

SUNBORN GIBRALTAR



QUARTERLY FINANCIAL REPORT
1 October 2022 – 31 December 2022
SUNBORN (GIBRALTAR) LIMITED

sunborn

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PERIOD ENDED 31 DECEMBER 2022 REPORT

Key Figures Issuer Sunborn (Gibraltar) Limited

GBP thousand	1-Oct-31 Dec 2022	1 Oct-31 Dec 2021	1 Jan-31 Dec 2022	1 Jan- 31 Dec 2021
Rental income	795	795	3,180	3,180
EBITDA	756	721	3,034	2,929
Investment property (yacht hotel)			78,707	80,142
Total Equity			1,742	6,255
Bond			51,170	48,694

Key Figures Operator Sunborn (Gibraltar) Resort Limited

GBP thousand	1-Oct-31 Dec 2022	1 Oct-31 Dec 2021	1 Jan-31 Dec 2022	1 Jan- 31 Dec 2021
Turnover	2,599	2,132	10,672	8,438
EBITDAR	674	363	3,338	3,104

Chief Executive Director, Hans Niemi

Issuer lease income for the period was 0.795M (0.795M) and costs were in line with expectations.

Operator total Revenue for Q4 was £M 2,598 (+22% YoY 2021) and EBITDA came in at £M 0,678 (+83% YoY 2021). Operational results compared to pre-covid increased ADR by +4% and RevPar +17%. Management pursuit of price optimisation and cost controls continue in response to inflationary pressures on wages, cost of goods and increased cost of funding. Gibraltar’s hotel occupancy correlates strongly with incoming flight passenger volumes and seasonal UK market demand, demand outlook for Q1 and onwards looks stable.

General

Sunborn (Gibraltar) Limited owns a luxury yacht hotel “Sunborn Gibraltar” docked at Ocean Village in Gibraltar, which it has leased to its sister company Sunborn (Gibraltar) Resort Ltd. The hotel operations of the yacht hotel Sunborn Gibraltar are run by management company Sunborn (Gibraltar) Resort Ltd in accordance with the lease contract. The yacht hotel is equipped with 189 cabins, including 22 suites, conference, and ball room facilities for up to 400 delegates, two restaurants, three bars, entertainment, and lounges inside the yacht hotel. Sunborn Gibraltar Ltd’s sole operation consists of acting as a lessor of the yacht hotel.

Issuer Sunborn Gibraltar Ltd Financial summary 1 October-31 December

The Issuer Sunborn Gibraltar Ltd lease income in Q4 2022 from the Operator was as per budget £795 K (£795K in Q4 2021) and costs were also in line with expectations.

The fair value of the Yacht hotel is at €111.7 Million based on the latest valuation report dated June 2022.

Operator Financial summary 1 October – 31 December

Overall Q4 compares similarly to those in pre-pandemic years although October stood out notably with the highest Occupancy level and Total Revenue for a single October month in the history of the hotel. Total Revenue came in at £M 2,598 (+5% over Budget and +22% YoY 2021). The Rooms strongly contributed to this with an increase in Occupancy +25% YoY. EBITDA came in at £M 0,678 (+83% YoY 2021 & +10% over Budget). Operational results comparing to pre-covid is excellent with an increase of ADR at 4% and an increase in RevPar +17% for the period over 2021. The outlook for Q1 looks to be shaping up similarly to 2019 and management is prepared for leisure business to continue to return to pre-pandemic levels while management focus is generating higher levels of operating revenue and EBITDA in light of the floating rate increases in 2022 and expected continuation in foreseeable future.

KPI's for Q4 2022 vs. Q4 2021

	Overall Q4 22	October	November	December
Total Revenue ME	£2.60	£1.01	£0.71	£0.88
+/- YOY %	22%	2%	2%	98%
EBITDAR ME	£0.68	£0.34	£0.09	£0.25
+/- YOY %	83%	2%	-15%	475%
<i>Revenue split</i>				
Rooms Revenue	63%	74%	67%	45%
Food and Bevarg	29%	20%	25%	45%
Other	8%	6%	8%	10%
YoY Change %	Overall Q4 22	October	November	December
ADR	4%	2%	5%	5%
Occupancy	13%	7%	0%	57%
RevPar	17%	9%	4%	65%

Commentary:

Total revenue positively impacted YoY due to hotel room occupancy up by nearly +2,000 room nights. October stands out as it was a record-breaking month in Total Revenue.

