

SUNBORN LONDON



HALF YEAR FINANCIAL REPORT
1 July – 31 December 2020
26/2/2021

sunborn

HALF YEAR REPORT 1 July - 31 December 2020
Key Figures

EUR thousand	1 Jul - 31 Dec 2020	1 Jul - 31 Dec 2019	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Rental income	1 208	1 472	2 675	2 945
Settlement income	4 757	0	4 757	0
Operating profit	5 080	649	5 718	1 336
Investment property (Yacht hotel)			36 402	37 907
Total Equity			28 479	29 128
Borrowings			29 307	29 814

CEO Hans Niemi

“London hotel operations in H2 continued under the shadow of the pandemic. As a major development during the period, management partner ISS and Sunborn concluded a settlement to transfer hotel operations from ISS to Sunborn International (UK) Ltd and the termination of ISS Management Agreement on 31st December 2020. Related to the operator change, Sunborn London Oyj sought and received bondholders’ approval on 29th December 2020 to amend the Bond Terms.

During the period, Sunborn London Oyj received 1.21 MEUR (1,47 MEUR in 2019) in lease income after application of a permitted lease discount of the lease fee. In addition to the lease income, Sunborn London Oyj received income related to the Settlement amounting to 4.76MEUR in this period.

Hotel occupancy and rates for the management company had rebounded to decent levels after the first lockdown and reached average 65% occupancy in October. On November 5th UK went into a second lockdown, hotels were restricted to limited operations and travel for non-essential reasons was prohibited for the remainder of the year. During this period the Sunborn London has remained open with reduced staff serving essential workers only with a limited number of rooms.”

Financial summary 1 July - 31 December 2020

The yacht hotel during the period was leased out to ISS Facility Services Ltd (“ISS”), a fully owned subsidiary of ISS A/S listed in Denmark, through an internal bareboat agreement between the Company and Sunborn International (UK) Ltd, a sister company to the Company.

Rental Income for the reporting period was 1.21 MEUR (1.47 MEUR) and other income for the period contains the Settlement income of 4,76 MEUR. On 29th December 2020 the bondholders approved the amendment of the Bond Terms and the ratification of the ISS Settlement agreement, namely the termination of the ISS management lease on the 31st December 2020 and Sunborn International (UK) Ltd taking over the management agreement responsibilities. The Settlement amount paid by ISS consists of an agreed termination payment and has a significant impact in the Sunborn London Oyj financial capability going forward and an early bond repayment of 5 MEUR. The full details of the bond holder approval and change of terms and conditions are available on <https://new.stamdata.com/app/issue/NO0010775141>

Book value of the yacht hotel as of 31 December 2020 approximates the fair value of the yacht hotel based on income approach using discounted cash flow analyses. The management has considered the influence of Covid-19 in the fair value and continues to carefully monitor any further consequences of the Covid-19.

For the reporting period Sunborn London Oyj (“The Company”) continued to be a SPV with no other purpose than owning and leasing out the Sunborn London yacht hotel.

Notable events during and after the end of the reporting period

Take over the London operations and amendments to Bond Terms

Due to an announced strategic decision by management partner ISS Facility Services to withdraw from UK hotel operations, Sunborn London Oyj, Sunborn International (UK) Ltd and ISS Facility Services negotiated a settlement agreement with the objective of the early termination of the ISS management lease for the Sunborn London hotel on 31st December 2020, Sunborn International (UK) Ltd taking over the management agreement responsibilities and a transition period to begin. The Settlement includes a lump sum amount paid by ISS to cover the expected loss of lease income, costs and commercial risks transferred to Sunborn London Oyj and Sunborn International (UK) Ltd.

After the in-principle agreement with ISS, Sunborn London Oyj issued a request for the bondholders to accept a Proposal which included the negotiated Settlement exit offer. The Proposal was broadly accepted by bondholders and therefore Sunborn’s current operating entity in UK agreed to take over from ISS management and the ISS Management agreement terminated 31st December 2020.

Amendments to the Bond Terms included early amortization of the outstanding bond by 5 MEUR, which took place on the 17th February 2021 after the end of this reporting period. The remaining proceeds from the settlement have remained in the hotel operating company to handle anticipated working capital needs. Amendments also included:

- an option to extend the maturity of the bond to by 6 or 12 months, up to September 2022 with extension fee of 4 % or 8 %
- an interest coverage ratio covenant, which requires the Issuer to generate EBITDA minimum of 1.1 times the net finance charges
- Sunborn International Holding Oy becoming a Guarantor to the Bond Terms
- the ability to use any government funding programs in the operating company (unsecured) if available with a limit of 2 MEUR.

Sunborn management views the Settlement agreement provided a major positive boost to the financial standing of the Issuer, reducing outstanding debt by an early repayment of 5 MEUR and improving key financial parameters in preparation for refinancing of the bond in September 2021. As part of the Settlement, Sunborn UK operator company has secured an increase to working capital funds to deal with the immediate operating environment. Management have concluded that the takeover includes opportunities to better manage sales, reduce costs and increase profitability through synergies with other Sunborn operations and importantly allows for fast and effective management response in and fluid and extraordinary operating environment. The current management and staff of the hotel will transfer to Sunborn.

