

SUNBORN



GIBRALTAR



**FINANCIAL STATEMENTS Q4 2018
SUNBORN (GIBRALTAR) LIMITED**

FINANCIAL STATEMENTS Q4 2018
Key Figures

GBP thousand	1 Oct – 31 Dec 2018	1 Oct – 31 Dec 2017	1 Jan – 31 Dec 2018	1 Jan - 31 Dec 2017
Rental income	930	1,250	3,180	3,500
EBITDA	875	1,237	2,984	3,283
Investment property (yacht hotel)	87,633	90,104	87,633	90,104
Total Equity	8,251	1,885	8,251	1,885
Borrowings	81,458	90,674	81,458	90,674

Chief Executive Director, Hans Niemi

“Hotel operations turnover in Q4 18 was £2,59M with an increase in rooms sold by +10% YOY during the period. RevPar for the period Q4 showed an increase of +1% YOY and Q4 EBITDA showed an increase of +7% YOY. During the period, management focused on increasing rates and MICE segment in rooms. Pre-bookings for the following year are above those YoY and the market overall is showing signs of rebounding incoming flight and visitor levels to those last seen in 2017”.

Financial summary 1 January - 31 December 2018

The exceptional circumstance of Monarch Airline bankruptcy in Q4 FY17 continued to have effects throughout 2018. Overall YoY flight arrivals were down -22.8% over 2017, but management was pleased to see flight arrivals in November and December 2018 showed an increase to last year and positively reflected in hotel occupancy. Hotel management generated a multi-level strategy in Q1 to react to the situation has been a success, and this strategy was carried through the full year: 1) ADR we had a slight increase YOY of +3% with our modified pricing strategy 2) we continued negotiations with corporations to increase MICE business resulting in a substantial increase in this segment of +56% YOY 3) Continued efforts in generating new agreements with FIT companies which use the Malaga International airport, which produced a small positive gain (+1%) in Q4 and already producing a more significant gain in Q1 2019 with pre-bookings.

Business environment

No notable changes in the business environment.

Guest satisfaction continues to be excellent reflected by Trip Advisor rating of #1, Booking.com rating of 9.1/10, Hotels.com rating of 9.2/10, Expedia.com 4.6/5.

The airline capacity showed increases YoY and further announcements have been made by carriers to the effect of increasing capacity further in Q2 2019.

Notable events during and after the end of the reporting period

No notable events after the end of the reporting period

Estimate future development

The company estimates that its financial performance and debt service capacity will remain stable.

Short-term risks and uncertainties

The Company's financial risks related to business are market risk (including interest rate risk and foreign currency risk), credit risk, liquidity risk and refinancing risk.

The Company is exposed to foreign currency risk through rental receivables and future cash flows arising from the lease contract of the Yacht hotel that is denominated in GBP. The management of the company closely monitors the development of the GBP/EUR exchange rate and aims to protect the Company against unfavorable developments at the group level.

Financial risk management carried out by the management of the Company aims to protect the Company against unfavorable developments in the financial markets and ensure the performance. The management review financial risks on regular basis to manage financial risk position and decide on necessary actions.

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STATEMENT OF COMPREHENSIVE INCOME

GBP thousand	Note	1 Oct – 31 Dec 2018	1 Oct – 31 Dec 2017	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Rental income from group companies	3	930	1,250	3,180	3,500
Depreciation	4	(389)	(871)	(2,522)	(3,482)
Other operating expenses		(55)	(13)	(196)	(217)
Operating profit/(loss)		486	366	462	(199)
Waiver of loan from holding company		10,000	-	10,000	-
Foreign exchange loss		(423)	-	(423)	(40)
Finance cost – amortisation of borrowing cost		(97)	(31)	(386)	(125)
Finance cost – group borrowings (non-cash)		(154)	(154)	(615)	(615)
Finance cost – bond (<i>Net Finance Charges</i>)		(666)	(741)	(2,672)	(2,962)
Finance costs, net		(1,340)	(926)	(4,096)	(3,742)
Profit/(loss) before taxes		9,146	(560)	6,366	(3,941)
Income tax expense		-	-	-	-
Profit/(loss) for the period/year		9,146	(560)	6,366	(3,941)
Total comprehensive profit/ (loss) for the period/year		9,146	(560)	6,366	(3,941)