Revenue split for F&B and other sources continue to improve with strong contributions of meetings and events as well as the return of holiday parties for both companies and individuals.

Q4 ADR, Occupancy and RevPar YoY were all showing positive increases compared to 2021. Mainly due to December when travel restrictions in the UK for December 2021.

Business environment

Corporate, Leisure (FIT) and MICE segments increased by 68%, 53% and 26% respectively over 2021. Small to midsize wedding bookings continue the trend, as many postponed weddings from 2020-2021 are taking place.

The weekly flights into Gibraltar decreased to the winter schedule of approximately 18 flights per week down from 35 flights during the autumn months. The outlook for Q1 will remain at this level until Q2 flights when they increase to 40 flights per week which is slightly under previous summer schedules. *The availability cost and number of flights correlates strongly with hotel room bookings volume as most clients fly into Gibraltar.

During the period, the hotel continued to maintain high levels of Guest satisfaction ratings reflected by Trip Advisor rating of #3, Booking.com rating of 8.5/10, Hotels.com rating of 9.2/10, Expedia.com 9.2/10 during the period.

In May 2022, the hotel was inspected and received the AA rating of Five Star for the hotel and 2 Rosettes for the main restaurant.

Notable events during and after the end of the reporting period and estimate future development

Upon the writing of this report, February 2023, the hotel received the International Environmental Certificate, Green Key, issued by the Foundation for Environmental Education.

The Green Key certificate is the leading standard for excellence in the field of environmental responsibility and sustainable operation within the tourism industry. This prestigious eco-label represents a commitment by businesses that their premises adhere to the strict criteria set by the Foundation for Environmental Education. A Green Key assures guests that, by choosing to stay with a Green Key establishment, they are helping make a difference for the environment. The high environmental standards expected of these establishments are maintained through rigorous documentation and frequent audits. Green Key is eligible for hotels, hostels, small accommodations, campsites, holiday parks, conference centres, restaurants and attractions.

Amendment proposal has been approved to extend the final maturity date of the bonds by 18 months to 5 March 2024.

The war in Ukraine continues to impact prices of various items, particularly in food and beverage such as grain related items as well as various supplies which are reliant upon fuel prices that have increased. Management is adapting to the price increases.

Short-term risks and uncertainties

Sunborn Gibraltar's financial risks related to business are market risk (including interest rate risk), credit risk, liquidity risk, refinancing risk and business interruption due to incidents relating to environmental and or public health risks. Floating interest rate risk has not been hedged and may negatively and materially impact Sunborn Gibraltar's liquidity.

Continued UK inflationary pressure may cause significant increases in cost of materials and labour, consequently requiring faster than expected price development for our sales and short-term fluctuations in profit margins as the business adapts to volatile market conditions.

The war in Ukraine is not estimated to directly impact on the company's operations but indirectly may have *inter alia* macroeconomic, policy and financial cost consequences.

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 unfavourable developments at the group level.

Financial risk management carried out by the management of the Company aims to protect the Company against unfavourable 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.

The Company's bond is maturing for repayment on 05 March 2024. Management views the current high yield market conditions to be less favourable due to the higher industry risk and ongoing pandemic risk but financing to be available subject to terms and conditions.

Risks related to the border and land access to Gibraltar from Spain if the EU-UK-Gibraltar treaty is not ratified. A border disruption or temporary closure could impact pricing and availability of goods and services from Spain and ease of accessing Gibraltar for our clients and staff.

