SUNBORN LONDON

HALF YEAR FINANCIAL REPORT
1 July – 31 December 2019
28/2/2019

sunborn

HALF YEAR REPORT 1 July – 31 December 2019

Key Figures

EUR thousand	1 Jul – 31 Dec 2019	1 Jul – 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Rental income	1 472	1 450	2 945	2 913
Operating profit	649	633	1 336	1 324
Investment property (Yacht hotel)			37 907	39 412
Total Equity			29 128	30 254
Borrowings			29 814	30 297

CEO Hans Niemi

“The performance of the Yacht hotel and the underlying lease income from the operating partner ISS is as per our expectation. The Sunborn London Yacht hotel is well positioned in the market enjoying excellent ratings and has continued its top position among a competitive set of other selected London 4 star properties located in the E14 and E16 areas. The London hotel market is performing well and the weaker GBP is making travel to the United Kingdom more lucrative for both business and leisure clients from outside of UK and within UK. We expect the current favorable trading condition to exist for the foreseeable future.“

Financial summary 1 July – 31 December 2019

Rental Income for the reporting period was 1.47 M€ (1.46 M€). Rental income in EUR was slightly affected by FX fluctuations.

Operating costs are in line with previous year.

Fair value of the yacht hotel as at 31 December 2019 approximates the book value of the yacht hotel. The volatility in the fair value is mainly due to fluctuation of the GBP/EUR exchange rate.

Business environment

Volatility in GBP versus EUR is expected to continue due to ongoing Brexit process. UK transitional arrangements for leaving the EU is ending 31.12.2020 and the negotiations for the continuing relationship will cause market and FX movements towards the end of the year. The issuer has kept and continues to keep a prudent hedging practice in place to protect against major adverse movement in GBP.

Issuer continued to be a SPV with no other purpose than owning the Sunborn London Yacht hotel. The vessel is leased out to ISS Facility Services Ltd through an internal bareboat agreement between the Issuer and Sunborn international (UK) Ltd.

Sunborn International (UK) Ltd, a sister company to the Issuer, has entered a 13-years triple net management service contract for operations of the Sunborn London Yacht hotel with ISS Facility

Services Ltd, a 100 % owned subsidiary of ISS A/S listed in Denmark. ISS pays Sunborn a fixed sum of GBP 220,000 per month in lease.

Customer satisfaction continues to be excellent reflected in the current score of 8.7/10 “Fabulous” on Booking.com, 8.6/10 “Fabulous” on Hotels.com, 4.4/5 “Excellent” on Expedia and #335 out of 1,137 hotels in London on TripAdvisor.

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, refinancing risk and business interruption due to incidents relating to environmental and or public health risks. The current COVID-19 outbreak globally could affect London‘s hotel market.

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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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

EUR thousand	Note	1 Jul – 31 Dec 2019	1 Jul – 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Rental income from group companies	3, 7	1 472	1 450	2 945	2 913
Other operating income		64	64	128	128
Depreciation	4	-752	-752	-1 505	-1 505
Other operating expenses		-135	-128	-232	-212
Operating profit		**649**	**633**	**1 336**	**1 324**
Finance income	7	883	779	1 662	1 559
Finance costs		-916	-1 063	-1 905	-2 029
Finance income and costs, net		-33	-284	-243	-470
Profit before taxes		**615**	**350**	**1 093**	**854**
Income tax expense		161	166	-	-
Change in deferred tax		-284	-166	-219	-101
Profit for the period		**492**	**350**	**874**	**753**
Total comprehensive income for the period		**492**	**350**	**874**	**753**

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

CONSOLIDATED BALANCE SHEET (IFRS)

