Registered number: SC124073

RED FUNNEL HOLDINGS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

COMPANY INFORMATION

Directors	Mr C J G Hazelwood Ms C Richards Mr E A Wilson Mr S D Dowd Mr G C Gray Ms P Sims Mr M Hammond Mr P Robert
Company secretary	Crestbridge Limited
Registered number	SC124073
Registered office	Crestbridge Limited 47 Esplanade St Helier Jersey Channel Islands JE1 0BD
Administration office	12 Bugle Street Southampton SO14 2JY
Independent auditors	BDO LLP Arcadia House Maritime Walk Ocean Village Southampton Hampshire SO14 3TL
Bankers	National Westminster PLC 68 Above Bar Street Southampton Hampshire SO14 7DS
Solicitors	Pitmans LLP 46 The Avenue Southampton Hampshire SO17 1AX

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DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their report and the audited consolidated financial statements of Red Funnel Holdings Limited ('the Group') for the year ended 31 December 2020.

Principal activity

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 7 vessels, 3 vehicle ferries, 1 dedicated freight ferry and 3 high speed catamarans for foot passengers only.

Going concern

It is clear that the impact of COVID-19 is significant to the operations of the Group. However, as a lifeline service provider to the Isle of Wight, the Group has continued to operate. The Company's forecasts and projections to December 2021 and onwards take into account reasonably possible changes in trading performance and show that the Group will be able to operate within its current facilities. Thus, the Directors continue to adopt the going concern basis in preparing the annual financial statements.

Directors' responsibilities statement

The Directors are responsible for preparing the Directors' report and the consolidated financial statements, in accordance with applicable laws and regulations.

Company law requires the Directors to prepare consolidated financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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 Group and enable them to ensure that the consolidated 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.

Results and dividends

The deficit for the year, after taxation, amounted to £27,236,000 (2019: £10,803,000).

The directors recommended and paid a dividend of £Nil (2019: £Nil).

Directors

The directors who served during the year were:

Mr C J G Hazelwood
Ms C Richards
Mr A Z Vale (resigned 10 November 2020)
Ms M Chang (resigned 23 July 2020)
Mr E A Wilson
Mr S D Dowd
Mr G C Gray
Ms P Sims (appointed 26 November 2020)
Mr M Hammond (appointed 26 November 2020)
Mr P Robert (appointed 23 July 2020)

Political and charitable contributions

During the financial period, the Group made charitable donations of £6,000 (2019: £27,000). No donations were made to political parties in the current period (2019: £Nil).

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:

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 week. A target of 42 days for debtors collection has been set by the Audit Committee.

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.

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.

Work is continuing on the East Cowes Main Scheme. Demolition of the buildings has been completed along with designing the layout of the new yard and terminal building. Work has been put on hold but will continue in the foreseeable future.

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.

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.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware; and

- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

Post balance sheet events

The ongoing impact of COVID-19 continued into 2021 with the country entering a third national lockdown on January 4th 2021. This led to a material impact on volumes and revenue through the first half of 2021, but the relaxation of restrictions led to an increase in demand such that performance following relaxation has exceeded expectation based on an increased demand for UK staycations.

With the introduction of the third lockdown, a government support scheme that had been in operation from April to July 2020 to safeguard services between the Isle of Wight and the UK was reintroduced in January 2021. When announced this second package covered the period November 2020 to March 2021, but was subsequently extended for a further month.

In securing its debt facilities in July 2021 the Group extended waivers to its banking covenants under the 2017 and 2018 Facilities Agreements until June 2022. At the same time, the Group also secured an amendment and restatement of its 2017 Facility Agreement providing facilities until July 2023.

In July 2021 the Group announced the resignation of Kevin George as Chair. Kevin had previously been CEO for three years and had held the role of Chair for four years. He was replaced by Stephen Ridgway, CBE, former CEO of Virgin Atlantic and Chair of the British Tourism Authority.

On 30 July 2021, the Group received £5m of funding through additional Shareholder Loan Notes. The funds were used to settle the entire balance of the CLBILS facility on the same day.