BALANCE SHEET

GBP thousand	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Investment property	4	87,633	90,104
Property plant and equipment	5	34	50
		87,667	90,154
Current assets			
Receivables from group companies		1,682	1,237
Other receivables		69	127
Cash and cash equivalents ¹		1,366	1,677
Total current assets		3,117	3,041
Total assets		90,784	93,195
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	6	3	3
Share premium	6	15,604	15,604
Capital reserves	6	10,000	-
Retained loss		(17,356)	(13,722)
Total equity		8,251	1,885
LIABILITIES			
Non-current liabilities			
Borrowings from group companies		30,997	40,997
Borrowings	7	50,461	49,677
Total non-current liabilities		81,458	90,674
Current liabilities			
Payables to group companies		631	263
Other payables		444	373
Total current liabilities		1,075	636
Total liabilities		82,533	91,310
Total equity and liabilities		90,784	93,195

Notes:

¹The EUR equivalent for cash as of 31st December 2018 at ECB published rate EUR/GBP 0.89453 is 1.527 mil €

STATEMENT OF CHANGES IN EQUITY

GBP thousand	Share capital	Share premium	Capital reserve	Retained earnings	Total equity
Equity at 1 Jan 2017	3	15,604	-	(9,781)	5,826
Loss for the year	-	-	-	(3,941)	(3,941)
Total comprehensive income	-	-	-	(3,941)	(3,941)
Equity at 31 Dec 2017	3	15,604	-	(13,722)	1,885
Profit for the year	-	-	-	6,366	6,366
Total comprehensive income	-	-	-	6,366	6,366
Transfer from retained earnings to capital reserve account	-	-	10,000	(10,000)	-
Equity at 31 Dec 2018	3	15,604	10,000	(17,356)	8,251

STATEMENT OF CASH FLOWS

GBP thousand	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Operating activities		
Operating profit/(loss)	462	(199)
Adjustment for:		
Depreciation	2,522	3,482
Net foreign exchange differences	-	(40)
Change in working capital:		
Change in receivables from group companies	(445)	(1,005)
Change in other receivables	(17)	(89)
Change in payables to group companies	-	(741)
Change in other payables	71	(6)
Net cash flows generated from operations before interest payments	2,593	1,402
Interest paid	(2,672)	(3,702)
Net cash flows used in operations	(79)	(1,560)
Cash used in investing activities		
Additions in investment property	(35)	(3)
Purchase of property, plant and equipment	-	(50)
	(35)	(53)
Cash flows from financing activities		
Repayment of borrowings from Group company	(172)	(410)
Proceeds from borrowings	-	51,459
Repayment of borrowings	-	(45,988)
Transaction costs paid	(25)	(1,782)
Net cash flows from financing activities	(197)	3,279
Net (decrease)/increase in cash and cash equivalents	(311)	1,666
Cash and cash equivalents at 1 January	1,677	11
Cash and cash equivalents at 31 December	1,366	1,677

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Sunborn (Gibraltar) Limited (the 'Company') is a private company limited by shares incorporated and registered in Gibraltar. The registered address of Sunborn (Gibraltar) Limited is 57/63 Line Wall Road, Gibraltar and its business address is 35 Ocean Village Promenade, Gibraltar. Sunborn (Gibraltar) Limited owns a luxury yacht hotel docked at Ocean Village in Gibraltar, which it has leased to its sister company Sunborn (Gibraltar) Resort Limited, who runs the operations in accordance with a lease contract. The Yacht hotel is equipped with 189 cabins, including 22 suites. There are also conference facilities for up to 400 delegates, restaurants, bars fitness center, spa and lounges inside the Yacht hotel. The Company had no employees during the nine months to 30 September 2018 or during 2017. The Company is wholly owned by Sunborn Gibraltar Holdings Limited and its ultimate parent is Sunborn Oy, a company registered in Finland and owned by the Niemi family who are also based in Finland. Sunborn Oy focuses on the development of luxury spa and yacht hotels, restaurants and other high-quality property, and has more than 40 years of experience in the hospitality sector.