The Bareboat Charter Agreement between Sunborn UK and the Company was renewed with a fixed sum of GBP 195,000 per month on 29.12.2020 and effective from 1st January 2021 onwards.

Extraordinary operational lease adjustment

In light of the pandemic caused extraordinary operational circumstance and the resulting loss of hotel revenues and contractual obligations to provide assistance by Sunborn in the management lease agreement, ISS and Sunborn International (UK) Ltd agreed on a temporary 15 % discount of the lease fee starting 1 July 2020. Corresponding discount for the corresponding period applied also to the intra-group contract between Sunborn London Oyj and Sunborn International (UK) Ltd, decreasing thus the company’s lease income by 15 %.

Estimated future development

The management has, prior to entering into the Settlement agreement, carefully planned the future business operations including the expected impact and continuation of pandemic restrictions on the hotel's operations. Despite the obvious challenges of the pandemic, management believes the property will continue successful operations under the current management and the hotel to be placed in an excellent location, benefitting from the ongoing and continued growth and development of the Royal Docks area and the Excel center. Sunborn UK is transferring over all the existing hotel staff and management from ISS and has identified synergies in sales, marketing and costs with other Sunborn properties, expecting to improve overall stabilized EBITDA once the normal trading conditions are restored. Management considers Sunborn UK to have sufficient working capital to weather out the current lockdowns and expects the market conditions to improve towards the summer of 2021. Despite the Covid-19 pandemic the Sunborn London Oyj's financial performance and debt service capacity is expected to remain stable.

Short-term risks and uncertainties

The transfer of operations from ISS to Sunborn UK contains commercial risks related to the continuation of the pandemic and restrictions imposed on the UK hospitality industry. The Sunborn London continues to operate under challenging conditions but management expects the cash reserves of the Sunborn UK to be sufficient to weather out the current lock down and continue to pay the monthly lease. 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 current Covid-19 outbreak impacts negatively London hotel market and Sunborn London's credit risk and liquidity risk through operator being able to continue operating the hotel, meet its commitments under the Bareboat Charter agreement and Sunborn London Oyj to pay the interest and other payments related to bond.

The Company's bond is maturing for repayment on 29th September 2020. Management views the current high yield market conditions to be less favorable due to the higher industry risk and ongoing pandemic risk but financing to be available subject to terms and conditions. When the Bond Terms were amended, the bond was remeasured by discounting the amended cash flows using the original effective interest rate. The management has applied significant judgement in estimating the contractual cash flows. The management has assessed that it will not use the extension option and will repay the bond at its original maturity date.

The company management considers the ISS Settlement to have improved the credit metrics of the Issuer, lowering the loan to value and interest payment cover ratio, however also removing a long-term third-party lease agreement, which may impact the terms and conditions and availability of certain types of financing. Prior to the early 5 MEUR repayment of the loan, senior secured bank financing was outside expected parameters, but with the current lowered outstanding bond amount at 24.4 MEUR, there are more financing options available including bank debt, sale and lease-back, senior secure bond, private placement and structured financing. On 29th December 2020 the bondholders approved the amendment of the Bond Terms and the company has options to extend the bond maturity by 6 months or alternatively until 5th September 2022, however management is currently implementing a strategy of a full refinancing of the bond prior to original maturity and will assess the likely success and uncertainty over the coming months. Details of amended terms and conditions of the bond are available on <https://new.stamdata.com/app/issue/NO0010775141>

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 reviews financial risks on a regular basis to manage financial risk position and decide on necessary actions.

Brexit

UK has officially left the EU 1.1.2020 and the transition period ended 31.12.2020.

Due to Brexit the volatility in pound sterling versus euro is expected to continue while Sunborn Group has implemented certain currency hedges to alleviate but not completely remove the risk of declining pound versus euro.

Covid 19 pandemic

The Covid-19 outbreak is severely and negatively affecting the tourism market globally. As the Company is reliant on the ability of the operator to pay rent, recent restricted operation of the underlying business and the subsequent forecasted recovery period is likely to affect the performance of the operator in the short and medium term.

Prolonged Covid-19 restrictions could further impact the Company's business through continued negative influence on the operator. The consequences of the unprecedented crisis is difficult to predict, and it is unknown when the recovery of the affected businesses will take place. Prolonged crisis could also in the long term impair the fair value of the yacht hotel.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

EUR thousand	Note	1 Jul - 31 Dec 2020	1 Jul - 31 Dec 2019	1 Jan -31 Dec 2020	1 Jan -31 Dec 2019
Rental income from group companies	3, 7	1 208	1 472	2 675	2 945
Other operating income	3, 7	4 822	64	4 886	128
Depreciation	4	-752	-752	-1 505	-1 505
Other operating expenses		-197	-135	-339	-232
Operating profit		5 080	649	5 718	1 336
Finance income	7	799	883	1 579	1 662
Finance costs		-847	-916	-2 082	-1 905
Finance income and costs, net		-48	-33	-503	-243
Profit before taxes		5 032	615	5 214	1 093
Income tax expense		103	161	(0)	-
Change in deferred tax		-1 071	-284	-1 005	-219
Profit for the period		4 063	492	4 209	874
Total comprehensive income for the period		4 063	492	4 209	874