Independent auditors

The auditors, BDO LLP, will be proposed for reappointment in accordance with the Companies (Jersey) Law 1991.

This report was approved by the board on 6 August 2021 and signed on its behalf.

Mr C J G Hazelwood
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RED FUNNEL HOLDINGS LIMITED

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group’s and parent Company’s affairs as at 31 December 2020 and of its loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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 Companies (Jersey) Law 1991.

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 2020, which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated and 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 the preparation of the Group financial statements 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 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group’s or parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies (Jersey) Law 1991 reporting

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, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the 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 Directors’ Responsibilities Statement, 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 determine 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 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 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RED FUNNEL HOLDINGS LIMITED (CONTINUED)

We obtained an understanding of the legal and regulatory framework by reviewing a list of all applicable laws and regulations as provided by management. Through inquiry with management and review of minutes of meetings and related accounts, we obtained an understanding of the processes and controls designed at Group and parent Company level to prevent and detect non-compliance with applicable laws and regulations and other irregularities. Based on our understanding of the Group and the parent Company and the industry in which it operates, we considered those laws and regulations that have a direct impact on the financial statements, such as the Companies (Jersey) Law 1991.

We evaluated management’s incentives and opportunities for fraudulent manipulation of the Group and Parent Company financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results. We assessed the susceptibility of the Group’s and parent Company’s financial statements to material misstatement, including how fraud might occur.

Audit procedures performed included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, corroborating responses with information gained from other aspects of the audit
- Assessing journal entries against specific criteria and to specific accounts that we considered as at a greater risk of fraud as part of our planned audit approach. We reviewed whether the journals were appropriately authorised and whether there is a commercial reason for the entries and we agreed the journals to supporting documentation.
- Review of management’s estimates and judgments for management bias by corroborating these to external evidence, stress-testing models and referring to applicable accounting framework.
- Discussions with those charged with governance regarding known, alleged or suspected instances of fraud. We were not made aware of any.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on 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 Group and 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 Group and 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 Group and the parent Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Malcolm Thixton
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Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Chartered Accountants
Southampton, United Kingdom
Date: 6 August 2021

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Revenue	4	**32,281**	56,106
Cost of sales		**(33,437)**	(36,190)
Gross (loss)/profit		**(1,156)**	19,916
Administrative expenses		**(12,594)**	(12,324)
Other operating income	5a	**5,231**	-
(Loss)/Profit from operations		**(8,519)**	7,592
Finance income	8	**7**	33
Finance expense	8	**(20,107)**	(18,604)
Other finance income	8	**(54)**	(95)
Loss before tax		**(28,673)**	(11,074)
Tax credit	9	**1,437**	271
Loss for the year		**(27,236)**	(10,803)
Other comprehensive income / (loss):			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension schemes	27	**(430)**	-
Items that will or may be reclassified to profit or loss:			
Cashflow hedges		**(2,004)**	(1,076)
Taxation in respect of items of other comprehensive income		**681**	-
Other comprehensive loss for the year, net of tax		**(1,753)**	(1,076)
Total comprehensive loss		**(28,989)**	(11,879)

The notes on pages 20 to 63 form part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Revenue		**-**	-
Cost of sales		**-**	-
		-	-
Gross profit			
Administrative expenses		**-**	(75)
Profit from operations		**-**	(75)
Interest receivable and similar income	8	**12,624**	11,418
Interest payable and expenses	8	**(12,624)**	(11,418)
Profit on ordinary activities before tax		**-**	-
Taxation on profit on ordinary activities		**-**	-
Loss for the year		**-**	(75)

The notes on pages 20 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Assets			
Non-current assets			
Property, plant and equipment	11	**53,626**	57,656
Investment property	12	**1,596**	1,596
Intangible assets	13	**324,891**	330,373
		380,113	389,625
Current assets			
Inventories	16	**309**	632
Trade and other receivables	18	**9,222**	3,838
Cash and cash equivalents		**7,009**	12,802
		16,540	17,272
Total assets		**396,653**	406,897
Liabilities			
Non-current liabilities			
Loans and borrowings	20	**151,721**	147,783
Derivative financial liabilities	17	**2,024**	1,120
Employee benefit liabilities	27	**3,125**	2,881
Deferred tax liability	9	**-**	(749)
		156,870	151,035
Current liabilities			
Trade and other liabilities	19	**8,470**	8,610
Loans and borrowings	20	**136,598**	124,648
Derivative financial liabilities	17	**1,403**	303
		146,471	133,561
Total liabilities		**303,341**	284,596
Net assets		**93,312**	122,301