2. Summary of significant accounting policies

Basis of preparation

This financial report for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The year-end financial report is based on the same accounting policies and calculation methods as used in the financial statements for the year 2017, as well as on the new and updated IFRS standards described in the financial statements for the year 2017.

The preparation of the year-end financial report 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 Company's accounting policies. The actual outcomes may differ from these estimates and judgments. The most significant estimates made by the management relating to the accounting policies and uncertainties are the same as applied in the financial statements for the year 2017

The financial statements are presented in thousands of sterling pounds unless otherwise stated. All figures presented have been rounded and consequently the sum of individual figures may deviate from the presented sum figure.

New IFRS standards adopted by the Company

The adaptation of IFRS 9 Financial Statements from 1 January 2018 resulted in change in accounting policies, however there are no adjustments to the amounts recognised in this report. The only relevant impact of adoption is related to impairment of financial assets.

From 1 January 2018, the Company assesses on a forward-looking basis the expected credit loss associated with the receivables which are carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company has loan receivables from its parent company Sunborn Oy as well as lease receivables from its sister-company Sunborn (Gibraltar) Resorts to be assessed for impairment under the new impairment rules in IFRS 9. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the management has assessed that the impairment loss for them is immaterial.

The management considers that there has not been a significant increase in credit risk since initial recognition at any dates presented. Accordingly, impairment based on 12 month expected losses shall be recognised. The Company has made assessment and concluded that there is no material impairment loss to be recognised.

The calculations of expected credit loss for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculations, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management has concluded that this amount is immaterial.

Going concern

The Company has incurred net losses since inception in 2013 and for the years ended 31 December 2017 and year to December 2018, the Company reported losses of £3.3m and £3.9m, respectively. The losses consist mainly of depreciation of the vessel and unrealized exchange rate differences arising from the borrowings from the parent company.

The Company's sole purpose is to own the vessel "Sunborn Gibraltar Yacht" converted into a Yacht hotel and lease the vessel out to Sunborn (Gibraltar) Resort Limited through an internal bareboat agreement. The Company has primarily relied upon financing raised through the borrowings from the group companies and bonds from external parties as well as from shares issued to the parent company Sunborn (Gibraltar) Holdings Limited. In April 2016, Sunborn International Oy transferred the company's borrowing amounting to £15.6m to Sunborn (Gibraltar) Holdings Limited and thereafter was converted to company's equity to provide additional capital. The borrowings were converted to Sterling Pounds to avoid unrealised losses. Again in September 2018, £10M of borrowings from Sunborn International Oy have been converted to company's equity.

The financial information in these financial statements has been prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future.

After review of the future operating and financing costs of the Company in conjunction with the cash held at 31 December 2018, management believes the Company has sufficient funds to continue as a going concern for the foreseeable future. Moreover, the company's ultimate parent has confirmed its willingness to provide financial support to allow the company to operate and meet its liabilities as and when required.

3. Rental income from related parties

Rental income comprises income generated from lease of its vessel, which was refurbished into a Yacht hotel, to its sister company Sunborn (Gibraltar) Resort Limited. The lease term is 10 years with fixed monthly lease from 1 June 2017 and in force until terminated by the company subject to three months' prior notice.