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET (IFRS)

EUR thousand	Note	31 Dec 2020	31 Dec 2019
Assets			
Non-current assets			
Investment property	4	36 402	37 907
Receivables from group companies	7	19 777	24 162
Cash collateral	6	880	880
Total non-current assets		57 060	62 949
Current assets			
Trade receivables from group companies	7	3 191	3 288
Trade and other receivables		21	10
Cash and cash equivalents		5 501	348
Total current assets		8 713	3 646
Total assets		65 773	66 595
Equity and liabilities			
Share capital	5	80	80
Reserve for invested unrestricted equity		600	600
Retained earnings		27 799	28 448
Total equity		28 479	29 128
Liabilities			
Non-current liabilities			
Borrowings	6	-	29 110
Deferred income		257	385
Deferred income tax liabilities		6 880	7 090
Total non-current liabilities		7 137	36 585
Current liabilities			
Trade and other payables		9	2
Payables to group companies	7	50	24
Borrowings	6	29 307	704
Deferred income		128	128
Accrued expenses		663	23
Total current liabilities		30 158	881
Total liabilities		37 295	37 466
Total equity and liabilities		65 773	66 595

The above balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

EUR thousand	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total equity
Equity at 1.1.2019	80	600	29 574	30 254
Profit for the period			382	382
Total comprehensive income	0	0	382	382
Equity at 30.6.2019	80	600	29 956	30 636
Equity at 1.7.2019	80	600	29 956	30 636
Profit for the period			492	492
Total comprehensive income	0	0	492	492
Transactions with owner:				
Group contribution			-2 000	-2 000
Total contributions by and distributions to owners of the parent, recognised directly in equity	0	0	-2 000	-2 000
Equity at 31.12.2019	80	600	28 448	29 128
Equity at 1.1.2020	80	600	28 448	29 128
Profit for the period			145	145
Total comprehensive income	0	0	145	145
Equity at 30.6.2020	80	600	28 594	29 274
Equity at 1.7.2020	80	600	28 594	29 274
Profit for the period			4 063	4 063
Total comprehensive income	0	0	4 063	4 063
Transactions with owner:				
Group contribution			-4 858	-4 858
Total contributions by and distributions to owners of the parent, recognised directly in equity	0	0	-4 858	-4 858
Equity at 31.12.2020	80	600	27 799	28 479

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

EUR thousand	Note	1 Jan – 31 Dec 2020	1 Jan - 31 Dec 2019
Cash flows from operating activities			
Profit before tax		5 214	1 093
Adjustments for			
Amortisation of deferred income	4	-128	-128
Depreciation	4	1 505	1 505
Finance income and costs, net		503	243
Change of working capital			
Change in trade and other receivables		86	-161
Change in trade and other payables		674	20
Net cash flows from operating activities		7 854	2 571
Cash used in investing activities			
Loans given to related party	7	-	-
Net cash flows used in investing activities		-	-
Cash flows from financing activities			
Repayment of borrowings		-704	-672
Contribution from/to Sunborn group companies	7	-130	-357
Transaction / loan agent costs		-9	-6
Interest and finance costs paid		-1 681	-1 710
Net cash flows from financing activities		-2 525	-2 746
Cash and cash equivalents at the beginning of period		348	419
Effects of exchange rate changes on cash and cash equivalents		-176	103
Change in cash and cash equivalents		5 153	-71
Cash and cash equivalents at the end of period		5 501	348

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Sunborn London Oyj is a public limited liability company (“the Company”) incorporated in Finland. The registered address of Sunborn London Oyj is Juhana Herttuan puistokatu 23, Turku, Finland. Sunborn London Oyj was established on April 30, 2016 through a demerger of Sunborn International Oy. Sunborn London Oyj owns a luxury yacht hotel “Sunborn London” docked at Royal Victoria Dock in London, the UK (“Yacht hotel”), which it has leased to its sister company Sunborn International (UK) Limited (“Sunborn UK”). The hotel operations of the Yacht hotel Sunborn London has been run by management company ISS Facility Services Ltd (“ISS”) in accordance with a management services contract between ISS and Sunborn UK until the end of 2020. In the beginning of the year Sunborn UK took over the operations after the transition from ISS management.

The Yacht hotel is equipped with 138 cabins, including four suites or high-class cabins, with a total hotel capacity of 524 persons. There are also conference facilities for up to 200 delegates, restaurant, bar and lounges inside the Yacht hotel. The Group had no employees in 2020 and 2019. Sunborn London Oyj’s ultimate parent company Sunborn Oy provides management and administrative services to the Group. Until the end of 2020 Sunborn UK’s sole operations consisted of acting as the lessee and lessor of the Yacht hotel. Since 2021 operations consist of acting as the lessee and operator of the Yacht hotel.

