

GENERATOR HOSTELS LTD
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2021

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GENERATOR HOSTELS LTD

STRATEGIC REPORT

For the year ended 31 December 2021

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GENERATOR HOSTELS LTD

COMPANY INFORMATION

For the year ended 31 December 2021

DIRECTORS

Alastair Thomann
Jueane Thiessen
Herve Deligny (appointed 1 March 2022)

REGISTERED OFFICE

Generator Hostels Ltd
Macnaughton House
Compton Place
London
WC1H 9SD

REGISTERED NUMBER

03192617 (England and Wales)

INDEPENDENT AUDITOR

Mazars LLP
5th Floor Merck House
Seldown Lane
Poole
BH15 1TW

STRATEGIC REPORT

For the year ended 31 December 2021

REVIEW OF THE BUSINESS

The loss for the year attributable to shareholders amounts to £10,231,521 (2020: £8,385,561) 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 Group's offer, including marketing campaigns, public relations actions, a strong social media presence and investment in the real estate.

In 2021 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.

The Company's activities expose it to a variety of financial risks including foreign currency, interest rate, credit and liquidity risks. 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 currency 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.

Interest rate risk

The Group is exposed to interest rate risk in relation to the variable rates on financial assets and liabilities. The Group considers the use of derivative contracts to maintain a mix of fixed and floating rate borrowings to mitigate this risk.

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

GENERATOR HOSTELS LTD

STRATEGIC REPORT

For the year ended 31 December 2021

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.

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	2021	2020
Occupancy (Beds)	33.7%	23.2%
ABR – Average Bed Rate	£29.83	£26.95
RevPAB - Revenue Per Available Bed	£10.07	£6.24

By order of the Board



Herve Deligny
Director

Date Mar 21, 2023

GENERATOR HOSTELS LTD

DIRECTORS' REPORT

For the year ended 31 December 2021

The Directors submit their report and the financial statements of Generator Hostels Ltd ("the Company") for the year ended 31 December 2021.

RESULTS AND DIVIDENDS

The results for the year are set out on page 12. No dividends will be distributed for the year ended 31 December 2021 (2020: £nil).

FUTURE DEVELOPMENTS

Following the significant impact of COVID-19 across all sites in 2021, 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 and enter into third party management contracts.

GOING CONCERN

The Directors believe it is appropriate to prepare the financial statements on a going concern basis, which assumes that the Group will continue in operational existence for a period of at least 12 months from the date of the approval of these financial statements, subject to the material uncertainty as disclosed below:

The bank loan is going to mature in December 2023 and at the time of signing these accounts there is no legally binding obligation on the lenders to extend the maturity. However, the Directors are confident that the maturity will be extended due to the company's long-term relationship with the bank and the current strong trading performance of the hotels in the Group. However, this creates a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. If the Group is unable to continue in operational existence for a period of at least 12 months from the date of the approval of these financial statements, adjustments may have to be made to reduce the balance sheet values of the assets to their recoverable amounts.

DIRECTORS

The following Directors have held office since 1 January 2021:

Alastair Thomann

Jueane Thiessen

Herve Deligny (appointed 1 March 2022)

Andre Guettouche (resigned 1 February 2022)

POST BALANCE SHEET EVENTS

No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future years.

GENERATOR HOSTELS LTD

DIRECTORS' REPORT

For the year ended 31 December 2021

PROVISION OF INFORMATION TO AUDITOR

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Directors have taken all 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.

INDEPENDENT AUDITOR

Mazars LLP has been appointed as the Company's auditor during the year and are deemed to be reappointed under section 487(2) of the Companies Act 2006.

By order of the Board



Herve Deligny
Director

Date Mar 21, 2023

GENERATOR HOSTELS LTD

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2021

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.

Independent auditor's report to the members of Generator Hostels Ltd

Opinion

We have audited the financial statements of Generator Hostels Ltd (the 'company') for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Other matter

Without qualifying our opinion, we draw attention to the accounting policies note 1.14 to the financial statements and the fact that the comparative information in the accounts was unaudited as the company was entitled to exemption from audit.