4. Investment property

GBP thousand	<u>Vessel including improvements</u>	<u>Furniture & fittings</u>	<u>Total</u>
	£	£	£
Cost			
At 1 January 2017	96,745	450	97,195
Additions	-	3	3
At 31 December 2017	96,745	453	97,198
Additions	-	34	34
At 31 December 2018	96,745	487	97,232
Depreciation			
At 31 December 2016	3,373	240	3,613
Charge for the year	3,373	108	3,481
At 31 December 2017	6,746	348	7,094
Charge for the period	2,477	28	2,505
	9,223	376	9,599
Net book value			
At 31 December 2018	87,522	111	87,633
At 31 December 2017	90,000	104	90,104
At 31 December 2016	93,372	210	93,582

The vessel is registered in Finland but located in Gibraltar, where it is leased under a lease agreement to Sunborn (Gibraltar) Resort Limited, which runs the hotel operations of the Yacht hotel. Sunborn Gibraltar is responsible for the maintenance, the mooring fee, certain insurances, marketing of the vessel and any other such operational costs for operating the Yacht hotel. The Company has thus no risk on operating the Yacht hotel, being only responsible for certain insurances and maintaining the hull.

The investment property is carried at deemed cost as at 1 January 2016, which was its fair value, less any accumulated depreciation and any accumulated impairment losses.

During 2018, a valuation report was prepared by an independent and recognised professional. The **Market Value** of the vessel including contents was determined as **€116.5M**.

Depreciation is calculated using the straight-line method to allocate the cost to the residual value over their estimated useful lives. The estimated useful life of the vessel divided to its significant components is presented in the table below:

Vessel	- 40 years
Vessel improvements	- shorter of remaining life of the vessel or useful life of the vessel improvement (3 to 25 years)
Furniture and fittings	- 10 years

4. Investment property - *continued*

All repairs and maintenance costs are charged to the statement of the comprehensive income during the financial year in which they are incurred.

5. Property, plant and equipment

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation is charged so as to write off the cost of assets at their estimated useful lives of 3 years.

6. Equity & Capital Reserve

Share Capital	As at 31 December 2017 and 2018	
	No.	£
Authorised, allotted, called up and fully paid shares of £1 each	3,000	3,000

The number of ordinary shares outstanding since the company's inception was 2000 shares. In 2016, borrowings from the group company were converted into equity thereby increasing the authorized ordinary share capital by 1,000 at a premium of £15,604 per share resulting to a share premium of £15,604,000.

The Company has not distributed any dividend and the bond agreement set some restrictions for distribution of dividend.

7. Financial Indebtedness

Borrowings are analysed as follows:

GBP thousand	31 Dec 2018	31 Dec 2017
Wholly repayable within five years	50,461	49,677

Details of loans wholly repayable within five years are as follows:

5% senior secured bond of € 58,000,000

repayable on 5 September 2022	51,882	51,459
Less: transaction costs	(1,421)	(1,782)
	50,461	49,677

Financial Indebtedness in Euros

Less Cash in Euros

Adjusted Financial Indebtedness

58,000
(1,527)
56,473

8. Borrowings— non-current liabilities - *continued*

On 31/8/2017, the company issued a € Senior Secured Bonds with nominal value of EUR 58 million repayable in 2022. The contractual interest is 5% plus Euribor and the effective interest is 5.83%. The proceeds of the bonds were used to pay the secured loans with the financing company.

Fair value of the bonds equals the carrying amount as it was withdrawn during the year at market terms.

Collaterals and guarantee given

The bonds are secured by a 1st lien mortgage in the vessel and the cash held at bank. The bonds are also secured by a floating charge agreement over the assets, rights, intellectual property and revenues including relevant insurances. The bank accounts have been pledged to secure the bond repayments, however they can be used by the Company in the ordinary course of business.

Moreover, Sunborn International Oy has pledged its shares in the Company and Sunborn Gibraltar Holdings Limited and Sunborn (Gibraltar) Resort Limited to secure the repayment of the bonds.