On 30th April, 2020, Sunborn Oy transferred its ownership in the Company to a newly established company Sunborn International Holding Oy, which thus became a new parent company of Sunborn London Oyj owning 100 % of the shares of the Company, as well as Sunborn International UK.. Sunborn International Holding Oy is a family-owned company based in Finland. Sunborn Group 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 half year financial report for six months ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS), *IAS 34 interim Financial Reporting*, as adopted by the European Union. The half year financial report is based on the same accounting policies and calculation methods as used in the financial statements for the year 2019, as well as on the new and updated IFRS standards described in the financial statements for the year 2019. However, the half year financial report does not include all the information and notes that are presented in the annual financial statements. As such the half year financial report should be read in conjunction with the financial statements for the year ended 31 December 2019.

The preparation of the half year 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 Group’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 2019.

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

The half year financial report is unaudited.

Going concern and liquidity risk

The transfer of operations from ISS to Sunborn UK contains commercial risks related to the continuation of the pandemic and restrictions imposed on the UK hospitality industry. The Sunborn London continues to operate under challenging conditions and the management expects the cash reserves of the Sunborn UK to be sufficient to weather out the current lock down and continue to pay the monthly lease. 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 current Covid-19 outbreak impacts negatively London hotel market and Sunborn London's credit risk and liquidity risk through operator being able to continue operating the hotel, meet its commitments under the Bareboat Charter agreement and Sunborn London Oyj to pay the interest and other payments related to bond.

The Company's bond is maturing for repayment on 29th September 2020. Management views the current high yield market conditions to be less favorable due to the higher industry risk and ongoing pandemic risk but financing to be available subject to terms and conditions. When the Bond Terms were amended, the bond was remeasured by discounting the amended cash flows using the original effective interest rate. The management has applied significant judgement in estimating the contractual cash flows. The management has assessed that it will not use the extension option and will repay the bond at its original maturity date.

The company management considers the ISS Settlement to have improved the credit metrics of the Issuer, lowering LTV and interest payment cover ratio, however also removing a long-term third-party lease agreement, which may impact the terms and conditions and availability of certain types of financing. Prior to the early 5 MEUR repayment of the loan, senior secured bank financing was outside expected parameters, but with the current lowered outstanding bond amount at 24.4 MEUR, there are more financing options available including bank debt, sale and lease-back, senior secure bond, private placement and structured financing. On 29th December 2020 the bondholders approved the amendment of the Bond Terms and the company has options to extend the bond maturity by 6 months or alternatively until 5th September 2022, however management is currently implementing a strategy of a full refinancing of the bond prior to original maturity and will assessing the likely success and uncertainty over the coming months. Details of amended terms and conditions of the bond are available on <https://new.stamdata.com/app/issue/NO0010775141>

3. Rental income from related parties and other income

The Group's rental income consists of rental income from Sunborn UK. Due to the change in operator, the amended Bareboat charter agreement between Sunborn UK and the Company was renewed and the fixed sum of was amended to GBP 195,000 per month in lease. Bareboat charter agreement is in force until terminated by either party subject to six months' prior notice. In 2019 the period for which the lease payments were presented are based on the term of the contract between ISS and Sunborn UK.

Future minimum lease payments are translated at exchange rate prevailing on each balance sheet date as follows:

EUR thousand	31 Dec 2020	31 Dec 2019
Within 1 year	651	3 032
Between 1 and 2 years	-	3 032
Between 2 and 3 years	-	3 032
Between 3 and 4 years	-	3 032
Between 4 and 5 years	-	3 032
Later than 5 years	-	13 141
Total	651	28 303

Sunborn UK has paid in December 2020 in advance the 3 months' lease payments, so the table above only reflects the lease payments for 3 months 'period. Other income relates mostly to the one-time settlement exit fee from Sunborn UK due to the termination of contract with ISS.

4. Investment property

The Group presents as investment property its investment in a Yacht Hotel that is leased out under operating lease and it is operated as Yacht hotel Sunborn London by ISS until 31st December 2020 by Sunborn International (UK) Ltd thereafter. The investment property is carried at cost less any accumulated depreciation and any accumulated losses. Fair value of the yacht hotel as at 31 December 2020 has been estimated to be EUR 37 million (31.12.2019: EUR 43 million). The fair value has been determined based on income approach using discounted cash flow analyses. The fair value measurement is based on unobservable inputs and accordingly, is classified in Level 3 in the fair value hierarchy. The volatility in the fair value is due to the impact of the takeover of the operations from ISS to estimated cash flows and from the fluctuation of the GBP/EUR exchange rate. Fair value of the yacht hotel as at 31, December 2020 approximates the book value of the yacht hotel. The management has considered the impact of Covid-19 in the fair value and continue to carefully monitor any further impact of the Covid-crisis on the fair value and thus possible impairment of the Yacht Hotel.

The Yacht hotel is registered in Finland but located in London, United Kingdom, where it is leased under a Bareboat Charter agreement to Sunborn UK. ISS Facility services has been responsible for the management up until 31.12.2020 and thereafter the responsibility lies with Sunborn International (UK) Ltd. ISS and Sunborn have agreed a management contract transition period to ensure a seamless hand over the operation and staff.

The deferred income recognised in the balance sheet relates to payments received from ISS to renovate and repair the Yacht hotel before the commencement of the lease in 2014. Costs of renovation are included in the fair value of the Yacht hotel. The deferred income is recognised as other income over the time of the depreciation of the improvements.

