

17 Share capital

Allotted, called up and fully paid shares

	31 December 2016		31 December 2015	
	No.	£	No.	£
Ordinary shares of £0.001 each	1,296,602	1,297	1,272,905	1,273
B1 preferred ordinary shares of £0.001 each	441,278	441	441,278	441
B2 preferred ordinary shares of £0.001 each	95,900	96	95,900	96
C preferred ordinary shares of £0.001 each	400,301	400	400,301	400
	<u>2,234,081</u>	<u>2,234</u>	<u>2,210,384</u>	<u>2,210</u>

New shares allotted

During the year 23,697 Ordinary shares having an aggregate nominal value of £24 were allotted for an aggregate consideration of £44,342. The shares were allotted in the year on the exercise of employee share options.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

17 Share capital (continued)

Rights, preferences and restrictions

B1 preferred ordinary shares have the following rights, preferences and restrictions:

Each B1 Ordinary share carries the right to one vote per share and is convertible into one Ordinary share. Each B1 Ordinary share ranks equally with the Ordinary shares in respect of dividends. Holders of B1 Ordinary shares benefit from anti-dilution protection in the event of a qualifying issue of shares at a lower issue price than the issue price of B1 Ordinary shares.

B2 preferred ordinary shares have the following rights, preferences and restrictions:

Each B2 Ordinary share carries the right to one vote per share and is convertible into one Ordinary share. Each B2 Ordinary share ranks equally with the Ordinary shares in respect of dividends. Holders of B2 Ordinary shares benefit from anti-dilution protection in the event of a qualifying issue of shares at a lower issue price than the issue price of B2 Ordinary shares.

C preferred ordinary shares have the following rights, preferences and restrictions:

Each C Ordinary share carries the right to one vote per share and is convertible into one Ordinary share. Each C Ordinary share ranks equally with the Ordinary shares in respect of dividends. Holders of C Ordinary shares benefit from anti-dilution protection in the event of a qualifying issue of shares at a lower issue price than the issue price of C Ordinary shares.

B1, B2 and C Ordinary shareholders benefit from ratchet mechanism protections on a share sale, asset sale or exit by IPO at a price per share lower than the issue price of their respective B1, B2 or C Ordinary shares, on a distribution of assets on a liquidation or a return of capital.

18 Reserves

Group and Company

Ordinary shares

The balance classified as equity share capital includes the total net proceeds on issue of the company's equity share capital, comprising £0.01 ordinary shares.

Share premium

Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Foreign currency translation reserve

The foreign currency translation reserve comprises of translation differences arising from the translation of financial statements of the Group's foreign entities into Sterling.

Reserve credit for share based payment plan

This reserve comprises of movements in the cumulative expense recognised in the income statement in respect of equity settled share based payments.

Profit and loss account

The profit and loss account reserve includes all current and prior period retained profits and losses.

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

18 Reserves (continued)

	Foreign currency translation £ 000
Foreign currency translation gains	<u>11</u>

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

	Foreign currency translation £ 000
Foreign currency translation gains	<u>41</u>

19 Obligations under leases and hire purchase contracts

Group

Operating leases

The total future value of minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Within one year	1,553	714
In two to five years	3,639	4,462
In over five years	<u>1,333</u>	<u>-</u>
	<u>6,525</u>	<u>5,176</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,422,000 (2015 - £567,000).

Company

Operating leases

The total future value of minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Within one year	1,122	481
In two to five years	<u>3,168</u>	<u>4,290</u>
	<u>4,290</u>	<u>4,771</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,015,000 (2015 - £310,000).

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

20 Pension and other schemes

Defined contribution pension scheme

The group operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the group to the schemes and amounted to £241,000 (2015 - £139,000).

Contributions totalling £69,000 (2015 - £24,000) were payable to the schemes at the end of the year and are included in creditors.

21 Share-based payments

Secret Escapes share based payment plan

Scheme details and movements

The company has various share-based compensation plans in place to help attract and retain personnel, to reward employees and directors for past services and to motivate such individuals through added incentives to further contribute to the success of the company. Share options have been granted to certain employees of the company, under these compensation plans, to purchase shares at the market price prevailing at the date of the grant. The options vest at the rate of 25-50% in the first year and then vest at the rate of 6.25-12.5% per quarter over the remaining one to three years. The contractual life for each option is 10 years. The share options are all equity settled.