STATEMENT OF COMPREHENSIVE INCOME

GBP (in thousands)	Note			Unaudited	Audited
		1 Oct-31 Dec 2022	1 Oct-31 Dec 2021	1 Jan- 31 Dec 2022	1 Jan- 31 Dec 2021
Rental income from group companies	3	795	795	3,180	3,180
Depreciation	4	434	(623)	(1,436)	(2,490)
Other operating expenses		(39)	(74)	(146)	(251)
Operating profit		1,190	97	1,598	439
Foreign exchange (loss)/gain		(403)	1,208	(2,715)	3,400
Finance cost - amortisation of borrowing cost		(122)	(153)	(407)	(436)
Finance cost - group borrowings		(97)	(97)	(390)	(390)
Finance costs - other borrowings		(720)	(628)	(2,601)	(2,539)
Finance costs, net		(1,342)	330	(6,112)	35
Profit/(loss) before taxes		(152)	427	(4,514)	474
Income tax expense		-	-	-	-
Profit/(loss) for the period		(152)	427	(4,514)	474
Total comprehensive income/(loss) for the period		(152)	427	(4,514)	474

STATEMENT OF FINANCIAL POSITION

GBP (in thousands)	Note	Unaudited 31 December 2022	Audited 31 December 2021
ASSETS			
Non-current assets			
Investment property	4	78,707	80,142
Property, plant and equipment		-	1
Total non-current assets		78,707	80,143
Current assets			
Receivables from group companies	7	1,584	1,805
Other receivables		326	266
Cash and cash equivalents		1,013	1,098
Total current assets		2,923	3,169
Total assets		81,630	83,312
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	5	3	3
Share premium	5	15,604	15,604
Capital reserves		15,000	15,000
Accumulated Deficit		(28,865)	(24,352)
Total equity		1,742	6,255
LIABILITIES			
Non-current liabilities			
Payables to group companies	7	25,997	25,997
Borrowings	6	51,170	0
Total non-current liabilities		77,167	25,997
Current liabilities			
Borrowings	6	0	48,694
Payables to group companies	7	2,394	2,024
Other payables		327	342
Total current liabilities		2,721	51,060
Total liabilities		79,888	77,057
Total equity and liabilities		81,630	83,312

STATEMENT OF CHANGES IN EQUITY

GBP (in thousands)	Share capital	Share premium	Capital reserve	Retained earnings	Total equity
Equity at 1 Jan 2021	3	15,604	15,000	(24,826)	5,781
Income for the period	-	-	-	47	47
Equity at 30 September 2021	3	15,604	15,000	(24,779)	5,828
Income for the period				427	427
Equity at 31 Dec 2021	3	15,604	15,000	(24,352)	6,255
Equity at 1 Jan 2022	3	15,604	15,000	(24,352)	6,255
Loss for the period	-	-	-	(4,361)	(4,361)
Equity at 30 September 2022	3	15,604	15,000	(28,713)	1,894
Loss for the period	-	-	-	(152)	(152)
Equity at 31 Decemeber 2022	3	15,604	15,000	(28,865)	1,742

STATEMENT OF CASH FLOWS

GBP thousand	Unaudited 1 Jan - 31 Dec 2022	Audited 1 Jan - 31 Dec 2021
Operating activities		
Operating profit/ (loss)	1,598	439
Adjustment for:		
Depreciation	1,436	2,490
Change in working capital:		
Change in receivables from group companies	222	343
Change in other receivables	(60)	56
Change in payables to group companies	(20)	164
Change in other payables	(15)	(70)
Net cash flows from operations before interest payments	3,161	3,422
Interest paid	(2,601)	(2,539)
Net cash flows from operations	560	883
Cash used in investing activities		
Additions in investment property	-	(9)
Net cash flows used in investing activities	-	(9)
Cash flows from financing activities		
Transaction costs paid	(645)	(68)
Net cash flows from financing activities	(645)	(68)
Net (decrease)/increase in cash and cash equivalents	(85)	806
Cash and cash equivalents at 1 January	1,098	292
Cash and cash equivalents at 31 Dec	1,013	1,098

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: 35 Ocean Village Promenade, Gibraltar, GX111AA. 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 centre, spa and lounges inside the Yacht hotel. The Company had no employees during 2022 or during 2021. 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 50 years of experience in the hospitality sector.

2. Summary of significant accounting policies**Basis of preparation**

This condensed interim financial report for 12 months ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) and IAS 34 interim Financial Reporting, as adopted by the European Union.

The condensed interim year financial report does not include all the information and notes that are presented in the annual financial statements and should be read in conjunction with the audited financial statements for year ended 31 December 2021.