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Issued capital and reserves attributable to owners of the parent			
Share capital	21	**20**	20
Share premium reserve	22	**157,237**	157,237
Other reserves	22	**(3,116)**	(1,112)
Retained earnings	22	**(60,829)**	(33,844)
		93,312	122,301

The financial statements on pages 9 to 63 were approved and authorised for issue by the board of directors on 6 August 2021 and were signed on its behalf by:

Mr C J G Hazelwood
Director

The notes on pages 20 to 63 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Investments	15a		**157,257**		157,257
Current assets					
Debtors	18a	**135,419**		122,795	
		135,419		**122,795**	
Creditors: amounts falling due within one year	20a	**(135,494)**		(122,870)	
Net current liabilities			**(75)**		(75)
Total assets less current liabilities			**157,182**		157,182
Net assets			**157,182**		157,182
Capital and reserves					
Share capital	21		**20**		20
Share premium reserve	22		**157,237**		157,237
Profit and loss account	22		**(75)**		(75)
			157,182		157,182

The financial statements on pages 9 to 63 were approved and authorised for issue by the board of directors on 6 August 2021 and were signed on its behalf by:

Mr C J G Hazelwood
Director

The notes on pages 20 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £000	Share premium £000	Cash flow hedging reserve £000	Retained earnings £000	Total attributable to equity holders of parent £000	Total equity £000
At 1 January 2020	20	157,237	(1,112)	(33,844)	122,301	122,301
Comprehensive income for the year						
Loss for the year	-	-	-	(27,236)	(27,236)	(27,236)
Other comprehensive loss	-	-	(2,004)	(430)	(2,434)	(2,434)
Tax on other comprehensive loss	-	-	-	681	681	681
Total comprehensive loss for the year	-	-	(2,004)	(26,985)	(28,989)	(28,989)
Contributions by and distributions to owners	-	-	-	-	-	-
At 31 December 2020	20	157,237	(3,116)	(60,829)	93,312	93,312

The notes on pages 20 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £000	Share premium £000	Cash flow hedging reserve £000	Retained earnings £000	Total attributable to equity holders of parent £000	Total equity £000
At 1 January 2019	20	157,237	(36)	(23,041)	134,180	134,180
Comprehensive loss for the year						
Loss for the year	-	-	-	(10,803)	(10,803)	(10,803)
Other comprehensive income	-	-	(1,076)	-	(1,076)	(1,076)
Total comprehensive loss for the year	-	-	(1,076)	(10,803)	(11,879)	(11,879)
Contributions by and distributions to owners						
At 31 December 2019	20	157,237	(1,112)	(33,844)	122,301	122,301

The notes on pages 20 to 63 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 January 2020	20	157,237	(75)	157,182
Comprehensive loss for the year				
Loss for the year	-	-	-	-
Total comprehensive loss for the year	-	-	-	-
Contributions by and distributions to owners	-	-	-	-
At 31 December 2020	20	157,237	(75)	157,182

The notes on 20 to 63 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £000	Share premium £000	Retained earnings £000	Total Equity £000
At 1 January 2019	20	157,237	-	157,257
Comprehensive loss for the year				
Loss for the year	-	-	(75)	(75)
Total comprehensive loss for the year	-	-	(75)	(75)
Contributions by and distributions to owners				
At 31 December 2019	20	157,237	(75)	157,182