EUR thousand	Note	31 Dec 2019	31 Dec 2018
Assets			
Non-current assets			
Investment property	4	37 907	39 412
Receivables from group companies	7	24 138	24 745
Cash collateral	6	880	880
Total non-current assets		**62 925**	**65 037**
Current assets			
Trade receivables from group companies	7	3 288	3 123
Trade and other receivables		10	14
Cash and cash equivalents		348	419
Total current assets		**3 646**	**3 556**
Total assets		**66 571**	**68 593**
Equity and liabilities			
Share capital		80	80
Reserve for invested unrestricted equity		600	600
Retained earnings		28 448	29 574
Total equity	5	**29 128**	**30 254**
Liabilities			
Non-current liabilities			
Borrowings	6	29 110	29 625
Deferred income	4	514	642
Deferred income tax liabilities		7 090	7 371
Total non-current liabilities		**36 713**	**37 638**
Current liabilities			
Trade and other payables		2	0
Payables to group companies	7	-	5
Borrowings	6	704	672
Accrued expenses		23	24
Total current liabilities		**729**	**701**
Total liabilities		**37 442**	**38 339**
Total equity and liabilities		**66 571**	**68 593**

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 1.1.2018	80	600	30 751	**31 430**
Profit for the period			404	404
Total comprehensive income	0	0	404	404
Equity at 30.6.2018	80	600	31 154	**31 834**
Equity at 1.7.2018	80	600	31 154	**31 834**
Profit for the period			350	350
Total comprehensive income	0	0	350	350
Transactions with owner:				
Group contribution			-1 930	-1 930
Total contributions by and distributions to owners of the parent, recognised directly in equity	0	0	-1 930	-1 930
Equity at 31.12.2018	80	600	29 574	**30 254**
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 30.6.2018	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**

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 2019**	**1 Jan - 31 Dec 2018**
Cash flows from operating activities			
Profit before tax		1 093	854
Adjustments for			
Amortisation of deferred income	4	-128	-128
Depreciation	4	1 505	1 505
Finance income and costs, net		243	470
Change of working capital			
Change in trade and other receivables		-161	298
Change in trade and other payables		-4	-174
Net cash flows from operating activities		**2 547**	**2 825**
Cash used in investing activities			
Net cash flows used in investing activities		**0**	**0**
Cash flows from financing activities			
Repayment of borrowings		-672	-608
Contibution from/to Sunborn International Oy		-333	-180
Transaction/loan agent costs paid		-6	-5
Interest and finance costs paid		-1 710	-1 745
Net cash flows from financing activities		**-2 722**	**-2 538**
Cash and cash equivalents at the beginning of period		419	229
Effects of exchange rate changes on cash and cash equivalents		103	-97
Change in cash and cash equivalents		**-71**	**190**
Cash and cash equivalents at the end of period		**348**	**419**

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 '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 are run by management company ISS Facility Services Ltd ("ISS") in accordance with a lease contract between ISS and Sunborn UK. 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 2019 and 2018. Sunborn London Oyj's parent company Sunborn Oy provides management and administrative services to the Group. Sunborn UK's sole operations consist of acting as the lessee and lessor of the Yacht hotel.

Sunborn Oy is the sole owner and parent company of Sunborn London Oyj and Sunborn UK. Sunborn Oy is a family owned company 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.

As at 7 December 2018 Sunborn London Oyj acquired dormant subsidiary for administrative purposes thus became the parent company of the group ("Group"). The consolidated financial statements have been prepared in accordance with the basis of preparation and accounting policies set out below.

2. Summary of significant accounting policies

Basis of preparation

This half year financial report for six months ended 31 December 2019 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 2018, as well as on the new and updated IFRS standards described in the financial statements for the year 2018. 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 2018.

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 2018.

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.

New IFRS standards adopted by the Group

IFRS 16, *Leases (effective date 1 January 2019)* affected primarily the accounting by lessees and resulted in the recognition of almost all leases on balance sheet by the lessees. The accounting by lessors did not significantly change. As the Group is currently acting as lessor in its one lease agreement, the standard resulted no a material impact on the Group's financial statements.

3. Rental income from related parties and other income

The Group's rental income consist of rental income from Sunborn UK.