The accounting policies and measurement principles remain unchanged in comparison with as has been presented in Note 2 in the Annual Report 2021.

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.

Going concern*Net losses*

The Company has incurred net losses consisting mainly of depreciation and unrealized foreign exchange rate differences arising from the borrowings. The Company's sole purpose is to own the vessel "Sunborn Gibraltar Yacht" 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. Further conversions have been carried out in September 2018 (£10M) and in December 2020 (£5M) converting debt liabilities to Sunborn International Oy into 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. 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 to its sister company Sunborn Gibraltar Resort Limited. The lease term is 10 years with fixed monthly lease GBP 265,000. Bareboat charter agreement in force until terminated by the company subject to three months' prior notice. Rental income relates to investment property, see note 4 for details.

Future minimum lease payment:

GBP thousand	31 Dec 2022	31 Dec 2021
Within 1 year	795	795
Between 1 and 2 years	-	-
Between 2 and 3 years	-	-
Between 3 and 4 years	-	-
Between 4 and 5 years	-	-
Later than 5 years	-	-
Total	795	795

4. Investment property

	<u>Vessel</u> <u>incl improvements</u>	<u>Furniture</u> <u>& Fittings</u>	<u>Total</u>
GBP thousand			
Cost			
At 30 September 2021	101,993	496	102,489
Additions	-	-	-
At 31 December 2021	101,993	496	102,489
Additions	-	-	-
At 30 September 2022	101,993	496	102,489
Depreciation			
At 30 September 2021	21,270	453	21,723
Charge for the period	616	7	623
At 31 December 2021	21,887	460	22,347
Charge for the period	1,408	28	1,436
At 31 December 2022	23,295	488	23,783
Net book value			
At 31 December 2022	78,698	8	78,706
At 31 December 2021	80,106	36	80,142
At 30 September 2021	80,722	43	80,766

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.

The fair value of the Yacht hotel is at €111.7 million according to the latest valuation report June 2022.

Management have reviewed the estimation of the useful life of the vessel as well as consideration for the residual value at the end of the useful life. Based on several considerations including:

- Comparison to similar yacht hotel vessels located in London which have had lifespans of over 60 years;
- Previous comparisons to sea going vessels was not accurate. The vessel remains stationary and is expected to do so for the short to medium term.

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:	50 years (previously used 40 years)
Vessel improvements:	Shorter of remaining vessel life or useful life of improvements (3 to 25 years)
Furniture and fittings:	10 years

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

5. Equity & Capital Reserve

	As at 31 Dec 2022 and 31 Dec 2021	
	No.	£
Share Capital		
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.

6. Borrowings non-current liabilities

Borrowings are analysed as follows:

GBP thousands	31-Dec 2022	31-Dec 2021
Wholly repayable within one to five years	51,170	48,694
<hr/>		
Details of loans wholly repayable within 5 years are as follows		
Senior secured bond SE00102296632 due 5/3/2024	51,699	48,980
Less transaction cost	(529)	(286)
	<hr/> 51,170 <hr/>	<hr/> 48,694 <hr/>

On 31/8/2017, the company issued a Senior Secured Bonds with nominal value of EUR 58 million repayable on 5th September 2022. The contractual interest is 5 % plus Euribor and the effective interest is 5.67 %.

The Senior Secured Bond repayment date has been extended to 5 March 2024, and therefore reclassified as non-current liability. The management estimated that the fair value of the borrowings approximates the carrying amounts of the bonds as it was extended within a year at market terms.

The bond terms include an asset cover ratio covenant, which requires the Company to maintain the asset cover ratio of minimum 140.0 %. The covenant is calculated based on the market value of the Yacht Hotel calculated by approved valuator appointed by the Company and approved by the bond trustee, divided by financial indebtedness of the Company.

The bond terms also include a cash requirement covenant, which requires the Company to maintain the cash minimum of upcoming 3 months interest payment. The bond terms include an interest cover ratio covenant, which requires the Company to generate EBITDA minimum of 1.1 times the interest. Covenants are tested on a quarterly basis and the Company has not breached the covenants.

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 repayment; 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.