9. Related parties

Transactions with related parties

The Company's related parties are its parent company Sunborn Oy, other Sunborn Group entities, the board of directors and key management of the Company and the Board of Directors and management of the parent company, together with their close family members, and companies controlled by these individuals.

The following table summarises the Company's transactions and outstanding balances with related parties during or at the end of the years presented:

	1 Jan -31 Dec 2018		1 Jan -31 Dec 2017	
	Income/(Expense)		Income/(Expense)	
GBP thousand				
Sunborn (Gibraltar) Resort		3,180		3,500
Sunborn International Oy		(373)		-
	31 Dec 2018		31 Dec 2017	
	Receivables	Liabilities	Receivables	Liabilities
GBP thousand				
Sunborn (Gibraltar) Resort	1,673	-	1,227	-
Sunborn (Gibraltar) Holdings	3	-	3	-
Casino Sunborn (Gibraltar)	7	-	7	-
Sunborn International Oy		30,997		40,997
Sunborn Oy		95		113
Sunborn London		-		150
Total	1,683	31,092	1,237	41,260

10. Appendix 1

Sunborn (Gibraltar) Resort Limited Income Statement, Balance sheet and Cash flow statement

1 January - 31 December 2018

	Unaudited 31 Dec 18	Audited 31 Dec 17
REVENUE	10,693,332	11,121,844
Cost of sales		
Food	669,395	602,989
Beverage	231,064	151,140
Agent commission	301,337	276,986
Other	37,945	60,369
	<u>1,239,741</u>	<u>1,091,484</u>
GROSS PROFIT	9,453,591	10,030,360
Administrative and other expenses	(6,347,382)	(6,429,563)
EBITDAR	<u>3,106,209</u>	<u>3,600,797</u>
Rent cost due to related entity	(3,180,000)	(3,500,000)
Depreciation	(101,048)	(79,666)
Interest expense	<u>(3,256)</u>	<u>-</u>
(Loss) / profit before tax	(178,095)	21,131
Taxation	-	-
(Loss) / profit during the year	<u><u>(178,095)</u></u>	<u><u>21,131</u></u>

Unaudited Balance Sheet

	Unaudited 31 Dec 18 £	Audited 31 Dec 17 £
Fixed assets		
Tangible fixed assets	<u>291,522</u>	<u>109,629</u>
Current Assets		
Inventories	130,622	123,862
Trade and other receivables	1,377,984	1,258,961
Cash at bank	28,949	148,942
	<u>1,537,555</u>	<u>1,531,765</u>
Current Liabilities		
Trade and other payables	3,032,789	2,704,423
Finance lease obligation	10,004	-
	<u>3,042,793</u>	<u>2,704,423</u>
Current Assets less Current Liabilities	(1,505,238)	(1,172,658)
Non-current liabilities		
Finance lease obligation	27,408	-
Total Assets less Liabilities	<u><u>(1,241,124)</u></u>	<u><u>(1,063,029)</u></u>
Capital and Reserves		
Called up share capital	2,000	2,000
Profit & loss account	(1,243,124)	(1,065,029)
	<u><u>(1,241,124)</u></u>	<u><u>(1,063,029)</u></u>

Statement of Cash Flows for the year ended 31 December 2018

	£
Reconciliation of operating profit to net cash inflow from operating activities	
Operating loss	(178,095)
Finance lease interest	3,256
Operating (loss)/profit	(174,839)
Depreciation	101,048
Movement in inventories	(6,760)
Increase in debtors	(119,023)
Increase in creditors	370,062
Net cash inflow from operating activities	170,488
Cash flow from investing activities	
Purchase of tangible fixed assets	(282,941)
Cash flow from financing	
Repayment of obligations under finance lease	(7,540)
Taxation	
Corporation tax paid	-
(Decrease)/increase in cash	(119,993)
Reconciliation of net cash flow to movement in net funds	
Cash at bank at 1 January	148,942
Cash at bank at 31 December	28,949
(Decrease)/increase in cash in year	(119,993)