Investment property

EUR thousand	Yacht hotel
Cost at January 1, 2019	45 432
Cost at December 31, 2019	45 432
Accumulated depreciation at January 1, 2019	6 019
Depreciation	1 505
Accumulated depreciation and impairment at December 31, 2019	7 525
Net book value at January 1, 2019	39 412
Net book value at December 31, 2019	37 907
EUR thousand	Yacht hotel
Cost at January 1, 2020	45 432
Cost at December 31, 2020	45 432
Accumulated depreciation at January 1, 2020	7 525
Depreciation	1 505
Accumulated depreciation and impairment at December 31, 2020	8 277
Net book value at January 1, 2020	37 907
Net book value at December 31, 2020	36 402

Rental income and direct operating expenses related to Yacht hotel recognised in the comprehensive income statement are as follows:

EUR thousand	1 Jul – 31 Dec 2020	1 Jul – 31 Dec 2019	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
Rental income	1 208	1 472	2 675	2 945
Direct operating expenses from property that generated rental income	57	53	121	103

5. Equity

Number of the shares has been 200 shares since the establishment of the parent Company. Shares have no nominal value.

6. Borrowings

EUR thousand	31 Dec 2020	31 Dec 2019
Non-current:		
Senior secured bond	-	29 110
Current:		
Senior secured bond	29 307	704
Total	29 307	29 814

As at 26 September 2016 the Company issued senior secured bonds with nominal amount of EUR 32 million to certain qualified institutional investors mainly to finance the existing debt of its sister company Sunborn UK in the amount of EUR 23.8 million and to provide additional financing to its parent company Sunborn Oy in the amount of EUR 6.5 million. The amount of EUR 0.88 million equivalent of 6 months interest was deposited in a reserve account in the bank (cash collateral). The remaining proceeds were used for general corporate purposes.

The Bond Terms were amended on 29 December 2020. Amendments to the Bond Terms include early amortization of the outstanding bond by 5.0 MEUR, which took place on the 17th February 2021. The remaining proceeds from the Settlement will remain in the hotel operating company Sunborn UK to handle working capital needs. Amendments also include

- an option to extend the maturity of the bond by 6 months for extension fee of 4% (€0.9M) or up until September 2022 with extension fee of 8% (€1.9 M).
- an interest coverage ratio covenant, which requires the Issuer to generate EBITDA minimum of 1.1 times the net finance charges
- Sunborn International Holding Oy becoming a Guarantor
- the ability to use any government funding programs in the operating company (unsecured) if available with a limit of EUR 2 million.

The bonds are repaid by the Company in 5 instalments (with extension in 6 instalments) and the remaining amount will be fully redeemed on maturity date at the nominal amount (with extension option at a price of 108 % of the nominal amount on the new maturity date). The contractual interest is 5.5 % plus 3-month Euribor. The effective interest rate is 6.15 %.

The management estimates that the fair value of the bonds payable approximates the carrying amount, as interest rates have not changed much and the management estimates that the credit standing of Sunborn London has not

changed significantly from the issue date. When the bond terms were amended, the bond was remeasured by discounting the amended cash flows using the original effective interest rate. The management has applied significant judgement in estimating the contractual cash flows. The management has assessed that it will not use the extension option and will repay the bond at its original maturity date. Accordingly, bond extension fees are not included in the modified cash flows

Collaterals and guarantees given

The bonds are secured by a 1st lien mortgage in the Yacht hotel and the cash collateral in discussed above. Moreover, the issuer has pledged all cash flows generated by the lease agreement on the Yacht hotel, as well as the loan receivable from the parent company and other intragroup receivables. The normal bank accounts have been pledged to secure the bond repayments; however, they can be used by the Company in the ordinary course of business.

The bonds are also secured by an on-demand guarantee from Sunborn UK, which were issued under the bond agreement and by a 1st lien floating charge registered on the Company's movable property in accordance with the Floating Charge Act. Until the end of year 2020 Sunborn UK's sole operations consisted of acting as the lessee and lessor of the Yacht hotel. Since 2021 operations consist of acting as the lessee and operator of the Yacht hotel. Its revenue consists of rental income and 2021 forward operational hotel income. Also, Sunborn UK's cash flows and receivables, as well as their bank accounts have been pledged as security of the bonds.

As explained above, the amendments to the bond terms introduced an interest coverage ratio covenant for Sunborn London Oyj EBITDA to Net Financial charges of 1.1 to 1.0 ratio and Sunborn International Holding Oy was added as guarantor for the bonds.

7. Related parties

Transactions with related parties

Sunborn Oy has transferred as a contribution in kind its business operations relating to the yacht hotel business to Sunborn International Holding Oy, which became the direct owner of the Group on 30 April 2020.