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2021

Material uncertainty relating to going concern

We draw attention to note 1.13 in the financial statements, which indicates that a bank loan has an extension test in 2023 and that whilst constructive discussions are ongoing with the lenders, and the Directors are confident that the maturity will be extended, there is currently no legally binding obligation on the lenders to extend the maturity.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. As stated in note 1.13, the uncertainty around the bank loan maturity extension, along with the other matters as set forth in note 1.13, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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 not identified material misstatements in the Strategic Report or the Directors' Report.

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2021

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

- adequate accounting records have not been kept, 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.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation, anti-money laundering regulation, non-compliance with implementation of government support schemes relating to COVID-19.

GENERATOR HOSTELS LTD

INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2021

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, pension legislation, the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to significant one-off or unusual transactions and revenue recognition (which we pinpointed to the cut-off assertion).

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

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

GENERATOR HOSTELS LTD

INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2021

Use of the audit report

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


Stephen Mills (Mar 21, 2023 11:47 GMT)

Stephen Mills (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

5th Floor Merck House

Seldown Lane

Poole

BH15 1TW

Date: Mar 21, 2023

GENERATOR HOSTELS LTD**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2021

	Notes	Year to 31 December 2021 GBP	Unaudited Year to 31 December 2020 GBP
Revenue	2	2,059,255	1,868,422
Gross profit		2,059,255	1,868,422
Administration expenses	3	(5,367,534)	(8,883,315)
Operating loss		(3,308,279)	(7,014,893)
Finance costs	4	(5,388,261)	(3,918,344)
Finance income	5	1,521,089	320,713
Depreciation and amortisation	6	(411,071)	(431,659)
Impairment of investments	9	(4,675,369)	-
Loss before tax		(12,261,891)	(11,044,183)
Income tax	7	2,030,370	2,658,622
Loss for the year		(10,231,521)	(8,385,561)
Other comprehensive income		-	-
Total comprehensive loss attributable to the shareholders		(10,231,521)	(8,385,561)

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

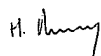
The accompanying notes form an integral part of these financial statements

GENERATOR HOSTELS LTD**STATEMENT OF FINANCIAL POSITION**

For the year ended 31 December 2021

		31 December 2021	Unaudited 31 December 2020
	Notes	GBP	GBP
ASSETS			
Non-current			
Investments and other financial assets	9	5,857,119	10,611,442
Other intangible assets	10	507,102	835,691
Plant and equipment	11	131,277	141,481
Deferred tax asset	12	5,020,200	3,096,062
		<u>11,515,698</u>	<u>14,684,676</u>
Current			
Trade and other receivables	13	42,687,325	33,519,967
Cash and cash equivalents		1,066,863	479,872
		<u>43,754,188</u>	<u>33,999,839</u>
LIABILITIES			
Current			
Trade and other payables	14	(32,507,025)	(34,102,153)
Non-current			
Interest bearing long-term loans	15	(64,599,737)	(49,871,030)
		<u>(41,836,873)</u>	<u>(35,288,668)</u>
NET LIABILITIES			
EQUITY			
Share capital	16	100,000	100,000
Capital redemption reserve	16	69,098	69,098
Capital contribution	17	3,683,316	-
Retained earnings		(45,689,287)	(35,457,766)
TOTAL EQUITY		<u>(41,836,873)</u>	<u>(35,288,668)</u>

These financial statements were approved and authorised for issue by the Board on Mar 21, 2023 and signed on its behalf by:



Herve Deligny
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 2021

	Share capital GBP	Redemption reserve GBP	Capital contribution GBP	Retained earnings GBP	Total equity GBP
At 1 January 2020	100,000	69,098	-	(27,072,205)	(26,903,107)
Loss for the year	-	-	-	(8,385,561)	(8,385,561)
At 31 December 2020	100,000	69,098	-	(35,457,766)	(35,288,668)
Loss for the year	-	-	-	(10,231,521)	(10,231,521)
Additional capital contribution	-	-	3,683,316	-	3,683,316
At 31 December 2021	100,000	69,098	3,683,316	(45,689,287)	(41,836,873)

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

GENERATOR HOSTELS LTD

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

GENERAL INFORMATION

Generator Hostels Ltd (the "Company") is a Private Limited Company, limited by shares, domiciled and incorporated in England and Wales. The Company's principal activity is to act as a management company that holds the rights to the Generator brand. The Company's registered office is Macnaughton House, Compton Place, London, United Kingdom, WC1H 9SD.

