Red Funnel Holdings Limited

Report and Consolidated Financial statements

Year ended

31 December 2018

Company Number SC124073

Red Funnel Holdings Limited

Report and financial statements
for the year ended 31 December 2018

Contents

Country of incorporation of parent company	Jersey
Legal form	Private limited company
Directors	Mr C J G Hazelwood Ms C Richards Mr M F Campbell Ms M Chang Mr E A Wilson Mr M W Weston Mr S D Dowd Mr G C Gray
Secretary and registered office	Crestbridge Limited 47 Esplanade St. Helier Jersey Channel Islands JE1 0BD United Kingdom
Company number	SC124073
Auditors	BDO LLP Arcadia House Maritime Walk Ocean Village Southampton SO14 3TL
Bankers	HSBC Bank plc 55 Above Bar Street Southampton Hampshire SO14 7DS
Solicitors	Pitmans LLP 46 The Avenue Southampton Hampshire SO17 1AX

Red Funnel Holdings Limited

Directors' report
for the year ended 31 December 2018

The directors present their report and audited consolidated financial statements of Red Funnel Holdings Limited 'the Group' for the year ended 31 December 2018.

Principal activities

The principal activity of the company is that of a holding company.

The principal activity of the Group, which trades as "Red Funnel", is the provision of ferry and associated catering and travel services between Southampton and Cowes on the Isle of Wight. The group operates 6 vessels, 3 vehicle ferries and 3 high speed catamarans for foot passengers only.

Going concern

The Group's forecasts and projections to December 2020 take into account reasonably possible changes in trading performance and show that the group will be able to operate within its current facilities. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Post balance sheet events

In March of 2019 significant work has been conducted at East Cowes on the Company's Investment property in Dover Road where these properties have been demolished. These are held in the Company's balance sheet at £810,000. The value of these will be included in the cost of developing the new site.

The Sale of Red Jet 3 was completed in March 2019. The vessel was sold for €643,000. At the date of disposal total Red Jet 3 assets had a net book value of £145,000. The profit on sale of the asset as well as the reduction of both total assets and total depreciation will be recognised post year end.

Proposed dividend

The directors recommended and paid a dividend of £3,000,000 (2017 - £5,000,000) (£300 (2017 - £500) per ordinary A share).

Employee involvement

Protecting the health and safety of employees is a prime responsibility of management and as such, training in navigation, seamanship and other training courses are sponsored by the company as circumstances require.

The Group has pension and life assurance schemes which cover the majority of employees.

The Group issues a variety of newsletters and performance indicators which are circulated to all staff and provide information to employees about current activities and progress.

Disabled employees

It is the Company's policy that disabled people should have the same consideration as others for shore-based job vacancies for which they apply as suitable candidates. Depending on their skills and abilities, the disabled have the same career prospects and opportunities for promotion as other employees.

Directors
Mr C J G Hazelwood
Ms C Richards
Mr M F Campbell
Ms M Chang
Mr E A Wilson
Mr M W Weston
Mr S D Dowd
Mr G C Gray

Political and charitable donations

During the financial period the Group made charitable donations of £35,000 (2017 – £27,000). No donations were made to political parties in the current period.

Financial risk management

The Group is exposed to credit, liquidity and cash flow, interest rate and fuel price risk. Policies and management systems for these types of risk are set out by the board of Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited ("SIOW") and are implemented by the directors. The directors review and agree policies for managing each of these risks, which are summarised below:

1. Credit risk - Potential customers are checked for their credit worthiness and ability to generate significant volumes before they are given a credit account. Many customers now pay by Direct Debit which reduces the credit risk. The Finance Department review the aged debtors report each period. A target of 42 days for debtors collection has been set by the Audit Committee.

2. Liquidity and cash flow risk - The Group has a policy of maintaining debt at an appropriate level to ensure that the group is able to adequately manage debt servicing cash flows. Forecast cashflows for the year are produced every month and reviewed by the board.

3. Interest rate risk - The Group's funding is currently provided by a mixture of retained earnings, bank borrowings and borrowings from its shareholders. The group's long term borrowings are fixed until 2021. The group's exposure to interest rate fluctuations on its borrowings are minimised by the use of an interest rate swap.

Future developments

The strategy is to grow the market of cross-Solent traffic and the Group's share of it. The Group is competing with two competitors for share of the Isle of Wight market.

As part of the company strategy of updating the Red Jet Fleet, Red Jet 7 came into service in June 2018, increasing the capacity of the Fleet- 275 pax versus 190 for Red Jet 3. This has also improved the customer experience.

The developer behind the Southampton Masterplan has fallen away and so at the moment this project is on hold.

The East Cowes interim scheme which involved the building on Trinity Wharf being knocked down and converted into a marshalling yard, increasing the CEU capacity by circa 70 (30%) was completed in July 2018.
Work has started on the East Cowes Main Scheme. Demolition of some of the buildings has started along with designing the layout of the new yard and terminal building. Work is expected to be completed in the Autumn of 2020.

The directors are confident that the outlook for UK travel remains positive, with opportunities to grow turnover in all parts of the business. Costs will continue to be well controlled, so as to improve margins and increase EBITDA.

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

The directors are required to prepare financial statements for each financial period under the companies (Jersey) Law 1991. As permitted under that law the directors have elected to prepare the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

As required by company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of the profit or for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the parent company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company and group's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and the Group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the parent company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, BDO LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board on 5/7/19

Charles Hazelwood
Director

Independent auditors' report to the members of Red Funnel Holdings Limited

Opinion

We have audited the financial statements of Red Funnel Holdings Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, consolidated and company statement of financial position, consolidated statement of cash flows, the consolidated and parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard FRS 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Parent Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom

12/7/19

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Red Funnel Holdings Limited

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Period Ended 31 December 2017 £'000
Revenue	4	53,803	26,757
Cost of sales		(32,142)	(13,912)
Gross profit		21,661	12,845
Other operating income/(Expense)	5	(19)	11
Administrative expenses		(14,094)	(9,774)
Changes in fair value of investment property	13	-	(24)
Profit from operations	6	7,548	3,058
Finance expense	9	(18,425)	(7,743)
Finance income	9	10	3
Loss before taxation		(10,867)	(4,682)
Tax expense	10	648	503
Profit attributable to owners of the parent		(10,219)	(4,179)

	Note	£'000	£'000
Loss		(10,219)	(4,179)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension schemes	29	(217)	(410)
Tax relating to items that will not be reclassified		(164)	144
		(381)	(266)
Items that will or may be reclassified to profit or loss:			
Cash flow hedges		(64)	28
Tax relating to items that may be reclassified		-	5
		(64)	33
Other comprehensive income for the year, net of tax		(445)	(233)
Total comprehensive income attributable to owners of the parent		(10,664)	(4,412)

The notes on pages 12 to 45 form part of these financial statements.