The notes on pages 20 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 £000	2019 £000
Cash flows from operating activities		
Loss for the year	**(27,236)**	(10,803)
Adjustments for:		
Depreciation of property, plant and equipment	**7,380**	6,879
Amortisation of intangible fixed assets	**6,018**	5,798
Finance income	**(7)**	(33)
Finance expense	**20,107**	18,604
Difference in net pension expense & cash contribution (inc. MNOPF)	**(814)**	-
Loss on disposal of fixed assets	**257**	-
Income tax credit	**(1,437)**	(271)
	4,268	20,174
Movements in working capital:		
Increase in trade and other receivables	**(2,000)**	(410)
Decrease/(increase) in inventories	**323**	(45)
Increase/(decrease) in trade and other payables	**(777)**	(1,258)
Decrease in provisions	**-**	(145)
Cash generated from operations	**1,814**	18,316
Interest paid	**-**	654
Net cash from operating activities	**1,814**	18,970
Cash flows from investing activities		
Purchases of property, plant and equipment	**(664)**	(5,173)
Proceeds from sale of property, plant and equipment	**-**	522
Purchase of intangible fixed assets	**(3,561)**	(772)
Interest received	**7**	-
Net cash used in investing activities	**(4,218)**	(5,423)

The notes on pages 20 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 £000	2019 £000
Cash flows from financing activities		
Principal paid on lease liabilities	**(356)**	(262)
Proceeds from bank borrowings	**4,500**	-
Repayment of bank borrowings	**-**	(1,442)
Capital element of finance lease repaid	**(948)**	(673)
Interest paid	**(6,517)**	(7,107)
Debt issue costs incurred (CLBILS - capitalised)	**(68)**	-
Net cash used in financing activities	**(3,389)**	(9,484)
Net increase in cash and cash equivalents	**(5,793)**	4,063
Cash and cash equivalents at the beginning of the year	**12,802**	8,739
Cash and cash equivalents at the end of the year	**7,009**	12,802

The notes on pages 20 to 63 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 2020 comprise the Company and its subsidiaries (together referred to as ('the Group').

1.1 Basis of preparation

The consolidated financial statements are presented in GBP, 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) as adopted by the European Union.

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 judgment in applying the Group's accounting policies. The areas where significant judgments 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 and OCI
- Investment property
- Net defined benefit liability

1.2 New and forthcoming accounting standards

a) New standards, interpretations and amendments adopted from 1 January 2020

New standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2020 are:

- Definition of a Business (Amendments to IFRS 3); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16).

Definition of a Business (Amendments to IFRS 3)
Amendments to IFRS 3 were mandatorily effective for reporting periods beginning on or after 1 January 2020. The Group has applied the revised definition of a business for acquisitions occurring on or after 1 January 2020 in determining whether an acquisition is accounted for in accordance with IFRS 3 Business Combinations. The amendments do not permit the Group to reassess whether acquisitions occurring prior to 1 January 2020 met the revised definition of a business.

COVID-19-Related Rent Concessions (Amendments to IFRS 16)
Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

1. Accounting policies (continued)

1.2 New and forthcoming accounting standards (continued)

- The reduction is lease payments affects only payments originally due on or before 30 June 2021; and
- There are no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

There are no rent concessions that meet the criteria for the practical expedient.

Other standards

New standards that have been adopted in the annual financial statements for the year ended 31 December 2020, but have not had a significant effect on the Group are:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that ‘settlement’ includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities, as the conversion feature in its convertible debt instruments is classified as an equity instrument and therefore, does not affect the classification of its convertible debt as a non-current liability.

1. Accounting policies (continued)

1.2 New and forthcoming standard (continued)

Other

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the group.

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. Accounting policies (continued)

1.4 Going concern

The financial statements have been prepared on the going concern basis as the Directors have prepared detailed budgets for a period of at least 12 months from the date of signing the accounts which show that the Group is expected to be able to meet all its liabilities as they fall due. However, it is acknowledged that the global and UK outbreak of COVID-19 has and continues to have a profound impact on the global and UK economy and businesses.

As a result of the market uncertainty due to the ongoing COVID-19 situation, the possible impact on available cash during the next 12 months' trading has been modelled under a range of assumptions and sensitivities. The current performance of the Group is exceeding expectation and this is anticipated to continue as restrictions ease further and as the UK economy regains momentum and stability. That said, the Directors acknowledge the unpredictable nature of the pandemic and continue to prepare stress tests for the Group. The conclusion of the stress test indicates that the Group can continue in operation over the course of the next 12 months from the date of signing these financial statements without exceeding current banking facilities.