1 ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the measurement of financial assets and financial liabilities at fair value through profit or loss, and in accordance with the Companies Act 2006.

In accordance with FRS 101, the Company has taken advantage of the exemptions from the following disclosure requirements;

- IAS 1 'Presentation of Financial Statements' – *Comparative reconciliations of the opening and closing number of shares and carrying amounts of property, plant and equipment, and intangible assets, objectives, policies and processes for managing capital.*
- IAS 7 'Statement of Cash Flows' – *Presentation of a Statement of Cash Flow and related notes.*
- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – *IFRSs that will impact future periods.*
- IAS 24 'Related Party Disclosures' – *Compensation for key management personnel and group transactions.*
- IAS 36 'Impairment of Assets' – *Key assumptions in the measurement of the recoverable amount of assets and reasonable changes in those assumptions that result in impairment, where recoverable amount is based on fair value less costs of disposal; the valuation technique(s) used, and if fair value is not measured using a quoted price for an identical unit; the level in the fair value hierarchy, any change in the valuation technique(s) and the reason for the change.*
- IFRS 7 'Financial Instruments: Disclosures' – *Carrying amounts, fair values, interest income/expense and net gains/ losses for each category of financial instrument, risks associated with financial instruments (including management of risks, maximum credit risk, credit quality of financial assets, analysis of financial assets past due or impaired, maturity analysis for financial liabilities, sensitivity analysis for market risks).*
- IFRS 13 'Fair Value Measurement' – *The fair value hierarchy, fair value measurements, (including valuation technique(s) and inputs), if the highest and best use of a non-financial asset differs from its current use, the reason for non-recurring fair value measurements, for Level 3 fair value measurements; unrealised fair value gains/losses in the period, the valuation process and sensitivity analysis.*

GENERATOR HOSTELS LTD

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 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

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.

1.6 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. Any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

1.7 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

1.8 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 2021

1.9 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.

1.10 FINANCIAL ASSETS

All recognised financial assets are initially measured at fair value and subsequently held at 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 2021

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.

1.11 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

GENERATOR HOSTELS LTD

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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.

1.12 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.

1.13 GOING CONCERN

The COVID-19 outbreak in Q1 2020 has had a significant impact on the operations of the hostels within the Queensgate Generator S.à r.l Group (the Group), as it has on all hotels worldwide. The directors are taking comprehensive steps to ensure that the business is able to continue in operation for period of 12 months from the date of signing these financial statements.

The Company is part of a larger Group and senior facility agreements within the Group have been amended to acknowledge and work with the adverse impact of COVID-19 restrictions. The Group has secured additional funding from shareholders and external lenders during the period and so management is confident the Company 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.

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, subject to the material uncertainty as disclosed below:

The bank loan is going to mature in December 2023 and at the time of signing these accounts there is no legally binding obligation on the lenders to extend the maturity. However, the Directors are confident that the maturity will be extended due to the company's long-term relationship with the bank and the current strong trading performance of the hotels in the Group. However, this creates a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. If the Group is unable to continue in operational existence for a period of at least 12 months from the date of the approval of these financial statements, adjustments may have to be made to reduce the balance sheet values of the assets to their recoverable amounts.

1.14 PRIOR YEAR COMPARATIVES

Prior year comparatives have not been audited as the company was exempted from audit under section 479A of the Companies Act 2006 for the year ended 31 December 2020.