Red Funnel Holdings Limited

Consolidated statement of financial position
as at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	47,641	36,959
Investment property	13	1,596	1,596
Intangible assets	14	335,397	340,799
		384,634	379,354
Current assets			
Inventories	17	587	518
Trade and other receivables	19	2,123	2,718
Derivative financial assets	18	876	144
Cash and cash equivalents		8,739	8,762
Deferred tax asset	22	-	-
		12,325	12,142
Total assets		396,959	391,496
Liabilities			
Current liabilities			
Trade and other payables	20	(11,075)	(9,015)
Loans and borrowings	21	(111,377)	(105,493)
Income tax payable		-	
		(122,451)	(114,508)
Non-current liabilities			
Loans and borrowings	21	(137,219)	(125,741)
Derivative financial liabilities	18	(84)	(427)
Retirement benefit obligation	29	(3,026)	(2,969)
Deferred tax liability	22	-	(6)
		(140,328)	(129,143)
Total liabilities		(262,780)	(243,651)
NET ASSETS		134,180	147,845

The notes on pages 12 to 45 form part of these financial statements.

Red Funnel Holdings Limited

Consolidated statement of financial position
as at 31 December 2018 *(continued)*

Issued capital and reserves attributable to owners of the parent	Note	2018 £'000	2017 £'000
Share capital	23	20	20
Share premium reserve	24	157,237	157,237
Retained earnings	24	(23,041)	(9,440)
Cash flow hedging reserve	24	(36)	28
TOTAL EQUITY		134,180	147,845

The financial statements on pages 7 to 45 were approved and authorised for issue by the Board of Directors and were signed on behalf of the Board on 5/7/19

Charles Hazelwood
Director

The notes on pages 12 to 45 form part of these financial statements.

Red Funnel Holdings Limited

Consolidated statement of cash flows
for the year ended 31 December 2018

	Year Ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Cash flows from operating activities		
Loss for the period	(10,219)	(4,179)
Adjustments for:		
Depreciation of property, plant and equipment	5,322	2,243
Amortisation of intangible fixed assets	5,771	2,828
Change in value of investment property	-	24
Financo incomc	(10)	(3)
Finance expense	18,783	7,743
Income tax expense	(648)	(503)
Decrease in trade and other receivables	1,165	1,070
Increase in inventories	(69)	(25)
Decrease/(Increase) in trade and other payables	760	(11,833)
Increase in provisions	(160)	(14)
Non cash interest on defined benefit pension liability	(34)	(46)
Cash generated from operations	20,661	(2,695)
Income taxes paid	-	-
Net cash flows from operating activities	20,661	(2,695)
Investing activities		
Purchases of intangible fixed assets	(370)	(433)
Purchases of property, plant and equipment	(10,631)	(8,100)
Sale of property, plant and equipment	6	-
Acquisition of subsidiary, net of cash acquired	-	(349,560)
Interest received	-	3
Net cash used in investing activities	(10,995)	(358,090)
Financing activities		
Issue of ordinary shares	-	157,257
Proceeds from bank borrowings	4,575	122,500
Proceeds from group borrowings	-	100,000
Repayment of borrowings	(1,315)	(240)
Debt issue costs incurred	(24)	(4,538)
Interest paid	(5,732)	(378)
Capital element of finance lease repaid	(193)	(54)
Dividends paid	(7,000)	(5,000)
Net cash used in financing activities	(9,689)	369,547
Net increase in cash and cash equivalents	(23)	8,762
Cash and cash equivalents at beginning of period	8,762	-
Cash and cash equivalents at end of period	8,739	8,762

The notes on pages 12 to 45 form part of these financial statements.

Red Funnel Holdings Limited

Consolidated statement of changes in equity
For the year ended 31 December 2018

	Share Capital	Share Premium	Retained Earnings	Cash flow hedging reserve	Total Equity
	£'000	£'000	£'000	£'000	£'000
1 January 2018	20	157,237	(9,440)	28	147,845
Comprehensive income for the period					
Loss	-	-	(10,220)	-	(10,220)
Other comprehensive income/(expense)	-	-	(381)	(64)	(445)
Total comprehensive income for the period	20	157,237	(20,041)	(36)	137,180
Contributions by and distributions to owners					
Dividends	-	-	(3,000)	-	(3,000)
Issue of shares	-	-	-	-	-
Total contributions by and distributions to owners	-	-	(3,000)	-	(3,000)
31 December 2018	20	157,237	(23,041)	(36)	134,180

	Share Capital	Share Premium	Retained Earnings	Cash flow hedging reserve	Total Equity
	£'000	£'000	£'000	£'000	£'000
16 June 2017	-	-	-	-	-
Comprehensive income for the period					
Loss	-	-	(4,179)	-	(4,179)
Other comprehensive income	-	-	(261)	28	(233)
Total comprehensive income for the period	-	-	(4,440)	28	(4,412)
Contributions by and distributions to owners					
Dividends	-	-	(5,000)	-	(5,000)
Issue of shares	20	157,237	-	-	157,257
Total contributions by and distributions to owners	20	157,237	(5,000)	-	152,257
31 December 2017	20	157,237	(9,440)	28	147,845

The notes on pages 12 to 45 form part of these financial statements.

1 Accounting policies

Red Funnel Holdings Limited (the "Company") is a company domiciled in Jersey. The address of the registered office is given on the contents page. The Consolidated Financial Statements of the Company for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The accounting policies contained below and the disclosures in notes 1 to 29 all relate to the Group's financial statements. The Company financial statements have been prepared in accordance with FRS 101 and can be found on pages 46-47, with the applicable accounting policies and the notes to the Parent Company accounts from page 48.

1.1 Basis of preparation

The consolidated financial statements are presented in Sterling, which is also the Group's functional currency.

Amounts are rounded to the nearest thousand, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs).

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following items (refer to individual accounting policies for details):

- Financial instruments - fair value through profit or loss
- Investment property
- Net defined benefit liability

1.2 New and forthcoming accounting standards

New standards and interpretations not applied: IASB and IFRIC have issued the following relevant standards and interpretations with an effective date for periods commencing after 1 January 2018:

Standard or interpretation	Title	Effective for periods beginning on or after
IFRS 16	Leases	1 January 2019

The above and other relevant standards, amendments to standards and interpretations will be adopted in accordance with their effective dates and have not been adopted in these financial statements.

The adoption of IFRS 16 will replace IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. For a summary of the effects of IFRS 16, see note 1.25.

1 **Accounting policies** *(continued)*

1.2 New and forthcoming accounting standards *(continued)*

The effective dates stated here are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRSs as adopted by the European Union, the application of new standards and interpretations will be subject to them having been endorsed for use in the EU via the EU endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation, but the need for endorsement restricts the Group's discretion to early adopt standards

1.3 Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

1.4 Going concern

The directors have prepared detailed financial forecasts to December 2020 and to December 2023, taking into account of reasonably possible changes in trading performance which show the group can operate within their available facility for the foreseeable future, being not less than 12 months from the date of approval of these accounts by the directors. Accordingly, the directors believe it is appropriate to continue to prepare the accounts on a going concern basis.

1.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1 Accounting policies *(continued)*

1.5 Revenue *(continued)*

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably, and
- the costs incurred and the costs to complete the contract can be measured reliably.