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

EUR thousand	**31 Dec 2019**	**31 Dec 2018**
Within 1 year	3 032	2 884
Between 1 and 2 years	3 032	2 884
Between 2 and 3 years	3 032	2 884
Between 3 and 4 years	3 032	2 884
Between 4 and 5 years	3 032	2 884
Later than 5 years	13 141	15 382
Total	**28 303**	**29 803**

Other income relates to the payments received from ISS to renovate and repair the Yacht hotel before the commencement of the lease in 2014. The payments received are recognised as other income over the time of the depreciation of the improvements.

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. The Group has used the fair value of the Yacht hotel as deemed cost for the investment property as at 1 January 2015. Subsequently the investment property is carried at cost less any accumulated depreciation and any accumulated losses. Fair value of the yacht hotel as at 30 June 2019 approximates the book value of the yacht hotel 41 million euro (31.12.2018: 41 million EUR). 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 mainly due to fluctuation of the GBP/EUR exchange rate.

The Yacht hotel is registered in Finland but located in London, United Kingdom, where it is leased under a lease agreement to Sunborn UK. Sunborn UK has leased the Yacht hotel to ISS, which runs the hotel operations of the Yacht hotel. ISS 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 Group has thus no risk on operating the Yacht hotel, being only responsible for certain insurances and maintaining the hull. The highest and best use of the investment property does not differ from its current use.

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, 2018	45 432
Cost at June 30, 2018	**45 432**
Accumulated depreciation at January 1, 2018	4 515
Depreciation	752
Accumulated depreciation and impairment at June 30, 2018	**5 267**
Net book value at January 1, 2018	40 917
Net book value at June 30, 2018	40 165

EUR thousand	**Yacht hotel**
Cost at July 1, 2018	45 432
Cost at December 31, 2018	**45 432**
Accumulated depreciation at June 30, 2018	5 267
Depreciation	752
Accumulated depreciation and impairment at December 31, 2018	**6 019**
Net book value at July 1, 2018	40 165
Net book value at December 31, 2018	39 412

EUR thousand	**Yacht hotel**
Cost at January 1, 2019	45 432
Cost at June 30, 2019	**45 432**
Accumulated depreciation at January 1, 2019	6 019
Depreciation	752
Accumulated depreciation and impairment at June 30, 2019	**6 772**
Net book value at January 1, 2019	39 412
Net book value at June 30, 2019	38 660

EUR thousand	**Yacht hotel**
Cost at July 1, 2019	45 432
Cost at December 31, 2019	**45 432**
Accumulated depreciation at July 1, 2019	6 772
Depreciation	752
Accumulated depreciation and impairment at December 31, 2019	**7 525**
Net book value at July 1, 2019	38 660
Net book value at December 31, 2019	37 907

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 2019**	**1 Jul – 31 Dec 2018**	**1 Jan - 31 Dec 2019**	**1 Jan - 31 Dec 2018**
Rental income	1 472	1 450	2 945	2 913
Direct operating expenses from property that generated rental income	48	52	101	104

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 2019**	**31 Dec 2018**
Non-current:		
Senior secured bond	29 110	29 625
Current:		
Senior secured bond	704	672
Total	**29 814**	**30 297**

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 bonds are denominated in euros and mature by 27 September 2021. The bonds are repaid by the Company in 5 small instalments and the remaining amount will be fully redeemed on maturity date at nominal amount. The contractual interest is 5.5 % plus 3-month Euribor. The effective interest rate is 6.15 %.

Collaterals and guarantees given

The bonds are secured by a 1st lien mortgage in the Yacht hotel and the cash collateral 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. Sunborn UK's sole operations consist of acting as the lessor and lessee of the Yacht hotel. Its revenue consists of rental income. Also Sunborn UK's cash flows and receivables from ISS, as well as their bank accounts have been pledged as security of the bonds.

Moreover, Sunborn Oy has pledged its shares in the Company and Sunborn UK to secure the repayment of the bonds.