The Group, and the companies which are wholly owned, is expected to remain in a strong financial position during the forecast period and a gradual return to the Group's previous financial position is expected during 2021 through into 2022 and onwards. To date, this has been evidenced by performance above budget.

The Directors are confident of being able to trade for a period of at least 12 months from the approval of the financial statements and have therefore concluded that it is appropriate for the financial statements to be prepared on the going concern basis.

1.5 Revenue

The Group recognises revenue under IFRS 15 and revenue is recognised when all performance obligations have been met. This at a point in time. 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.

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.

1. Accounting policies (continued)

1.5 Revenue (continued)

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. Accounting policies (continued)

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 generally recognised in the Consolidated Statement of Comprehensive Income as incurred.

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) 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 amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the Consolidated Statement of Comprehensive Income as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in the Consolidated Statement of Comprehensive Income.

1. Accounting policies (continued)

1.6 Business combinations (continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in the Consolidated Statement of Comprehensive Income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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. 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 the Consolidated Statement of Comprehensive Income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

1.8 Intangible assets

(i) 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:

Brand	5 years
Computer software	3 - 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 the Consolidated Statement of Comprehensive Income when the asset is derecognised.

1. Accounting policies (continued)

1.8 Intangible assets (continued)

(ii) Externally aquired 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.

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 assets	**Useful Economic Life**	**Valuation Method**
Brand	5 years	Relief from royalty approach
Non contractual customer relationships	5 years	Replacement cost method

1.9 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
Long-term leasehold property	10 - 30 years
Short-term leasehold property	Over the term of the lease
Plant and machinery	3 - 30 years
Motor vehicles	5 - 10 years
Right of use asset	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 Consolidated Statement of Comprehensive Income.

Some assets in stock have been reclassified to fixed assets. These are expected to be used for more than one period. Until a time they are brought into use, they are held as assets under construction.

1. Accounting policies (continued)

1.10 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 year 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.

1.11 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. 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 the Consolidated Statement of Comprehensive Income 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 the Consolidated Statement of Comprehensive Income in the period in which the property is derecognised.

1.12 Inventories

Inventories, 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 the present location and condition.

Marine spares are valued on the basis of direct costs plus attributable overheads based on normal levels of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of marine spares.

Marine Spares are considered as Tangible Fixed Assets categorised within Assets Under Construction in line with FRS 102.17.5, as the spare parts are expected to be in use for more than one period. In prior periods, amounts for Marine Spares were included within inventories, however the amounts have historically been immaterial.

1. Accounting policies (continued)

1.13 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.

1.14 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. Accounting policies (continued)

1.15 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 rate method.

1.16 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 the Consolidated Statement of Comprehensive Income;
• 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; and
• 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 Consolidated 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 Consolidated Income Statement into the same line item as the hedged item is recognised.

1. Accounting policies (continued)

1.17 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 December 2020. 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 Consolidated Statement of Financial Position under pension obligations. Pension costs of the period are recognised in the Consolidated Statement of Comprehensive Income based on actuarial estimates and finance expectations at the beginning of the period.

1.18 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.

1.19 Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when they are declared by the directors. In the case of final dividends, this is when they are declared by the directors and approved by the shareholders at the AGM.

1. Accounting policies (continued)

1.20 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.

1.21 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 Consolidated Statement of Comprehensive Income in the period that the Group becomes aware of the obligation, and are measured at the best estimate at the Consolidated Statement of Financial Position 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 Consolidated Statement of Financial Position

1.22 Repairs and renewals

Service costs in respect of the annual maintenance of vessels are charged to the Consolidated Statement of Comprehensive Income 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. Accounting policies (continued)

1.23 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.

1.24 Government grants

Grants are accounted under the accruals model as permitted by IAS 20. Grants relating to expenditure on tangible fixed assets are credited to the Consolidated Statement of Comprehensive Income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Consolidated Statement of Comprehensive Income in the same period as the related expenditure.