Revenue from transport of passengers and freight is recognised in the profit and loss account at the date of travel, which is when risks and rewards transfer to the customer. Revenue arising from on-board sales and other associated income is recognised at the point of delivery of the goods or service.

Revenue from season ticket sales is recognised by the stage of completion of the customer's travel provided under contractual arrangements as a proportion of total services provided. The remaining proportion of income received from the sale of season tickets is deferred within liabilities and recognised in the profit and loss account over the period covered by the relevant ticket.

1.6 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

1 Accounting policies *(continued)*

1.6 Business combinations *(continued)*

Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

1.7 Impairment of goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

1.8 Other intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight—line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The estimated useful lives range as follows:

Software – 3 to 5 years

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

1.9 Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below).

1 Accounting policies *(continued)*

1.9 Externally acquired intangible assets *(continued)*

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Brand	5 years	Relief from royalty approach
Non-contractual customer relationships	5 years	Replacement cost method

1.10 Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

Freehold land is not depreciated. Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Depreciation is provided on the following bases:

Freehold property	-	10-50 years
L/Term leasehold property	-	10-30 years
S/Term leasehold property	-	Over the term of the lease
Plant and machinery	-	3-30 years
Motor vehicles	-	5-10 years
Fixtures and fittings	-	5-10 years
Engine overhauls	-	2-17 years
Ferries	-	30 years
Hi-Speed catamarans	-	20 years
Hi-Speed catamarans leased	-	Over the term of the lease

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

1.11 Impairment of non-financial assets (excluding inventories, investment properties and deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial period end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from a business combination that gives rise to the goodwill. Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

1 Accounting policies *(continued)*

1.12 Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

1.13 Inventories

Inventories, including marine spares, are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

1.14 Leased assets: Lessee

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

1.15 Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable.

1 Accounting policies *(continued)*

1.15 Financial assets (continued)

The amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and - for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

1.16 Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability (including any initial transaction costs or payment payable on redemption) carried in the consolidated statement of financial position.

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

1.17 Hedge accounting

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
- The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (i.e. it is expected to be highly effective).
- The effectiveness of the hedge can be reliably measured.
- The hedge remains highly effective on each date tested. Effectiveness is tested annually.

Cash flow hedges

Changes to the fair value of derivative financial instruments designated as and qualifying for cash flow hedging and which effectively hedge changes in future cash flows, are recognised in Other Comprehensive Income. The change in fair value that relates to the effective portion of the cash flow hedge is recognised as a separate equity reserve until the hedged cash flow impacts the income.

At this point in time the related gains or losses previously recognised in Other Comprehensive Income are transferred to the income statement into the same line item as the hedged item is recognised. For derivative financial instruments that no longer qualify for hedge accounting, the hedge is dissolved prospectively. The accumulated fair value in equity is immediately transferred to the income statement into the same line item as the hedged item is recognised.

1 **Accounting policies** *(continued)*

1.18 Pensions

Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the period to which they relate.

Defined benefit pension plan

The Group operates a defined benefit pension scheme and the pension charge is based on a full actuarial valuation dated 31 January 2018. The actuarial valuation of the value in use of future benefits payable under the plan is made once a year. The value in use is calculated based on assumptions of future development in wage/salary levels, interest rates, inflation, mortality, and similar. The value in use is only calculated for benefits to which the employees have become entitled to during their employment with the Group. The actuarial calculation of the value in use less the fair value of any assets under the plan is recognised in the balance sheet under pension obligations. Pension costs of the period are recognised in the income statement based on actuarial estimates and finance expectations at the beginning of the period.

1.19 Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Group's ordinary shares are classified as equity instruments.

1.20 Dividends

Dividends are recognised when they become legally payable. This is when dividends are declared by the directors.

1.21 Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

In respect of deferred tax assets arising from investment property measured at fair value, the presumption that recovery will be through sale rather than use has not been rebutted.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

1 Accounting policies *(continued)*

1.21 Deferred taxation *(continued)*

- The same taxable group company, or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

1.22 Provisions

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the profit and loss account in the period that the Group becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet.

1.23 Repairs and renewals

Service costs in respect of the annual maintenance of vessels are charged to the profit and loss account as incurred.

Costs in respect of major engine overhauls and associated work are capitalised as incurred and depreciated over the service life of such work.

1.24 Website development costs

Where group companies' websites are expected to generate future revenues in excess of the costs of developing those websites, expenditure on the functionality of the website is capitalised and treated as an intangible fixed asset. Expenditure incurred on maintaining websites and expenditure incurred on developing websites used only for advertising and promotional purposes are written off as incurred.

1.25 IFRS 16

As at 31 December 2018, the group has non-cancellable operating lease commitments of £7,769,000 as disclosed in note 25. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the group will recognise an increase to total tangible fixed assets and corresponding liabilities in respect of these leases, unless they qualify for exemption as low value or short-term leases upon the application of IFRS 16.

The group's preliminary assessment is that as at 31 December 2019, tangible fixed assets is likely to increase by c. £4.8m, as will finance lease liabilities.

Over the life of the assets there will be no profit impact from adopting IFRS 16 but profit will vary between financial years as interest charges on finance leases are higher at the beginning of the lease term and reduce as the lease principal is repaid. Profit before Tax for the year ending 31 December 2019 is expected to be £482,000 higher following the adoption of this standard.

The Group will apply the exemptions for short-term leases and leases of low value items and are expecting to adopt the modified retrospective approach upon transition in the publication of financial statements for the year ending 31 December 2019. The modified retrospective approach gives rise to a right of use asset and a corresponding lease liability.

2 Critical accounting estimates and judgements

In the preparation of the financial statements, Management undertakes a number of accounting estimates and assessments, and makes assumptions which provide the basis for recognition and measurement of the assets, liabilities, revenues and expenses of the Group. These estimates, assessments and assumptions are based on historical experience and other factors which the Management considers reasonable under the circumstances, but which by their nature are uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unanticipated events or circumstances may occur, for which reason the actual results may deviate from the applied estimates and assessments. For a detailed description of the Group's accounting policies, reference is made to note 1.

In the opinion of Management, the following accounting estimates and assessments are significant in the preparation of the financial statements.

Determination of fair values
Inputs used in determining fair value measurements are categorised into different levels based on how the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable items (i.e. not derived from market data)

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. For more detailed information in relation to the fair value measurement of the items, please refer to applicable notes.

Leases
When entering into lease agreements as a lessee, management assesses whether the lease in question is an operating or finance lease. These assessments are based on whether the risks and rewards of ownership have been transferred from the lessor to the lessee and are decided on a lease by lease basis.

Impairment testing of ships, including the assessment of useful life and scrap value
Significant accounting estimates and assessments regarding ships include the depreciation of the ship's cost price on the basis of the expected useful life of its component elements; the ship's expected maximum useful life, its scrap value and impairment test. The expected useful life of ships and their scrap values are reviewed and estimated at least once a period. Impairment tests are also carried out when there is any indication of impairment.

Investment properties
The group's investment properties are valued annually on 31 December at fair value, determined by an independent, professionally qualified valuer. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual. The valuers use observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. There is an inevitable degree of judgement involved in that each property is unique and value can only be reliably tested in the market itself.