7. Related parties

Transactions with related parties

Related parties are ultimate parent company Sunborn 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:

	1 Jul – 31 Dec 2019			1 Jul – 31 Dec 2018		
EUR thousand	Rental income from the operating lease	Management/ Admin fee	Interest income	Rental income from the operating lease	Management fee	Interest income
Parent - Sunborn Oy	-	-24	780	-	-24	780
Sunborn International Oy	-	-24	-	-	-	-
Sunborn UK	1 472	-	-	1 450	-	-
Total	**1 472**	**-48**	**780**	**1 450**	**-24**	**780**

	31 Dec 2019		31 Dec 2018	
EUR thousand	Receivables	Liabilities	Receivables	Liabilities
Parent - Sunborn Oy	23 624	-	24 565	5
Sunborn International Oy	513	-	180	-
Sunborn UK	3 288	-	3 123	-
Total	**27 426**	**-**	**27 868**	**5**

The rental income arises from a lease contract related to the Yacht hotel with Sunborn UK. The Lease contract ("Bareboat agreement") is in force until terminated by either party subject to six months' prior notice. Sunborn UK has leased the Yacht hotel to ISS under a long term non-cancellable lease contract with a maturity date on April 30, 2029. The lease term of the contract was extended from 10 to 15 years in September 2016. The terms of the senior secured bonds issued by the Company require that the Bareboat agreement is continued for a minimum period of the lease between Sunborn UK and ISS.

The Group has paid for the management fee and received interest income from Sunborn Oy, the parent company. The interest income arises from the loan granted to the parent as described below.

The loan granted to the parent company Sunborn Oy in September 2016 matures in September 2021. 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 change 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 3.3 million on 31.12.2019 (EUR 3.1 million on 31.12.2018).

Sunborn UK has guaranteed the senior secured bonds of the Company. Detailed information on the guarantee is described in note 6 Borrowings.

Appendix 1 Sunborn International (UK) Ltd

Sunborn International (UK) Ltd
HALF-YEAR UNAUDITED REPORT 1 July - 31 December 2019

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STATEMENT OF COMPREHENSIVE INCOME

GBP thousand	Note	1 Jan – 31 Dec 2019	1 Jan - 31 Dec 2018
Revenue	3	-	2,640
Interest revenue		1,162	
Other income		115	
Cost of sales	4	-	(2,580)
Depreciation	5	(229)	(131)
Administrative expenses		(65)	(16)
Operating profit/(loss)		**982**	**(87)**
Finance costs		(1,165)	-
Profit before taxes		**(183)**	**(87)**
Change in deferred tax		9	-
Profit for the period		**(174)**	**(87)**
Total comprehensive income for the period		**(174)**	**(87)**

BALANCE SHEET

GBP thousand	Note	**31 Dec 2019**	**31 Dec 2018**
Assets			
Non-current assets			
Property, plant and equipment	5	1,120	788
Lease receivable		17,354	-
Total non-current assets		**18,474**	**788**
Current assets			
Amounts due from group companies	8	1,127	1,127
Trade and other receivables		33	33
Lease receivable		1,568	-
Cash and cash equivalents		8	9
Total current assets		**2,736**	**1,169**
Total assets		**21,209**	**1,957**
Equity and liabilities			
Share capital	6	150	150
Retained earnings		(922)	(1,124)
Total equity		(772)	(974)
Non-current liabilities			
Lease liability to group companies	8	16,959	-
Lease liability		386	-
Total non- current liabilities		**17,345**	**-**
Current liabilities			
Trade and other payables		212	133
Payables to group companies	8	2,798	2,793
Lease liability to group companies	8	1,532	-
Lease liability		90	-
Accrued expenses		5	5
Total current liabilities		**4,637**	**2,931**
Total liabilities		**21,982**	**2,931**
Total equity and liabilities		**21,209**	**1,957**