2. Critical accounting estimates and judgments

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.

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.

2. Critical accounting estimates and judgments (continued)

Investment properties

The group's investment properties are valued annually on 31 December at fair value, determined by the directors. 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 judgment 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.

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 Consolidated Statement of Comprehensive Income.

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.

Impairment of goodwill, intangible, tangible and right-of-use assets

In carrying out impairment reviews of goodwill, intangible, tangible and right-of-use assets (including assets in the course of constructions), a number of significant assumptions have to be made when preparing cash flow projections from which to determine value in use and also in assessing fair value less costs of disposal. These include revenue growth, the extent and timing of future cash flows and discount rate. In determining discount rate, the judgement reflected the impact of Covid on the demand for Isle of Wight travel and the consequential uncertainties including the lack of reliable traffic forecasts, and the future operating environment. Accordingly, there is inherent uncertainty in respect of the judgments on discount rate. As a sensitivity, a 1% change in the discount rate would result in a £88.5m change in the discounted cash flow, and a 1% change in the long-term EBIDTA growth rate would result in a £22.0m change in the discounted cash flow.

Should the outcome in respect of these matters differ or changes in expectations arise, further impairment charges may be required which would materially impact operating results in future periods.

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 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 week. A target of 42 days for debtor collection has been set by the Audit Committee.

3. Financial instruments - Risk Management (continued)

General objectives, policies and processes (continued)

Credit risk (continued)

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 18.

Cash in bank and short-term deposits

All the Group’s cash, totalling £7,009,000 (2019: £12,802,000), is held with Natwest 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.

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

The following is an analysis of the Group's revenue for the year from continuing operations:

	2020 £000	2019 £000
Ferry and associated catering and travel services	**32,281**	56,106

All revenue is derived from activities within the United Kingdom.

5. Profit from operations

	2020	2019
	£000	£000
Loss from operations is stated after charging:		
Depreciation and other amounts written off tangible fixed assets	**7,380**	8,039
Amortisation of goodwill and other intangible assets	**6,018**	5,798
Hire of other assets – operating leases	**767**	767
Government grants	**5,231**	-

Auditors' remuneration	2020	2019
	£000	£000
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	**57**	74
Fees payable to the Company's auditors for other services:		
Tax compliance	**8**	8
All other services	**5**	5
Tax advisory services	**8**	8
Other non-audit services	**12**	10

5a Other operating income

	2020	2019
	£000	£000
Government support including furlough income	**5,231**	-

6. Employee benefit expenses

	2020 £000	2019 £000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	**14,166**	14,453
Defined contribution pension cost	**1,249**	449
Social security contributions and similar taxes	**462**	1,308
	15,877	16,210

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the directors of the Company listed on page 1, and the Group chief finance office of the Company.

	2020 £000	2019 £000
Remuneration of Directors of wholly owned subsidiaries:		
Salary	**802**	1,153
Defined contribution scheme costs	**57**	54
	859	1,207

6. Employee benefit expenses (continued)

Employee

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

	2020 No	2019 No
Administration	**91**	107
Sea-faring staff	**252**	289
Shore-based staff	**155**	163
	498	559

The average number of FTEs (Full Time Equivalents) including overtime and casuals were 426 (2019 – 469).

The Company has no employees other than the directors, who did not receive any remuneration (2019 - £Nil).

7. 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.

8. Finance income and expense

	2020 £000	2019 £000
Recognised in profit or loss		
Finance income		
Other finance income	**(54)**	(95)
Other interest receivable	**7**	33
Finance expense		
Bank interest payable	**6,110**	5,865
Finance leases (interest portion)	**1,165**	1,036
Loans from shareholders	**12,624**	11,418
Other loan interest payable	**-**	73
Interest expense on lease liabilities	**208**	212
Total finance expense	**20,107**	18,604
Net finance expense recognised in profit or loss	**20,154**	18,666

Bank interest payable includes amortisation of debt issue costs totalling £623,000 (2019: £621,000).