Pensions and similar liabilities
The Group's defined benefit pension plans are calculated on the basis of a number of key actuarial assumptions, including discount rate, the anticipated returns on the plans' assets, the anticipated development in wages and pensions, anticipated mortality, etc. Even moderate alterations in these assumptions can result in significant changes in pension liabilities.

The value of the Group's defined pension benefit plans is based on calculations undertaken by external actuaries.

2 Critical accounting estimates and judgements *(continued)*

Derivatives
When entering into agreements involving derivatives, Management assesses whether the derivative in question meets the requirement as to effective hedging, including whether the hedging relates to recognised assets and liabilities, projected future cash flows, or financial investments. Regular effectiveness tests are carried out, and any inefficiency is recognised in the profit and loss account.

Impairment of bad debts
Receivables are recognised at amortised cost price less impairment to meet expected losses. Impairments are recognised based on the customers' ability and/or willingness to pay.

The need for impairments on the individual customer and the adequacy hereof, is assessed by the Management on the basis of historical data on customer payment patterns, age distributions, dubious receivables, customer concentrations, customer creditworthiness, and any collateral received.

Intra group balances
Intra group balances are held at amortised cost and are deemed to be current and immediately payable on demand where cash balances exist to cover the net intra group balance.

For the intra group balances exceeding available cash balances, or where the nature of the balance is that of a loan, interest is charged at 10% per annum on the net intra group balance owed.

3 Financial instruments - Risk Management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Interest rate risk, and
- Liquidity and cash flow risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Further quantitative information in respect of these risks is presented throughout these financial statements.

(i) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Shareholder loan notes
- Floating-rate bank loans
- Fixed rate loans, and
- Interest rate swaps

(ii) Financial instruments by category

Financial assets

	Fair value through profit or loss		Amortised Cost	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Cash and cash equivalents	-	-	8,739	8,762
Trade and other receivables (excluding prepayments)	-	-	2,520	2,158
Derivatives	-	144	-	-
Total Financial Assets	-	144	11,259	10,920

3 Financial instruments - Risk Management *(continued)*

Financial liabilities

	Fair value through profit or loss		Amortised Cost	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Trade and other payables	-	-	(11,075)	(9,410)
Loans and borrowings	-	-	(248,595)	(231,234)
Derivatives	(84)	(427)	-	-
Total Financial Liabilities	(84)	(427)	(259,670)	(240,644)

(iii) Financial instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Group Chief Finance Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Potential customers are checked for their credit worthiness and ability to generate significant volumes before they are given a credit account. Many customers now pay by Direct Debit which reduces the credit risk. The Finance Department review the aged debtors report each period. A target of 42 days for debtor collection has been set by the Audit Committee.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 19.

Cash in bank and short-term deposits

All the Groups cash, totalling £8,739,000, is held with HSBC UK Bank PLC, a AA rated institution.

The Board monitors the credit ratings of counterparties regularly and at the reporting date does not expect any losses from non-performance by the counterparties.

3 Financial instruments - Risk Management *(continued)*

Capital Disclosures

The Group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, share premium and retained earnings) other than amounts in the cash flow hedging reserve.

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

4 Revenue

	Year ended 31 December 2018 £'000	Period Ended 31 December 2017 £'000
Ferry and associated catering and travel services	53,803	26,757

All revenue is derived from activities within the United Kingdom.

5 Other operating income

Other operating income arises mainly from the investment properties the Group maintains. Since this is not considered to be part of the main revenue generating activities, the Group presents this income separately from revenue.

	Year ended 31 December 2018 £'000	Period Ended 31 December 2017 £'000
Loss on disposal of assets	(20)	-
Rental income from investment property	1	11
	(19)	11

6 Profit from operations

	Year ended 31 December 2018 £'000	Period Ended 31 December 2017 £'000
Profit from operations is stated after charging:		
Depreciation and other amounts written off tangible fixed assets	5,322	2,243
Amortisation of goodwill and other intangible assets	5,771	2,828
Hire of other assets – operating leases	457	409
Cost of inventories recognised as an expense	4,189	2,394
Exceptional costs relating to acquisition	-	3,151

Exceptional costs in the prior period relate to external advisors and legal fees in relation to the acquisition of the FA III Group.

Red Funnel Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2018 *(continued)*

6 Profit from operations *(continued)*

	Year ended 31 December 2018 £'000	Period Ended 31 December 2017 £'000
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the parent company	5	5
Fees payable to the Company's auditors for the audit of the consolidated financial statements	70	65
Fees payable to the Company's auditors for other services:		
Tax compliance	16	18
All other services	5	5
Tax advisory services	20	20
Other non-audit services	10	6

7 Employee benefit expenses

	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	13,711	5,829
Defined contribution pension cost	1,220	534
Social security contributions and similar taxes	402	172
	15,333	6,535

Employees

The average monthly number of employees, including the directors, during the period was as follows:

	Year ended 31 December 2018	Period ended 31 December 2017
Administration	107	92
Sea-faring staff	276	244
Shore-based staff	177	149
	560	485

The total number of FTEs (Full time Equivalents) were 398 (2017 – 341).

There are no employees or employee benefit expenses within the parent company during the period.

7 Employee benefit expenses (continued)

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, and are defined as the directors of the company, and directors of wholly owned subsidiary companies.

Remuneration of Directors of wholly owned subsidiaries

	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Salary	1,139	426
Defined benefit scheme costs	57	30
	1,196	456

No director of the company received remuneration, or contributions to the group's defined benefit scheme.

8 Segment information

IFRS 8, *Operating Segments,* establishes standards for reporting information about operating segments and related disclosures, products and services, geographic areas and major customers. Operating segments are components of an enterprise about which separate financial Information is available that Is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance.

The Group conducts its activities through a single operating segment. Consequently, no detailed segment Information has been presented.

9 Finance income and expense

Recognised in profit or loss

Finance income	**Year ended 31 December 2018 £'000**	**Period ended 31 December 2017 £'000**
Other interest received	10	3
Finance expense		
Bank loans	4,536	2,011
Finance leases	735	296
Other interest payable	122	83
Loans from shareholders	10,553	4,850
Debt costs written off	2,803	457
Net interest on defined benefit pension liability	70	46
Hedging breakage costs	(394)	-
Total finance expense	18,425	7,743

10 Tax expense

	2018 £'000	2017 £'000
Deferred tax expense		
Origination and reversal of temporary differences (note 22)	(581)	(493)
Adjustments in respect of prior periods	(67)	-
Effects of changes in tax rate	-	(10)
Total deferred tax	(648)	(503)
Total tax expense	(648)	(503)
Other comprehensive income Items		
Origination and reversal of timing differences	(164)	144
	(164)	144

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the United Kingdom applied to profits for the period are as follows:

	2018 £'000	2017 £'000
Loss for the period	(10,867)	(4,682)
Tax charge at the UK corporation tax rate of 19%	(2,065)	(890)
Expenses not deductible for tax purposes	838	892
Amounts charged/(credited) directly to the STRGL or otherwise transferred	(41)	-
Effects of changes in tax rate	-	25
Adjustments in respect of prior periods (deferred tax)	(67)	-
Other	48	23
Deferred tax charged/(credited) directly to the STRGL	(164)	-
Deferred tax not recognised	769	(553)
Timing differences	34	-
Total tax expense	(648)	(503)

Changes in tax rates and factors affecting the future tax charge

The UK corporation tax rate was 20% to 31 March 2017 and 19% to the period ending 31 December 2018. In the Summer Budget 2015, the UK government announced legislation setting the main rate of corporation tax at 18% for the year beginning 1 April 2020. In March 2016, the government announced a further reduction to the main rate of corporation tax for the year starting 1 April 2020 to 17%. The relevant UK deferred tax balances have been re-measured accordingly.