STATEMENT OF CHANGES IN EQUITY

GBP thousand	Share Capital	Retained Earnings	Total
Equity at 1.1.2018	**150**	**(1,037)**	**(887)**
Loss of the year	-	(87)	(87)
Total comprehensive income	-	(87)	(87)
Equity at 31.12.2018	**150**	**(1,124)**	**(974)**
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	-	(174)	(174)
Total comprehensive income	-	(174)	(174)
Equity at 31.12.2019	**150**	**(922)**	**(772)**

STATEMENT OF CASH FLOW

	31 Dec 2019	31 Dec 2018
Cash flows from operating activities		
Loss before tax	(183)	(87)
Adjustments		
Finance cost	1,165	-
Depreciation	229	131
Non cash item - other income	(115)	-
Increase in receivables	(0)	(150)
Decrease in payables	4	224
Interest paid in cash	(1,165)	-
Net cash utilised in operating activities	(65)	(30)
Cash flows from investing activities		
Lease receivables	1,478	-
Net cash generated from investing activities	1,478	-
Cash flows from financing activities		
Repayment of lease liabilities	(1,415)	-
Net cash utilised in financing activities	(1,415)	-
Net decrease in cash and cash equivalents	(1)	(30)
Cash and cash equivalents at beginning of period	9	39
Cash and cash equivalents at end of period	8	9

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 parent and ultimate holding entity is Sunborn OY, an undertaking incorporated in Finland. The registered address of Sunborn International (UK) Limited is St James House, 13 Kensington Square, London, W8 5HD.

Sunborn International (UK) Limited ("Sunborn UK") is acting as a lessee 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 are run by management company ISS Facility Services Ltd ("ISS") in accordance with a lease contract between ISS and Sunborn UK International. 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. Sunborn UK's sole operations consist of acting as the lessee and lessor of the Yacht hotel.

Sunborn Oy is the sole owner and parent company of Sunborn London Oyj and Sunborn UK. Sunborn Oy is a Niemi family owned company 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. Sunborn Oy had altogether 15 subsidiaries as at December 31, 2019 ("Sunborn Group"). Sunborn Oy prepares consolidated financial statements under Finnish Accounting Standards.

2. Summary of significant accounting policies

Basis of preparation

This half year financial report for six months ended 31 December 2019 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 2018, 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 special purpose financial statements for the year ended 31 December 2018.

IFRS 16 Leases

On January 1, 2019, the company adopted IFRS 16, "Leases". The company applied the modified retrospective approach and did not restate comparative figures for prior periods. IFRS 16 defines the recognition, measurement, presentation and disclosure requirements on leases.

The standard introduces a single lessee accounting model requiring lessees to recognize right of use assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. The lease liabilities are measured initially at the present value of the future lease payments, discounted by the estimated incremental borrowing date at the date of transition. The company has used an average discount rate of 5.86%.

Lessors continue to classify the leases as finance or operating leases. Under IFRS 16, also subleases classified to finance and other leases by reference to the sublet right of use asset.

The biggest impact for the company comes from the reassessment of lease contracts related to the Yacht hotel. The company has leased the yacht hotel from a related party, Sunborn London Oyj, and has further sublet the right of use asset to the hotel operator. Due to implementing of IFRS 16 the sublease is classified as finance lease, as it substantially transfers the risks and rewards incidental to the right of use asset. The right of use asset related to the leased Yacht hotel is derecognised, and a net investment in the lease is recognised as a receivable from the hotel operator based on discounted future lease receivables. The lease contract between the company and the hotel operator ends in 2029. The remaining right of use asset on the balance sheet relates to mooring rights.

In transition, the company has recognised the following adjustments from adopting IFRS 16 as at 1 January 2019:

Right of use assets (included in property, plant and equipment on the balance sheet):	560
Lease receivable:	20.400
Lease liability:	20.497
Gain on sublease recognised in equity:	376

A reconciliation between operating lease commitments as at 31 Dec 2018 and opening balance of lease liabilities is provided as below:

Operating lease commitments disclosed as at 31 December 2018:	27.280
Discounted using the incremental borrowing rate, lease liability 1 January 2019:	19.936
Identification of new lease contracts 1 January 2019	560

Due to adoption of IFRS 16, subsequent to the adoption, interest revenue of GBP 592 thousand is recognised in 2019 instead of lease revenue previously, and instead of lease costs, interest expense of GBP 594 thousand is recognised in the finance costs in 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 2018.