7. Related parties

The Company's related parties are its 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 Oct-31 Dec 2022	1 Oct-31 Dec 2021	1 Jan-31 Dec2022	1 Jan-31 Dec 2021
Sunborn (Gibraltar) Resort rent	795	795	3180	3,180
Sunborn International Oy interest	(97)	(97)	(390)	(390)

GBP thousand	31-Dec-22		31-Dec-21	
	Receivables	Liabilities	Receivables	Liabilities
Sunborn (Gibraltar) Resort	1,581	86	1,794	86
Sunborn (Gibraltar) Holdings	3	-	3	-
Sunborn International Oy	-	28,152	-	27,779
Sunborn Finance Oyj	-	58	-	58
Sunborn International Holding Oy	-	95	-	153
Sunborn Int. UK	-	-	-	3
Total	1,584	28,391	1,797	28,079

8. Events after the balance sheet date

The Senior Secured Bond (note 6) repayment date has been extended from 5 September 2022 to 5 March 2024.

Continued inflationary pressure may continue to effect energy expenditure and to increase cost of materials and labour.

Appendix 1

Sunborn (Gibraltar) Resort Limited

Unaudited Income Statement

GBP thousand

	Unaudited 3 months ended 31 Dec 22	Unaudited 3 months ended 31 Dec 21	Unaudited 12 months ended 31 Dec 22	Audited 12 months ended 31 Dec 21
REVENUE	2,599	2,132	10,672	8,438
Cost of sales				
Food	146	122	487	348
Beverage	54	57	214	194
Agent commission	85	66	264	313
Other	53	25	165	81
	337	270	1,130	936
GROSS PROFIT	2,261	1,862	9,541	7,502
Administrative and other expenses	(1,588)	(1,499)	(6,203)	(4,403)
EBITDAR	674	363	3,338	3,104
Rent cost due to related entity	(795)	(795)	(3,180)	(3,180)
Depreciation	(42)	(49)	(145)	(190)
Interest expense	(19)	(19)	(75)	(72)
Result before tax	(855)	(500)	(62)	(338)
Taxation	-	-	-	-
Result for the year	(855)	(500)	(62)	(338)

Unaudited Balance Sheet

GBP thousand

	Unaudited 31 Dec 22 £	Audited 31 Dec 21
Fixed assets		
Tangible fixed assets	<u>305</u>	<u>275</u>
Current Assets		
Inventories	113	102
Trade and other receivables	1364	1298
Cash at bank	<u>110</u>	<u>93</u>
	1587	1492
Current Liabilities		
Trade and other payables	3010	2609
Permitted loan facility		1500
Finance lease obligation		
	<u>3010</u>	<u>4109</u>
Current Assets less Current Liabilities	(1423)	(2616)
Non-current liabilities		
Finance lease obligation		
Other payables	1494	1707
Permitted loan facility	1500	
Total Assets less Liabilities	<u><u>(4112)</u></u>	<u><u>(4049)</u></u>
Capital and Reserves		
Called up share capital	2	2
Profit & loss account	<u>(4114)</u>	<u>(4051)</u>
	<u>(4112)</u>	<u>(4049)</u>

Unaudited Statement of Cash Flows

GBP thousand

	Unaudited 12 months ended 31-Dec-22 £	Audited 31 Dec 21 £
Reconciliation of operating loss to net cash flows from operating activities		
Operating profit	(62)	(338)
Finance lease interest	-	72
Operating profit	<u>(62)</u>	<u>(266)</u>
Depreciation	145	190
Movement in inventories	(12)	(2)
Movement in debtors	(66)	(332)
Movement in creditors	188	74
Net cash flows from operating activities	<u>193</u>	<u>(336)</u>
Cash flow from investing activities		
Purchase of tangible fixed assets	<u>(176)</u>	<u>(283)</u>
Cash flow from financing		
Other borrowings	-	400
Equity Cure		
Repayment of obligations under finance lease	<u>-</u>	<u>(13)</u>
Taxation	-	-
Increase in cash	<u>17</u>	<u>(231)</u>
Reconciliation of net cash flows to movement in net funds		
Cash at bank at 31 Dec	110	93
Cash at bank at 1 January	<u>93</u>	<u>324</u>
Increase in cash in year	<u>17</u>	<u>(231)</u>