11 Dividends

An interim dividend for the period ending 31 December 2018 of £300 (2017 - £500) per fully paid ordinary A share was paid during the period, totalling £3,000,000 (2017 - £5,000,000).

The directors did not recommend a final dividend.

12 Property, plant and equipment

	Land and buildings £'000	Plant, machinery and motor vehicles £'000	Ships £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 January 2018	2,374	2,842	26,562	7,424	39,202
Additions	136	266	4,028	11,600	16,030
Disposals	-	(81)	(13)	-	(94)
Transfer (to) / from assets under construction	3,877	138	6,807	(10,822)	-
At 31 December 2018	6,387	3,165	37,384	8,202	55,138
Accumulated depreciation and impairment					
At 1 January 2018	45	406	1,792	-	2,243
Depreciation for the period	305	788	4,229	-	5,322
Disposals	-	(55)	(13)	-	(68)
At 31 December 2018	350	1,139	6,008	-	7,497
Net book value					
At 31 December 2017	2,329	2,436	24,770	7,424	36,959
At 31 December 2018	6,036	2,026	31,376	8,202	47,641

Included within the net book value of £47.6 million (2017 - £37.0 million) is £11.0 million (2017 - £5.5 million) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the period in respect of such assets amounted to £696,000.

Capital commitments contracted at 31 December 2018 were £1,887,000 (2017 - £7,553,000).

13 Investment property

	Commercial property £'000
At 1 January 2018 and 31 December 2018	**1,596,000**

The investment properties were valued on 31 December 2017 using observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. carried out by external independent qualified valuers with recent experience valuing investment properties in the location held by the Group. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual.

The fair value of investment property is categorised as a level 1 recurring fair value measurement.

Had the revalued properties been measured on a historical cost basis, their net book value would have been £1.1 million (2017 - £1.2 million). The revaluation deficit (gross of tax) amounted to £Nil (2017 - £24,000).

(ii) Restrictions and obligations

At 31 December 2018, there were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. There are currently no obligations to construct or develop the existing investment properties. At 31 December 2018, contractual obligations to purchase investment property amounted to £nil.

14 Intangible assets

	Brand	Customer Relationships	Software	Assets in course of construction	Goodwill	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	26,317	780	1,144	108	315,278	343,627
Additions	-	-	105	266	-	371
Transfer to / (from) assets under construction	-	-	36	(36)	-	-
At 31 December 2018	26,317	780	1,285	338	315,278	343,998
Accumulated amortisation and impairment						
At 1 January 2018	2,632	78	118	-	-	2,828
Amortisation charge for the year	5,263	156	352	-	-	5,771
At 31 December 2018	7,895	234	470	-	-	8,599
Net book value						
At 31 December 2017	23,685	702	1,026	108	315,278	340,799
At 31 December 2018	18,422	546	814	338	315,278	335,397

15 Goodwill and impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows. The principal assumptions used in our cashflow analysis consisted of:

- Forecasted operating result, including net revenue yields and net costs
- Capacity changes, including the introduction of a new freight only vessel
- WACC of the company, calculated using adjustments for specific company and market risk factors
- Capital expenditures and proceeds from forecasted disposals, which are all considered level 3 inputs

Based on the discounted cash flow analysis for cash flows to 2023, management are satisfied there is no impairment to be recognised on goodwill.

16 Subsidiaries

The subsidiaries of Red Funnel Holdings Limited, all of which have been included in these consolidated financial statements, are as follows:

Subsidiary undertaking	Country of registration or incorporation	Class	Shares held %
Direct Holdings			
Red Funnel Limited	United Kingdom	Ordinary £1	100
Indirect Holdings			
Steam Coffee Company Limited *	United Kingdom	Ordinary £1	100
Isle of Wight Holidays Limited *	United Kingdom	Ordinary £1	100
Red Funnel (Pension Trustees) Limited *	United Kingdom	Ordinary £1	100
Falcon Acquisitions Limited ***	United Kingdom	Ordinary £1	100
Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited **	United Kingdom	Ordinary £1	100

All the above companies are dormant with the exception of:
- Red Funnel Limited, and;
- Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited, which provides ferry and associated catering and travel facilities,

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

The directors consider that the value of the investments in subsidiary companies is at least equal to the cost and no impairment provision is required.

* subsidiary of Southampton Isle of Wight and South of England Royal Mail Steam Packet Company
** subsidiary of Falcon Acquisitions Limited
*** subsidiary of Red Funnel Limited

Red Funnel Ferries Limited, Red Funnel Group Limited, Red Funnel Group (Holdings) Limited, FA II Limited, FA III Limited, Bar 1861 Limited, Refuel – The Food Station Limited and Red Funnel Steamers Limited have been struck off in 2018 as a result of a group simplification.

The registered addresses of the above subsidiary undertakings are the same as the address stated on Company Information within the contents page.

17 Inventories

	2018	2017
	£'000	£'000
Fuel oil	111	113
Marine spares	320	312
Catering stocks	156	93
	587	518

18 Derivative financial instruments

	2018	2017
	£'000	£'000
Derivative financial assets		
Derivatives designated as hedging instruments:		
Commodity swaps - cash flow hedge	-	144
Total derivative financial assets	-	144

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated statement of financial position.

Cash flow commodity swaps

The Group also uses swaps to hedge the variability in fuel costs due to fluctuations in fuel price.

The hedged forecast transactions are expected to occur at various dates within the next 12 months. The notional principal amount of the hedged forecast transaction totalled 2,293,490 (2017 – 2,313,928) Metric Tonnes. The fair value of the swap as at 31 December 2018 was a liability of £263,000 (2017 – Asset £144,000). The fair value is categorised as level 1, this is an active market valuation and the fair value represents the value to settle the derivative.

At 31 December 2018, the floating rate was Platts spot price. Gains and losses recognised in the cash flow hedging reserve in equity on commodity swaps contracts as at 31 December 2018 will be released in the period or periods during which the hedged forecast transaction affects the consolidated statement of comprehensive income.

18 Derivative financial instruments *(continued)*

	2018 £'000	2017 £'000
Derivative financial liabilities		
Derivatives designated as hedging instruments:		
Interest rate swaps - cash flow hedge	84	427
Total derivative financial liabilities	**84**	**427**

Cash flow interest rate swaps

The Group manages its cash-flow interest rate risk by using floating-to-fixed interest rate swaps. Normally the Group raises long-term borrowings at floating rates and swaps them into fixed rates.