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

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 by an amendment in 2015 to the company. In 2016, the contract was amended to change the lease term from 10 to 15 years.

GBP thousand	**31 Dec 2019**	**31 Dec 2018**
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	11,440	14,080
Total	**24,640**	**27,280**
Less: Unearned interest income	(5,719)	-
Lease receivable	**18,922**	**-**

4. Cost of sales

The cost of sales consists of operating lease payments related to the Yacht hotel and recognised in the comprehensive income statement are as follows:

GBP thousand	**1 Jan - 31 Dec 2019**	**1 Jan - 31 Dec 2018**
Operating lease payments	-	2,580

The lease agreement with related party Sunborn London Oyj can be terminated with 6 months' notice. The lease agreement for motoring has been signed for 5 years, with no renewal option. The lease agreement for docking is for 10 years and includes a renewal option for another 5 years.

After adoption of IFRS 16, finance costs and amortisation of the loan is presented instead.

5. 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 of use asset**	**Total**
Cost at January 1, 2018	1,314	-	1,314
Cost at December 31, 2018	**1,314**	**-**	**1,314**
Accumulated depreciation at January 1, 2018	394	-	394
Depreciation	131	-	131
Accumulated depreciation and impairment at December 31, 2018	**525**	**-**	525
Net book value at January 1, 2018	920	-	920
Net book value at December 31, 2018	788	-	788
Cost at December 31, 2018	1,314	-	1,314
Impact of adoption of IFRS 16	-	561	561
Cost at January 1, 2019	1,314	561	1,875
Cost at December 31, 2019	**1,314**	**561**	**1,875**

Accumulated depreciation at January 1, 2019	525	-	525
Depreciation	131	97	228
Accumulated depreciation and impairment at December 31, 2019	**656**	**97**	**753**
Net book value at January 1, 2019	788	-	788
Net book value at December 31, 2019	658	463	1,121

6. Equity

Share Capital	**As at 30 June 2019**		**As at 31 Dec 2018**		**As at 30 June 2018**	
	No.	**£**	**No.**	**£**	**No.**	**£**
Authorised, allotted, called up and fully paid shares of £1 each	150,000	150,000	150,000	150,000	150,000	150,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

The company has one class of share capital which carry no right to fixed income.

7. Lease liabilities

GBP thousand	31 Dec 2019	31 Dec 2018
Within 1 year	2,695	2,580
Between 1 and 2 years	2,695	2,580
Between 2 and 3 years	2,695	2,580
Between 3 and 4 years	2,695	2,580
Between 4 and 5 years	2,666	2,580
Later than 5 years	11,180	13,760
Total	**24,624**	**26,660**
Less unearned interest cost	(5,657)	-
Lease liabilities	**18,967**	**-**

8. 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:

GBP thousand	**1 Jan - 31 Dec 2019 Interest cost related to lease liability**	**1 Jan -31 Dec 2018 Net operating lease expense (Bareboat agreement)**
Sunborn London Oyj	1,135	2,580
Total	**1,135**	**2,580**

	31 Dec 2019		**31 Dec 2018**	
EUR thousand	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
Sunborn London Oyj	-	21,289	-	2,793
Sunborn International Oy	1,127	-	1,127	-
Sunborn Gibraltar	-	-	-	-
Total	**1,127**	**21,289**	**1,127**	**2,793**

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 agreement”) is in force until terminated by either party subject to six months' prior notice. Sunborn UK has leased the Yacht hotel to ISS under a long term non-cancellable lease contract with a maturity date on April 30, 2029. The lease term of the contract was extended from 10 to 15 years in September 2016.

The increase in liabilities to Sunborn London is mainly due to the adoption of IFRS 16.