2 REVENUE

	Year to 31 December 2021 GBP	Unaudited Year to 31 December 2020 GBP
Management fees	1,107,927	1,203,439
Royalty fees	407,712	223,919
Marketing fees	543,616	441,064
	<u>2,059,255</u>	<u>1,868,422</u>

GENERATOR HOSTELS LTD**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2021

3 ADMINISTRATION EXPENSES

Key administration expenses to users of the financial statements include:

	Year to 31 December 2021 GBP	Unaudited Year to 31 December 2020 GBP
a) Audit fees	25,900	-
b) Corporation tax compliance fees	17,750	17,250
c) Staff costs (including other agency personnel)	4,495,596	5,279,371
d) Legal and professional fees	147,637	927,917
e) Operating lease expenses	86,127	150,583

4 FINANCE COSTS

	Year to 31 December 2021 GBP	Unaudited Year to 31 December 2020 GBP
Interest payable on related party borrowings	5,371,383	3,401,099
Foreign exchange losses on related party loan	-	499,414
Bank charges	16,878	17,831
	<u>5,388,261</u>	<u>3,918,344</u>

The interest rates payable on related party borrowings are 6% and 10.25% (2020: 6% and 10.25%).

5 FINANCE INCOME

	Year to 31 December 2021 GBP	Unaudited Year to 31 December 2020 GBP
Interest receivable on related party loan	169,488	320,713
Foreign exchange gains on related party loan	1,351,601	-
	<u>1,521,089</u>	<u>320,713</u>

The interest receivable on related party loans is 6% (2020: 6%)

GENERATOR HOSTELS LTD

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

6 DEPRECIATION AND AMORTISATION

	Year to 31 December 2021 GBP	Unaudited Year to 31 December 2020 GBP
Amortisation	362,755	380,518
Depreciation	48,316	51,141
	<u>411,071</u>	<u>431,659</u>

7 INCOME TAX

	Year to 31 December 2021 GBP	Unaudited Year to 31 December 2020 GBP
Reconciliation of effective tax rate:		
Current tax:		
UK corporation tax	(267,153)	(132,642)
Adjustments in respect of previous periods	160,922	174,351
Total current tax	<u>(106,231)</u>	<u>41,709</u>
Deferred tax:		
Current year charge/(credit)	(848,298)	(2,700,331)
Adjustment in respect of previous periods	129,008	-
Effect of changes in tax rates	(1,204,849)	-
Total deferred tax credit	<u>(1,924,139)</u>	<u>(2,700,331)</u>
Total tax credit for the year	<u>(2,030,370)</u>	<u>(2,658,622)</u>
Loss on ordinary activities before tax	(12,261,891)	(11,044,183)
Tax on loss on ordinary activities at standard corporation tax in UK of 19% (2020: 19%)	(2,329,759)	(2,098,395)
Effects of:		
Adjustment in respect of previous year	289,930	(566,959)
Expenses not deductible for tax purposes	(163,158)	104,457
Transfer pricing adjustments	301,857	-
Impact of changes in tax rate	(1,204,849)	(133,769)
Amounts not recognised	187,289	36,044
Adjustment for impairment of investments	888,320	-
	<u>(2,030,370)</u>	<u>(2,658,622)</u>

The Company has surrendered the benefit of its tax losses to its group undertaking for a consideration of £267,153 (2020: £54,318).

GENERATOR HOSTELS LTD

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

8 EMPLOYEES

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

	Year to 31 December 2021	Unaudited Year to 31 December 2020
Administration	29	30

The aggregate cost of these employees was:

	Year to 31 December 2021 GBP	Unaudited Year to 31 December 2020 GBP
Wages and salaries	3,946,274	4,456,773
Payroll taxes	548,697	608,929
	<u>4,494,971</u>	<u>5,065,702</u>
Total Directors' emoluments	1,556,811	1,541,015
Highest paid Director	893,375	885,800

9 INVESTMENTS AND OTHER FINANCIAL ASSETS

	Shares	Investment Loans GBP	Total GBP
At 1 st January 2021	6,726,604	3,884,837	10,611,441
Additions	1,013,415	-	1,013,415
Loan repayments	-	(1,092,368)	(1,092,368)
Impairment of investments	<u>(4,675,369)</u>	<u>-</u>	<u>(4,675,369)</u>
At 31 st December 2021	<u>3,064,650</u>	<u>2,792,469</u>	<u>5,875,119</u>

During the year, investments in Generator Hostel Sweden AB has been impaired by £4,675,369 (2020: Nil).