The notional principal amounts of outstanding floating to fixed interest rate swap contracts designated as hedging instruments in cash flow interest rate hedges of variable rate debt at 31 December 2018 totalled £60m (2017 - £100m). Their fair value was a liability of £84,000 (2017 - £427,000). The fair value is categorised as level 1, this is an active market valuation and the fair value represents the value to settle the derivative.

The ineffective portion recognised in the finance expense that arises from cash flow hedges amounts to a loss of £nil.

At 31 December 2018, the floating rate was LIBOR. Gains and losses recognised in the cash flow hedging reserve in equity on interest rate swap contracts as at 31 December 2018 will be released to the consolidated statement of comprehensive income as the related interest expense is recognised.

19 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	1,427	1,695
Trade receivables - net	1,427	1,695
Prepayments and accrued income	876	955
Other receivables	218	68
Total financial assets other than cash and cash equivalents classified as loans and receivables	**2,521**	**2,718**

The carrying value of trade and other receivables classified as loans and receivables approximates to fair value. All trade and receivables are due in less than one year.

As at 31 December 2018 trade receivables of £539,200 (2017 - £459,200) were past due but not impaired. They relate to customers with no default history. The ageing analysis of the receivables are as follows:

£469,500 (2017 - £361,700) overdue up to one month
£66,400 (2017 - £79,000) overdue up to two months
£3,200 (2017 - £18,500) overdue by over two months or more

As at 31 December 2018 trade receivables of £2,000 (2017 - £5,000) were past due and fully impaired. The bad debt provision is a specific provision against 2 customers where, in the view of the directors, there is a specific and objective evidence that the debt is impaired.

20 Trade and other payables

	2018 £'000	2017 £'000
Trade payables	2,390	2,142
Other payables	1,095	212
Accruals	6,231	6,228
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	9,716	8,582
Other payables - tax and social security payments	329	433
Total trade and other payables	10,045	9,015

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

21 Loans and borrowings

The book value of loans and borrowings are as follows:

	2018 £'000	2017 £'000
Non-Current		
Bank loans		
- Secured	125,284	118,419
Other loans	920	1,496
Finance leases (note 25)	11,015	5,826
	137,219	125,741
Current		
Shareholder loan note		
- Unsecured	111,377	104,849
Other loans	575	526
Finance leases (note 25)	454	118
	112,406	105,493
Total loans and borrowings	249,625	231,234

The book value of loans and borrowings measured at amortised cost approximates to fair value. Total debt issue costs of £4,538,000 (2017 - £4,538,000) are offset against the bank loan balance and amortised over the life of the loan. Amortisation to date of £1,139,000 (£457,000) has been charged to the statement of comprehensive income. Debt issue costs at 31 December 2018 were £3,399,000 (2017 - £4,081,000).

All of the groups borrowings are denominated in sterling.

21 Loans and borrowings *(continued)*

Included within the above amounts falling due as follows:

The bank loans are secured by way of a fixed and floating charge over the assets of the group. The bank loan is repayable in 2022. Interest is charged at a spread over LIBOR. Interest rate risk has been hedged by a swap to fixed rate.

The shareholder loan note is an unsecured instrument with a fixed interest rate of 10%. The loan notes are held by the shareholders of the company and are repayable on demand. The directors therefore deem the loan notes to be classified as payable in less than one year.

The other loan represents amounts owed the Merchant Navy Officers Pension Fund. This loan is unsecured and bears a fixed rate of compounding interest at 8.83% for the 2009 valuation and 6.30% for the 2012 valuation.

The finance leases relate to a finance lease of Red Jet 6 and Red Jet 7. This is secured on the asset, has an implied interest rate of 9.67% and 5.24% and is payable over 15 and 10 years respectively.

Bank Borrowings

At 31 December 2018 security was held by Royal Bank of Canada on the Bank loan facility and overdrafts by way of fixed and floating charges over the assets of Red Funnel Limited (a wholly owned subsidiary). The bank loans and revolving credit facility bear interest of between 2.5% and 3.25% above LIBOR, dependent on the maturity of the loan. During the period, the interest applied was 1.7% above LIBOR.

Secured loans

The pension liability relates to the defined benefit scheme for the MNOPF 2009 and 2012 valuations. The repayments commenced in 2010 and 2013 respectively and will continue until 2020 and 2023 at interest rates of 8.83% and 6.30%.

The Group does not have any undrawn committed borrowing facilities available at 31 December 2018.

The profile of the bank loan, shareholder loan note and MNOPF loan is as follows. The finance lease profile can be found in note 25.

21 Loans and borrowings *(continued)*

2018	Bank loan £'000	Shareholder Loan note £'000	Other loans £'000	Total £'000
Not later than one year	-	111,377	575	111,952
Later than one year and not later than five years	56,045	-	920	56,965
Later than five years	69,239	-	-	69,239
	125,284	111,377	1,495	238,156

2017	Bank loan £'000	Shareholder Loan note £'000	Other loans £'000	Total £'000
Not later than one year	-	104,849	526	105,375
Later than one year and not later than five years	118,419	-	1,391	119,810
Later than five years	-	-	105	105
	118,419	104,849	2,022	225,290

22 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17%. The reduction in the main rate of corporation tax to 17% was substantively enacted in Finance Bill 2016. This rate has been applied to deferred tax balances which are expected to reverse after the period end.

The movement on the deferred tax account is as shown below:

	£'000
At 1 January 2018	**(6)**
Recognised in profit and loss: Tax expense	**648**
Recognised in other comprehensive income	**(164)**
At 31 December 2018	**478**

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered.

The analysis of the deferred tax assets and liabilities at the end of the period are shown below.

	2018 £'000	2017 £'000
Business combinations	**(3,225)**	**(4,212)**
Fixed asset timing differences	**2,875**	**3,377**
Short term timing differences	**45**	**48**
Pensions	**783**	**781**
Tax asset/(liabilities)	**478**	**(6)**
Net tax assets/(liabilities)	**478**	**(6)**

A deferred tax asset has not been recognised for the following:

	2018 £'000	2017 £'000
Unused tax losses	**10,898**	**14,784**
	10,898	**14,784**

The tax losses can be carried forward indefinitely.

23 Share capital

	Authorised	
	Number Thousands	**£'000**
Ordinary A shares of £1 each	10	10
Ordinary B shares of £1 each	10	10

	Issued and fully paid	
	Number Thousands	**£'000**
Ordinary A shares of £1 each	10	10
Ordinary B shares of £1 each	10	10

Rights attaching to shares

Each A Ordinary share carries one vote per share on all matters except that of an appointment or removal of a Director. Each Ordinary A share carries equal rank on dividend payments.

Each B Ordinary share carries one vote per share on only the matter of an appointment or removal of a Director. No Ordinary B share has rights to dividends.

The holder of all ordinary shares carry equal distribution rights on return of assets on liquidation, reduction of capital or otherwise, the surplus assets of the company remaining after payment of its liabilities.