Related parties are the ultimate parent company Sunborn Oy, the direct parent company Sunborn International Holding Oy, other Sunborn Group entities, the board of directors and key management of the Group 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 Group's transactions and outstanding balances with related parties during or at the end of the years presented:

EUR thousand	1 Jul – 31 Dec 2020			1 Jul – 31 Dec 2019		
	Rental income from the operating lease	Management fee	Interest income	Rental income from the operating lease	Management fee	Interest income
Ultimate parent - Sunborn Oy	-	-25	-	-	-25	779
Parent - Sunborn International Holding Oy	-	-40	779	-	-	-
Sunborn International Oy	-	-12	-	-	-	-
Sunborn UK	5 966	-	-	1 472	-	-
Total	5 966	-77	779	1 472	-25	779

EUR thousand	1 Jan – 31 Dec 2020			1 Jan – 31 Dec 2019		
	Rental income from the operating lease	Management fee	Interest income	Rental income from the operating lease	Management fee	Interest income
Ultimate parent - Sunborn Oy	-	-50	518	-	-48	1 559
Parent - Sunborn International Holding Oy	-	-40	1 041	-	-	-
Sunborn International Oy	-	-24	-	-	-24	-
Sunborn UK	7 433	-	-	2 945	-	-
Total	7 433	-114	1 559	2 945	-72	1 559

EUR thousand	31 Dec 2020		31 Dec 2019	
	Receivables	Liabilities	Receivables	Liabilities
Ultimate parent - Sunborn Oy	-	-	24 162	-
Parent - Sunborn International Holding Oy	19 777	50	-	-
Sunborn International Oy	-	-	-	24
Sunborn Saga Oy	-	-	-	-
Sunborn UK	3 191	-	3 288	-
Total	22 968	50	27 450	24

The rental income arises from the Bareboat Charter agreement related to the Yacht hotel with Sunborn UK. This agreement is in force until terminated by either party subject to six months' prior notice. The Group has paid management fee to Sunborn Oy and Sunborn International Oy and received interest income from Sunborn International Holding Oy. The interest income arises from the loan granted to the parent as described below.

The intercompany receivable from the parent company Sunborn Oy in September 2016, and legally transferred to the new parent company Sunborn International Holding Oy in April 2020. The loan receivable accumulates interest income at 6.1 % p.a. and is recognised as receivable from the parent company. Fair value of the loan receivable approximates its carrying amount, as interest rates have not changed much, and the management estimates that the credit standing of the debtor has not changed significantly from the issue date.

The lease receivables from Sunborn UK amounted to approximately EUR 3.2 million on 31.12.2020 (EUR 3.3 million on 31.12.2019).

Sunborn UK and Sunborn International Holding td have guaranteed the senior secured bonds of the Company. Detailed information on the guarantee is described in note 6 Borrowings.

8. Events after the reporting date

Amendments to the Bond Terms included an early repayment of the bond by 5.0 MEUR, which took place on the 17th February 2021

Company is implementing the transfer of operations from ISS to Sunborn UK and is expecting to complete the TUPE transfer of staff by end of February. The hotel has remained open for support staff and eligible travelers during the lockdown in January and February.

Refinancing negotiations are ongoing with several parties and the company is exploring various refinancing instruments.

Sunborn International Holding Oy received full permanent planning permission for developing a new yacht hotel in the current site. This provides a foundation for long term development of the UK business.

Appendix 1 Sunborn International (UK) Ltd

Sunborn International (UK) Ltd
HALF-YEAR UNAUDITED REPORT 1 July – 31 December 2020

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STATEMENT OF COMPREHENSIVE INCOME

GBP thousand	Note	1 Jul – 31 Dec 2020	1 Jul – 31 Dec 2019	1 Jan -31 Dec 2020	1 Jan – 31 Dec 2019
Revenue	3	5,730	3	5,730	-
Interest Revenue	3	525	592	1,072	1,162
Other Income		57	57	114	115
Total Revenue		6,039	652	6,916	1,277
Cost of sales	4	(4,745)	-	(4,745)	-
Depreciation	5	(115)	(115)	(229)	(229)
Administrative expenses		(76)	(7)	(99)	(65)
Operating profit/(loss)		1,376	530	1,843	982
Finance costs		(525)	(594)	(1,073)	(1,165)
Profit before taxes		851	(64)	770	(183)
Income tax expense		-	-	-	-
Change in deferred tax		75	5	79	9
Profit for the period		926	(59)	849	(174)
Total comprehensive income for the period		926	(59)	849	(174)

BALANCE SHEET

GBP thousand	Note	31 Dec 2020	30 Jun 2020	31 Dec 2019	30 Jun 2019
Assets					
Non-current assets					
Property, plant and equipment	5	525	591	657	1,235
Right-of-use assets	5	366	414	463	-
Lease Receivable	3	-	-	17,345	18,149
Total non-current assets		891	1,005	18,474	19,384
Current assets					
Amounts due from group companies	7	1,126	1,126	1,127	1,128
Trade and other receivables		618	35	33	37
Lease Receivable	3	-	18,149	1,568	1,522
Cash and cash equivalents		2,787	136	8	462
Total current assets		4,531	19,446	2,736	3,149
Total assets		5,422	20,451	21,209	22,533
Equity and liabilities					
Share capital		150	150	150	150
Retained earnings		(73)	(999)	(922)	(807)
Total equity		77	(849)	(772)	(657)
Non-current liabilities					
Lease liability to group companies	6,7	-	16,159	16,959	17,737
Lease liability	6	291	339	386	431
Total non-current liabilities		291	16,498	17,345	18,168
Current liabilities					
Trade and other payables		1,389	209	212	222
Payables to group companies	7	2,905	2,921	2,798	3,223
Lease liability to group companies	6,7	-	1,578	1,532	1,488
Lease liability	6	95	92	90	87
Deferred revenue		660	-	-	-
Accrued expenses		5	2	5	2
Total current liabilities		5,054	4,802	4,637	5,022
Total liabilities		5,345	21,300	21,982	23,190
Total equity and liabilities		5,422	20,451	21,209	22,533