The movements in the number of share options during the year were as follows:

	2016	2015
	Number	Number
Outstanding, start of period	330,605	288,808
Granted during the period	-	76,350
Forfeited during the period	(2,961)	(4,468)
Exercised during the period	<u>(23,697)</u>	<u>(30,085)</u>
Outstanding, end of period	<u>303,947</u>	<u>330,605</u>
Exercisable, end of period	<u>185,436</u>	<u>141,574</u>

The movements in the weighted average exercise price of share options during the year were as follows:

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

21 Share-based payments (continued)

	2016 £	2015 £
Outstanding, start of period	15.84	5.86
Granted during the period	-	47.72
Forfeited during the period	26.00	13.19
Exercised during the period	1.87	1.30
Outstanding, end of period	16.85	15.84
Exercisable, end of period	<u>13.99</u>	<u>6.13</u>

The weighted average share price at date of exercise of share options exercised during the year was £76.02 (2015 - £73.12).

Outstanding share options

Details of share options outstanding at the end of the year are as follows:

The weighted average remaining contractual life of share options exercisable as of 31 December 2016 was 6.93 years (2015 - 7.75 years).

The range of exercise prices for options outstanding at the end of the year was £0.43 to £62.98 (2015 - £0.43 to £62.98).

Fair value of options granted

The weighted average fair value of options granted during the period at measurement date was £47.60 (2015 - £44.23).

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial probability model, taking into account the terms and conditions upon which the options were granted, and the main inputs are set out in the table below. There were no grants in the current year 19 June 2017 (2015 - date of grant of the options was 30 June 2015).

	2016	2015
Expected volatility (%)	50.00	50.00
Option life in years	10.00	10.00
Expected dividends, expressed as a dividend yield (%)	<u>-</u>	<u>-</u>

The risk free interest rate used in the model for 2015 is 1.6377% to 3.1681%.

Charge arising from share-based payments

The total charge for the year for share-based payments was £1,985,000 (2015 - £2,681,000), of which £1,985,000 (2015 - £2,681,000) related to equity-settled share-based payment transactions.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

22 Trade and other payables

	Group		Company	
	2016 £ 000	2015 £ 000	2016 £ 000	2015 £ 000
Trade payables	27,017	18,240	26,094	17,749
Amounts due to related parties	-	-	1,404	721
Social security and other taxes	551	225	365	51
Other payables	3,925	3,631	3,194	3,157
	<u>31,493</u>	<u>22,096</u>	<u>31,057</u>	<u>21,678</u>

Trade creditors are not interest-bearing. Amounts due to related parties are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The fair value of the trade and other payables classified as financial instruments are disclosed in the financial instruments note.

The group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk management and impairment note.

23 Financial instruments

Group

Financial assets

Loans and receivables

	Carrying value		Fair value	
	2016 £ 000	2015 £ 000	2016 £ 000	2015 £ 000
Cash and cash equivalents	10,407	21,813	10,407	21,813
Trade and other receivables	8,789	6,530	8,789	6,530

Valuation methods and assumptions

Loans and receivables:

The carrying value of short term receivables is assumed to approximate their fair values where discounting is not material.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

23 Financial instruments (continued)

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2016 £ 000	2015 £ 000	2016 £ 000	2015 £ 000
Trade and other payables	31,493	22,096	31,493	22,096

Description of instruments

Trade and other payables:

The trade and other payables balances comprise of trade creditors and other creditors.

Valuation methods and assumptions

Financial liabilities at amortised cost:

The carrying value of short term payables is assumed to approximate their fair values where discounting is not material.

24 Financial risk management and impairment of financial assets

Group

The centralised treasury function of the business, based in the UK, is responsible for managing the liquidity and foreign currency risks associated with the group's activities. As part of its strategy for the management of these risks, the treasury function operates a cash pooling arrangement, with each currency separately managed. The treasury policy is reviewed and approved by the directors and specifies the principles governing the management of liquidity, interest and foreign currency risks.

The group's principal financial instrument is cash. The main purpose of this instrument is to provide finance for the global operations. In addition, the group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations.

Credit risk and impairment

Credit risk primarily arises on the group's operating financial assets and operating receivables. Substantially all of the past due receivable balances are held with large corporate clients (as media sales) and as such are deemed to hold little recoverability risk. Receivables balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts.