On incorporation, the company issued 6 Ordinary shares at £1.00 per share. On 6 July 2017, the company redesignated 1 of the Ordinary shares as an Ordinary A share, and 5 of the Ordinary shares as Ordinary B shares. On 6 July, the company also issued 9,999 Ordinary A shares at £1.00 per share and 9,995 Ordinary B shares at £1.00 per share.

24 Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.
Hedging reserve	Includes the cumulative value of all movements in the hedging reserve

25 Leases

Finance lease - lessee

Future lease payments are due as follows:

	Minimum lease payments £'000	Interest £'000	Present value £'000
2018			
Not later than one year	1,311	(857)	454
Later than one year and not later than five years	4,928	(2,411)	2,517
Later than five years	12,099	(3,601)	8,498
	18,338	(6,869)	11,469
Current liabilities	701	(583)	118
Non-current liabilities	12,264	(6,438)	5,826
2017			
Not later than one year	701	(583)	118
Later than one year and not later than five years	2,803	(2,010)	793
Later than five years	9,461	(4,428)	5,033
	12,965	(7,021)	5,944
Current liabilities	701	(583)	118
Non-current liabilities	12,264	(6,438)	5,826

A trading subsidiary within the group entered into a finance lease arrangement for the purchase of a vessel in 2016. The lease has an implied interest rate of 9.67% and the term of the lease is 15 years. The lease in on a fixed repayment basis. In 2018 the same subsidiary company purchased another vessel with an implied interest rate of 5.24% and a lease term of 10 years.

The fair value of the company's lease obligations is approximately equal to their carrying value.

Operating leases - lessee

The total future value of minimum lease payments is due as follows:

	Total 2018 £'000	Total 2017 £'000
Not later than one year	749	749
Later than one year and not later than five years	2,202	2,202
Later than five years	4,818	5,093
	7,769	8,044

Operating lease payments represents rentals payable by the group for certain properties. Leases are negotiated on varying terms depending on the type of asset leased.

26 Related party transactions

During the financial period, the group paid £96,000 (2017 - £48,000) to Visit Isle of Wight Limited for advertising and sponsorship. Mr J M Green, a director of the company, is also a director of Visit Isle of Wight Limited. There were no amounts owing to Visit Isle of Wight Limited at 31 December 2018.

During the financial period, the group were paid £26,000 (2017 - £24,000) by UK Sailing Academy for ferry travel to the Isle of Wight. Ms C E Locke, a director of the company, is also a director of UK Sailing Academy. There was £1,600 (2017 - £2,500) owing from UK Sailing Academy at 31 December 2018.

During the financial period, the group paid £5,000 (2017 - £1,000) to the Isle of Wight Chamber of Commerce for advertising and chamber membership. Mr K A George, a director of the company, is also a director of Isle of Wight Chamber of Commerce. There were credits of £10,000 (2017 - £Nil) owing to Isle of Wight Chamber of Commerce at 31 December 2018.

During the financial period, the group paid £2,000 (2017 - £2,000) to MNP EG Limited for membership. Mr P R Winter, a director of the company, is also a director of MNP EG Limited. The group also paid MNOPF deficit payments to MNOPF Trustees Limited of £648,000 (2017 - £324,000). Mr P R Winter is a trustee of MNOPF Trustees Limited. There were no amounts owing to MNP EG Limited or MNOPF Trustees Limited at 31 December 2018.

27 Events after the reporting date

In March of 2019 significant work has been conducted at East Cowes on the Company's Investment property in Dover Road where all of these properties were due to be demolished. These were held in the Company's balance sheet at £810,000.

The Sale of Red Jet 3 was completed in March 2019. The vessel was sold for €643,000. At the date of disposal total Red Jet 3 assets had a net book value of £145,000. The profit on sale of the asset as well as the reduction of both total assets and total depreciation will be recognised post year end.

28 Effects of changes in accounting policies

There were no changes in the accounting policies during the period ending 31 December 2018.

29 Defined benefit schemes

MNOPF Defined Benefit Scheme
Some employees of the Group's subsidiary undertaking, Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited ("SIOW") are members of the Merchant Navy Officers Pension Fund ("MNOPF"). The scheme is closed to new membership and future benefit accrual, the Group contributes to the deficit of the scheme.

The Group has not adopted the accounting requirements of IFRS 19 "Employee Benefits" in respect of this scheme since it is unable to identify its share of the underlying assets and liabilities. This scheme is formally valued triennially by independent qualified actuaries as required by the applicable UK regulations.

SIOW's share of the deficit in the new section of the scheme is to be paid for at the rate of £543,000 per annum to 2020, and £105,000 per annum to September 2023. The most recent comprehensive actuarial valuation of the scheme was 31 March 2015. The valuation showed a small deficit, but the Trustee's decided not to schedule any further payments in relation this new deficit.

RFSPS Defined Benefit Scheme
The Group's subsidiary undertaking, Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited ("SIOW") operates a trustee administered fund holding the pension scheme assets to meet long term pension liabilities. The most recent comprehensive actuarial valuation of the scheme was 31 January 2018. A qualified actuary, independent of the scheme's sponsoring employer, has updated the scheme values to 31 December 2018. The major assumptions used by the actuary are shown below.

29 Defined benefit schemes *(continued)*

The scheme is in deficit and SIOW will make payment of annual contributions of £240,000 in respect of the deficit from February 2018 onwards with the aim to eliminate the deficit by 31 October 2028. SIOW has agreed with the trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund.

The schemes are exposed to a number of risks, including:

- *Investment risk*: movement of discount rate used (high quality corporate bonds) against the return from plan assets
- *Interest rate risk*: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation
- *Longevity risk*: changes in the estimation of mortality rates of current and former employees.

The assets and liabilities of the scheme have been grossed up to account for insured annuity policies. The net effect on the scheme is £Nil.

Reconciliation of defined benefit obligation and fair value of scheme assets

	Defined benefit obligation £'000	Fair value of scheme assets £'000	Net defined scheme liability £'000
Balance (1 January 2018)	(13,608)	10,639	(2,969)
Interest cost and income	(307)	237	(70)
Included in profit or loss	(307)	237	(70)
Remeasurement (loss) / gain			
(a) Actuarial (loss) / gain from:			
- Financial assumptions	-	-	-
- Adjustments (experience)	281	(498)	(217)
Included in other comprehensive income	281	(498)	(217)
Effects of movements in exchange rates			
Employer contributions	-	230	230
Benefits paid	414	(414)	-
Movement in Insured Annuitants	146	(146)	-
Other movements	414	(184)	230
Balance (31 December 2018)	(13,074)	10,048	(3,026)

29 Defined benefit schemes *(continued)*

Disaggregation of defined benefit scheme assets

The fair value of the Scheme assets is analysed as follows:

	2018 £'000	2017 £'000
Equity securities	1,976	2,210
Diversified growth assets	834	919
Fixed Interest government bonds	475	475
Corporate bonds	3,958	4,187
Index linked government bonds	479	484
Property	1,483	1,411
Cash	130	94
Insured annuitants	713	859
	10,048	10,639

Defined benefit obligation - actuarial assumptions

The principal actuarial assumptions used in determining calculating the present value of the defined benefit obligation of the Scheme (weighted average) includes:

	2018	2017
Discount rate	2.75%	2.45%
Retail price index	3.35%	3.25%
Consumer price index	2.35%	2.25%
Deferred revaluation of CPI (max 5%)	2.35%	2.25%
Pension increases of RPI (max 5%)	2.75%	3.25%
Expected return on assets	2.75%	2.45%
Longevity at retirement age (current pensioners)		
- Males		22
- Females		24
Longevity at retirement age (future pensioners)		
- Males		23
- Females		25

The weighted-average duration of the defined benefit obligation at 31 December 2018 for current pensioners was 11 years.