STATEMENT OF CHANGES IN EQUITY

GBP thousand	Share Capital	Retained Earnings	Total
Equity at 1.1.2019	150	(1,124)	(974)
IFRS 16 transition adjustment	-	376	376
Equity at 1.1.2019 (restated)	-	(748)	(598)
Loss of the period	-	(59)	(59)
Total comprehensive income	-	(59)	(59)
Equity at 30.06.2019	150	(807)	(657)
Equity at 1.1.2019	150	(1,124)	(974)
IFRS 16 transition adjustment	-	376	376
Restated balance at 1 January 2019	150	(748)	(598)
Loss for the year	-	(174)	(174)
Total comprehensive income	-	(174)	(174)
Equity at 31.12.2019	150	(922)	(772)
Equity at 1.1.2020	150	(922)	(772)
Loss for the year	-	(77)	(77)
Total comprehensive income	-	(77)	(77)
Equity at 30.06.2020	150	(999)	(849)
Equity at 1.7.2020	150	(999)	(849)
Profit for the period	-	926	926
Total comprehensive income	-	(73)	77
Equity at 31.12.2020	150	(73)	77

STATEMENT OF CASH FLOW

	1 Jan to 31 Dec 2020	1 Jan to 31 Dec 2019
Cash flows from operating activities		
Operating (loss)/profit	770	(183)
Finance cost	1,073	1,165
Depreciation	230	229
Non-cash item – other income	(114)	(115)
Non-cash item – lease termination losses	394	(115)
(Increase)/decrease in receivables	(583)	-
(Decrease)/increase in payables	2,022	4
Interest paid in cash	(1,048)	(1,165)
Tax paid in cash	-	-
Net cash utilised in operating activities	<u>2,744</u>	<u>(64)</u>
Cash flows from financing activities		
Lease receivables	1,567	1,478
Repayment of lease liabilities	(1,532)	(1,415)
Net cash utilised in financing activities	<u>35</u>	<u>63</u>
Net increase in cash and cash equivalents	2,779	(1)
Cash and cash equivalents at beginning of period	8	9
Cash and cash equivalents at end of period	<u>2,787</u>	<u>8</u>

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Sunborn International (UK) Limited ('the company') is a private company limited by share capital incorporated in England under the Companies Act. Its ultimate parent is Sunborn Oy, an undertaking incorporated in Finland. The registered address of Sunborn International (UK) Limited is 24 Old Queen Street, London, United Kingdom, SW1H 9HP

Sunborn International (UK) Limited ("Sunborn UK") is acting as a charterer for a luxury yacht hotel "Sunborn London" docked at 'at Royal Victoria Dock in London, the UK ("Yacht hotel"), which it is own by its sister company Sunborn London Oyj. The hotel operations of the Yacht hotel Sunborn London was run by management company ISS Facility Services Ltd ("ISS") in accordance with a lease contract between ISS and Sunborn UK International until the end of year 2020. The Yacht hotel is equipped with 138 cabins, including four suites or high-class cabins, with a total hotel capacity of 524 persons. There are also conference facilities for up to 200 delegates, restaurant, bar and lounges inside the Yacht hotel. Until the end of year 2020 Sunborn UK's sole operations consisted of acting as the lessee and lessor of the Yacht hotel. Since 2021 operations consist of acting as the charterer and operator of the Yacht hotel. On 31st December 2020 ISS agreement was terminated and Sunborn UK took over the operations.

On 30th April, 2020 Sunborn Oy, the ultimate parent company of Sunborn UK and Sunborn London Oyj, transferred its ownerships in both companies to a newly established company Sunborn International Holding Oy, which thus became a new parent company of Sunborn UK owning 100 % of the shares of the Company, as well as Sunborn London Oyj. Sunborn International Holding Oy is a family-owned company based in Finland. Sunborn Group 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 half year financial report for six months ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34 interim Financial Reporting, as adopted by the European Union. The half year financial report is based on the same accounting policies and calculation methods as used in the financial statements for the year 2019, except for as presented below. The half year financial report does not include all the information and notes that are presented in the annual financial statements. As such the half year financial report should be read in conjunction with the financial statements for the year ended 31 December 2019.

The preparation of the half year 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 2019.

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

The half year financial report is unaudited.