Investment loans mature in 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% (2020: 6%).

Entity name	Country of incorporation	Controlling interest	Subsidiary	Nature of business
Generator Hostel Sweden AB	Sweden	100%	Direct	Hostel Operator
Generator Hostels Inc	USA	100%	Direct	Management Company

GENERATOR HOSTELS LTD**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

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 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.

10 OTHER INTANGIBLE ASSETS

	Software GBP	Advances for construction In progress GBP	Total GBP
Cost or valuation			
At 1 January 2021	2,330,863	51,536	2,382,399
Additions	56,142	-	56,142
Disposals	(25)	(19,552)	(19,577)
Transfer	29,585	(31,984)	(2,399)
As at 31 December 2021	<u>2,416,565</u>	<u>-</u>	<u>2,416,565</u>
Depreciation			
At 1 January 2021	1,546,708	-	1,546,708
Charge for the year	362,755	-	362,755
As at 31 December 2021	<u>1,909,463</u>	<u>-</u>	<u>1,909,463</u>
Net Book Value			
As at 31 December 2020	<u>784,155</u>	<u>51,536</u>	<u>835,691</u>
As at 31 December 2021	<u>507,102</u>	<u>-</u>	<u>507,102</u>

GENERATOR HOSTELS LTD

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

11 PLANT AND EQUIPMENT

	Furniture, fittings and equipment GBP	Computer equipment GBP	Total GBP
Cost or valuation			
At 1 January 2021	150,777	309,046	459,823
Additions	35,473	-	35,473
Transfer	2,399	-	2,399
As at 31 December 2021	188,649	309,046	497,695
Depreciation			
At 1 January 2021	76,414	241,928	318,342
Charge for the year	20,405	27,911	48,316
Written off	-	(240)	(240)
As at 31 December 2021	96,819	269,599	366,418
Net Book Value			
As at 31 December 2021	91,830	39,447	131,277
As at 31 December 2020	74,363	67,118	141,481

12 DEFERRED TAX ASSET

	31 December 2021	Unaudited 31 December 2020
	GBP	GBP
Opening balance	3,096,062	948,261
Origination and reversal of timing differences	1,924,138	2,147,801
	5,020,200	3,096,062

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 2021	Unaudited 31 December 2020
	GBP	GBP
Amounts owed by related party entities	40,964,922	31,058,656
Corporation tax	1,529,294	1,423,063
Other debtors	122,612	1,014,181
Prepayment and accrued income	70,497	24,067
	42,687,325	33,519,967

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.

GENERATOR HOSTELS LTD**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

14 TRADE AND OTHER PAYABLES

	31 December 2021	Unaudited
	GBP	31 December 2020
		GBP
Trade creditors	326,764	893,091
Amount due to the related party entities	30,502,371	30,710,455
Other taxation and social security	186,205	4,392
Accruals and deferred income	1,491,685	2,494,215
	<u>32,507,025</u>	<u>34,102,153</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.

15 INTEREST BEARING LOANS

	31 December 2021	Unaudited
	GBP	31 December 2020
		GBP
Interest bearing long-term loans		
Amount due to related party entities	<u>64,599,737</u>	<u>49,871,031</u>

Amounts owed to the related party entities attract interest at 6%-12.52% (2020: 6%). The loans are unsecured and mature in July 2023 and June 2024.

16 SHARE CAPITAL

	31 December 2021	Unaudited
	GBP	31 December 2020
		GBP
Allotted, issued and fully paid:		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

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.

GENERATOR HOSTELS LTD

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

17 CAPITAL CONTRIBUTIONS

	Total GBP
At 1 January 2021	-
Capital contributions	3,683,316
At 31 December 2021	<u>3,683,316</u>

Queensgate Generator S.a.r.l invested capital contributions of £3,683,316 (2020: £NIL) related to Covid funding.

18 ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent is Queensgate Fusion Holdco 1 S.a.r.l. The Company's shareholder Queensgate Generator Holding Limited, a company registered in England and Wales. 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.

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 EVENTS AFTER THE END OF THE REPORTING PERIOD

No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Company's operations, the result of those operations, or the Company's state of affairs in future years.

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