Sensitivity

Sensitivities regarding the principle assumptions used to measure scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 1%	Decrease by 53%/increase by 66.2%
Price inflation (RPI)	Increase/decrease by 1%	Increase by 41.6%/decrease by 37.6%
Life expectancy at age 65	Increase in life expectancy by 1 year	Increase by 16%

Red Funnel Holdings Limited

Parent Company statement of financial position
as at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Investment in subsidiaries	3	157,257	157,257
		157,257	157,257
Current assets			
Trade and other receivables	5	111,413	104,849
Cash and cash equivalents		-	3,000
		111,413	107,849
Total assets		268,670	265,106
Capital and reserves			
Share capital	7	(20)	(20)
Share premium reserve	8	(157,237)	(157,237)
Retained earnings	8	-	(3,000)
TOTAL EQUITY		(157,257)	(160,257)
Current liabilities			
Loans and borrowings	6	(111,413)	(104,849)
		(111,413)	(104,849)
Total liabilities		(111,413)	(104,849)
Total equity and liabilities		(268,670)	(265,106)

The Company has taken advantage of the exemption allowed under the Companies (Jersey) Law 1991 and has not presented its own profit and loss account in these financial statements. The company recorded a loss for the period of £12.88 million (2017 – Profit £8m).

The notes on pages 48 to 52 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors and were signed on behalf of the Board on 5/7/19

Chas Hazl

Charles Hazelwood
Director

Red Funnel Holdings Limited

Parent Company statement of changes in equity
As at 31 December 2018

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2018	20	157,237	3,000	160,257
Comprehensive income for the period				
Profit	-	-	-	-
Total comprehensive income for the period	20	157,237	3,000	160,257
Contributions by and distributions to owners				
Dividends	-	-	(3,000)	(3,000)
Total contributions by and distributions to owners	-	-	(3,000)	(3,000)
At 31 December 2018	20	157,237	-	157,257

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 16 June 2017	-	-	-	-
Comprehensive income for the period				
Profit	-	-	8,000	8,000
Total comprehensive income for the period	-	-	8,000	8,000
Contributions by and distributions to owners				
Dividends	-	-	(5,000)	(5,000)
Issue of shares	20	157,237	-	157,237
Total contributions by and distributions to owners	20	157,237	(5,000)	152,257
At 31 December 2017	20	157,237	3,000	160,257

The notes on pages 48 to 52 form part of these financial statements.

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements have been prepared on a historical cost basis. The presentation currency used is sterling and amounts have been presented in round thousands ("£000s").

Disclosure exemptions adopted

In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the group headed by Red Funnel Holdings Limited.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of Red Funnel Holdings Limited. These financial statements do not include certain disclosures in respect of:

- Share based payments;
- Business combinations;
- Financial Instruments (other than certain disclosures required as a result of recording financial instruments at fair value);
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value); and
- Impairment of assets.

Judgements and key areas of estimation uncertainty

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires the company's directors to exercise judgement in applying the company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

1 Accounting policies *(continued)*

1.1 Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and - for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

1.2 Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability (including any initial transaction costs or payment payable on redemption) carried in the consolidated statement of financial position.

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method

1.3 Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Group's ordinary shares are classified as equity instruments.

1 Accounting policies *(continued)*

1.4 Dividends

Dividends are recognised when they become legally payable. This is when dividends are declared by the directors.

1.5 Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit, and
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

In respect of deferred tax assets arising from investment property measured at fair value, the presumption that recovery will be through sale rather than use has not been rebutted.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company, or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

1.6 Investments

Investments in group undertakings are included in the statement of financial position at cost less any provision for impairment.

2 Critical accounting estimates and judgements

In the preparation of the financial statements, Management undertakes a number of accounting estimates and assessments, and makes assumptions which provide the basis for recognition and measurement of the assets, liabilities, revenues and expenses of the Company. These estimates, assessments and assumptions are based on historical experience and other factors which the Management considers reasonable under the circumstances, but which by their nature are uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unanticipated events or circumstances may occur, for which reason the actual results may deviate from the applied estimates and assessments. For a detailed description of the Group's accounting policies, reference is made to note 1.

In the opinion of Management, the following accounting estimates and assessments are significant in the preparation of the annual report:

2 Critical accounting estimates and judgements *(continued)*

Intra group balances
Intra group balances are held at amortised cost and are deemed to be current and immediately payable on demand where cash balances exist to cover the net intra group balance.

For the intra group balances exceeding available cash balances, or where the nature of the balance is that of a loan, interest is charged at 10% per annum on the net intra group balance owed.

3 Investments in subsidiaries

Shares in unlisted subsidiary undertakings	2018	2017
	£'000	£'000
Cost and net book value at 31 December 2018	157,257	157,257

The Group's principal subsidiary undertakings are listed in note 16 to the consolidated financial statements.

4 Dividends

An interim dividend for the period ending 31 December 2018 of £300 per fully paid ordinary A share was paid during the period, totalling £3,000,000 (2017 – £5,000,000).

The directors did not recommend a final dividend.

5 Trade and other receivables

	2018 £'000	2017 £'000
Amounts owed by group undertakings	111,413	104,849
	111,413	104,849

6 Loans and borrowings

	2018 £'000	2017 £'000
Current		
Shareholder loan note – unsecured	100,000	100,000
Interest payable on shareholder loan note	11,413	4,849
	111,413	104,849

Details of the loans are provided in the notes to the consolidated financial statements.

7 Share capital

As at 31 December 2017 and 31 December 2018	Authorised Number Thousands	£'000
Ordinary A shares of £1 each	10	10
Ordinary B shares of £1 each	10	10

As at 31 December 2017 and 31 December 2018	Issued and fully paid Number Thousands	£'000
Ordinary A shares of £1 each	10	10
Ordinary B shares of £1 each	10	10

Rights attaching to shares

Each A Ordinary share carries one vote per share on all matters except that of an appointment or removal of a Director. Each Ordinary A share carries equal rank on dividend payments.

Each B Ordinary share carries one vote per share on only the matter of an appointment or removal of a Director. No Ordinary B share has rights to dividends.

The holder of all ordinary shares carry equal distribution rights on return of assets on liquidation, reduction of capital or otherwise, the surplus assets of the company remaining after payment of its liabilities.

8 Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

9 Related parties

The company is exempt from disclosing transactions within wholly owned subsidiary in the group. Other related party transactions are included within those given in note 26 of the consolidated financial statements.

10 Ultimate parent undertaking

In the view of the directors, the Company has no ultimate controlling party.