3. Revenue

During the reporting period the company generates interest revenue from the lease contract with the hotel operator ISS Facility Services Ltd. Before adoption of IFRS 16, the company's revenue consisted of rental income. The company is entitled to certain fees, partially fixed and partially variable (contingent). The initial agreement was signed between Sunborn International Oy and ISS in 2014, however it was novated in 2015 to the company. In 2016, the contract was amended to change the lease term from 10 to 15 years. On 24 .12.2020 ISS Facility Services Ltd. and Sunborn International (UK) Ltd agreed a Settlement Agreement for the termination of the ISS Management Services Agreement effective on 31st December 2020 and Sunborn International (UK) Ltd to take over the operations.

Revenue during the period relates mostly to the one-time settlement exit rental fee (5,73 MGBP) due to the termination of contract with ISS.

Future minimum lease income from the ISS lease contract is as follows (note the Lease terminated 31st December 2020):

GBP thousand	31 Dec 2020	30 Jun 2020	31 Dec 2019
Within 1 year	-	2,640	2,640
Between 1 and 2 years	-	2,640	2,640
Between 2 and 3 years	-	2,640	2,640
Between 3 and 4 years	-	2,640	2,640
Between 4 and 5 years	-	2,640	2,640
Later than 5 years	-	10,120	11,440
	-	23,320	24,640
Less: unearned interest income	-	(5,171)	(5,719)
Lease receivable	-	18,149	18,922

4. Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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, other than land and properties under construction over their estimated useful lives, as follows:

- Improvements to property 10 years straight line

GBP thousand	Improvements to property	Right to use asset	Total
Cost at January 1, 2019	1,314	-	1,314
Cost at June 30, 2019	1,314	561	1,314
Accumulated depreciation at January 1, 2019	525	-	525
Depreciation	66	49	115
Accumulated depreciation and impairment at Jun 30, 2019	591	49	640
Net book value at January 1, 2019	788	-	788
Net book value at June 30, 2019	723	512	1,235
Cost at January 1, 2019	1,314	-	1,314
Cost at December 31, 2019	1,314	561	1,875
Accumulated depreciation at January 1, 2019	525	-	525
Depreciation	131	98	229
Accumulated depreciation and impairment at Dec 31, 2019	656	98	754
Net book value at January 1, 2019	788	-	788
Net book value at December 31, 2019	658	463	1,121
Cost at January 1, 2020	1,314	561	1,875
Addition	-	-	-
Cost at June 30, 2020	1,314	561	1,875
Accumulated depreciation at January 1, 2020	656	98	754
Depreciation	66	49	115
Accumulated depreciation and impairment at Jun 30, 2020	722	147	869
Net book value at January 1, 2020	658	463	1,121
Net book value at June 30, 2020	592	414	1,005
Cost at July 1, 2020	1,314	561	1,875
Addition	-	-	-
Cost at December 31, 2020	1,314	561	1,875
Accumulated depreciation at July 1, 2020	722	147	869
Depreciation	67	48	115
Accumulated depreciation and impairment at Jun 30, 2020	788	195	984
Net book value at July 1, 2020	592	414	1,005
Net book value at December 31, 2020	525	366	891

5. Lease liabilities

GBP thousand	31 Dec 2020	30 Jun 2020	31 Dec 2019
Within 1 year	-	2,695	2,695
Between 1 and 2 years	-	2,695	2,695
Between 2 and 3 years	-	2,695	2,695
Between 3 and 4 years	-	2,695	2,695
Between 4 and 5 years	-	2,609	2,666
Later than 5 years	-	9,890	11,180
Total	-	23,277	24,624
Less unearned interest cost	-	-5,109	-5,657
Lease liabilities	-	18,168	18,967

In 2019 the period for which the lease payments were presented are based on the term of the contract between ISS and Sunborn UK.

From 1st January 2021 onwards the Bareboat charter agreement between the hotel operator, Sunborn International (UK) Ltd and the yacht hotel owner, Sunborn London Oyj was on 29th December 2020 renewed with a fixed sum of GBP 195,000 per month in lease to account for the changes of the ISS Settlement Agreement. Bareboat Charter agreement is in force until terminated by either party subject to six months' prior notice.

6. Transactions with related parties

The Company's related parties are its parent company Sunborn International Holding Oy, ultimate 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:

GBP thousand	1 Jan to 31 Dec Interest cost related to lease liability	1 Jan - 30 Jun 2020 Interest cost related to lease liability	1 Jan -31 Dec 2019 Interest cost related to lease liability	1 Jan – 30 June 2019 Interest cost related to lease liability
Sunborn London Oyj	1,048	535	1,135	578
Total	1,048	535	1,135	578

GBP thousand	31 Dec 2020		30 Jun 2020		31 Dec 2019		30 Jun 2019	
	Assets	Liabilities	Receivables	Liabilities	Receivables	Liabilities	Receivables	Liabilities
Sunborn London Oyj	-	2,869	-	20,658	-	21,289	-	22,447
Sunborn International Holding Oy	-	36						
Sunborn International Oy	1,126	-	1,126	-	1,127	-	1,128	-
Total			1,126	20,658	1,127	21,289	1,128	22,447

The lease expenses of the Company arise from a lease contract related to the Yacht hotel with its sister Company, Sunborn London Oyj. The Lease contract ("Bareboat charter agreement") is in force until terminated by either party subject to six months' prior notice.