The carrying amount of trade and other receivables and cash and cash equivalents represents the group's maximum exposure to credit risk. The group manages its credit risk by ensuring that sufficient resources are allocated to credit management to reduce the impact of the risk and using reputable financial institutions to hold its cash balance.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

24 Financial risk management and impairment of financial assets (continued)

Past due and impaired financial assets

Allowances for impairment by credit losses

	Receivables £ 000
2016	
At start of year	-
Additional impairment for credit losses	29
At end of year	<u>29</u>
2015	
At start of year	7
Additional impairment for credit losses	9
Utilised in the year	(16)
At end of year	<u>-</u>

Analysis of items past due or impaired Receivables

	Carrying value of items neither past due nor impaired £ 000	Carrying value of items past due but not impaired £ 000	Carrying value of items past due and/or impaired £ 000	Pre impairment value £ 000	Impairment recognised to date £ 000
2016					
Receivables	<u>853</u>	<u>800</u>	<u>-</u>	<u>29</u>	<u>29</u>

	Carrying value of items neither past due nor impaired £ 000	Carrying value of items past due but not impaired £ 000	Carrying value of items past due and/or impaired £ 000	Pre impairment value £ 000	Impairment recognised to date £ 000
2015					
Receivables	<u>256</u>	<u>316</u>	<u>-</u>	<u>-</u>	<u>-</u>

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

24 Financial risk management and impairment of financial assets (continued)

Market risk

Foreign exchange risk

The company's business model involves transactions where cash receipts and payments may be in different currencies. Adverse movements in foreign exchange rates in the period between receipt of a booking and payment of the hotel or tour operator could cause unanticipated losses on a transaction. The company's geographical spread of members provides natural hedging of exchange rate risks and pricing includes some allowance for exchange rate movements. Exposure to exchange rate movements is monitored and whilst the company does not currently undertake foreign currency hedging through the use of forward contracts, the need to do so is reviewed periodically.

Liquidity risk and interest rates

The company has no external borrowings and therefore its exposure to liquidity risk and interest rate movements is considered to be low. Access to future funding is considered to be available, if required, from new and existing investors in the business to support the on-going expansion and growth of the company.

Maturity analysis

	Within 1 year	Total
	£ 000	£ 000
2016		
Trade and other payables	<u>31,493</u>	<u>31,493</u>
	Within 1 year	Total
	£ 000	£ 000
2015		
Trade and other payables	<u>22,096</u>	<u>22,096</u>

Capital risk management

Capital components

The capital structure of the group consists of equity attributable to the equity holders of the parent company, comprising issued share capital, reserves and retained earnings as shown in the Consolidated Statement of Changes in Equity.

Externally imposed capital requirements

The group is not restricted by any externally imposed capital requirements.

Capital management

The group manages its capital with the objective that all entities within the group continue as going concerns whilst maintaining an efficient structure to minimise the cost of capital.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

25 Non adjusting events after the financial period

In 2017 Secret Escapes obtained an ATOL licence from the Civil Aviation Authority.

In 2017 Secret Escapes has raised £53m from the issue of new equity and obtained a committed £30m banking facility.

In October 2017 Secret Escapes is expected to complete the acquisition of the Czech Republic based Slevomat Group for CZK 1.6bn.

26 Related party transactions

Key management personnel

Summary of transactions with key management

During the year Propeller Consulting Limited provided training services to the business, and was paid £34,370 for services delivered during the year. The wife of S A A T Saint, who is a director and shareholder of Secret Escapes Limited, is a director and shareholder of Propeller Consulting Limited.

Transactions with directors

In April 2016 loans of £6,000 each were granted to two of the group's directors. The loans were interest free and were repaid in July 2017.

	At 1 January 2016 £ 000	Advances to directors £ 000	Repayments by director £ 000	Other payments made to company by director £ 000	At 31 December 2016 £ 000
2016					
S A A T Saint					
Loan	-	6	-	-	6
T J Valentine					
Loan	-	6	-	-	6

Summary of transactions with other related parties

Octopus Titan VCT Plc, Octopus Eclipse VCT Plc and Octopus Investments Nominees Limited are all shareholders in Secret Escapes Limited.

In January 2015, the shareholders named above granted convertible loan notes amounting to £1,015,020 to Secret Escapes Limited. No interest has been charged on the loan notes. On 15 July 2015, the loan notes were converted to 13,428 £0.001 C preferred ordinary shares.

Secret Escapes Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

26 Related party transactions (continued)

Income and receivables from related parties

	Other related parties £ 000
2015	
Loan notes received	<u>1,015</u>

The loan notes were converted to 59,536 C preferred ordinary shares on 15 July 2015.

Expenditure with and payables to related parties

	Key management £ 000
2016	
Rendering of services	<u>34</u>
2015	
Rendering of services	<u>45</u>

27 Parent and ultimate parent undertaking

The directors consider that the company does not have one individual controlling party.