Company

The company had interest receivable from amounts owed from group companies totalling £12,624,000 (2019: £11,418,000).

The company had interest payable on shareholder loans totalling £12,624,000 (2019: £11,418,000)

9. Tax expense (continued)

9.1 Income tax recognised in profit or loss (continued)

9. Tax expense

	2020 £000	2019 £000
9.1 Income tax recognised in profit or loss		
Deferred tax		
Origination and reversal of timing differences	**(1,437)**	(271)
Deferred tax expense		
Tax expense excluding tax on sale of discontinued operation and share of tax of equity accounted associates and joint ventures	**(1,437)**	(271)

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

	2020 £000	2019 £000
Loss for the year	**(27,236)**	(10,803)
Income tax credit/expense (including income tax on associate, joint venture and discontinued operation)	**(1,437)**	(271)
Loss before income taxes	**(28,673)**	(11,074)
Tax using the Company's domestic tax rate of 19% (2019 – 19%)	**(5,448)**	(2,104)
Fixed asset differences	**185**	228
Expenses not deductible for tax purposes, other than goodwill, amortisation and impairment	**1,074**	992
Adjustments to tax charge in respect of prior period	**(252)**	14
Other timing differences leading to an increase in taxation	**2**	-
Amounts charged directly to the STRGL or otherwise transferred	**-**	-
Group relief	**-**	(1)
Other movements	**(125)**	(74)
Deferred tax charged directly to the STRGL	**-**	-
Deferred tax not recognised	**3,127**	674
Timing differences	**-**	-
Total tax expense	**(1,437)**	(271)

Changes in tax rates and factors affecting the future tax charges

In the Budget of 11 March 2020, the Chancellor of the Exchequer announced that the planned rate reduction to 17% would no longer be taking effect. The changes announced during the Budget of 11 March 2020 were substantively enacted as at the 31 December 2020 balance sheet date, therefore, all opening deferred taxation balances have been remeasured at 19% with an adjustment recognised in the total tax charge.

9. Tax expense (continued)

9.1 Income tax recognised in profit or loss (continued)

On 3 March 2021, as part of the 2021 Budget, the Chancellor announced further changes to the corporation tax charge. Legislation will be introduced in the Finance Bill 2021 to set the main rate of corporation tax for all non-ring fence profits to 19% for Financial Year 2022. For Financial Year 2023 and onwards, the charge to corporation tax will be set at a main rate of 25% in addition to the introduction of a small profits rate, which will be set at 19%. Marginal relief provisions will apply where profits fall between the upper and lower limits. As these changes were subsequently enacted after the year-end, the impact of the above rates will be reflected in the financial statements for the year ended 31 December 2021.

Deferred taxation

The deferred taxation balance at 1 January 2020 was £749,000 (included within debtors), the movement through the P&L was £2,118,000 leaving a balance at 31 December 2020 of £2,867,000.

The deferred tax balance is made up of:

Business combinations: £(1,544,700) (2019: £(2,307,000), fixed asset and short term timing differences: £3,817,700 (2019: £2,566,000), and pensions: £594,000 (2019: £490,000).

10. Dividends

The directors are proposing a final dividend of £Nil (2019: £Nil) per ordinary A share totalling £Nil (2019: £Nil). The dividend has not been accrued in the consolidated statement of financial position.

11. Property, plant and equipment

	Land and Buildings £000	Long-term leasehold property £000	Plant and machinery and motor vehicles £000	Right of use asset £000	Ships £000	Assets under construction £000	Total £000
At 1 January 2019	7,810	-	12,422	-	73,504	7,687	101,423
Additions	-	-	264	4,405	187	12,177	17,033
Disposals	-	-	(2)	-	(3,552)	-	(3,554)
Transfers between classes	482	40	502	-	16,243	(17,267)	-
At 31 December 2019	8,292	40	13,186	4,405	86,382	2,597	114,902
Additions	-	-	-	-	36	3,525	3,561
Disposals	-	-	-	-	(518)	(77)	(595)
Transfers between classes	990	-	871	-	1,723	(3,584)	-
At 31 December 2020	**9,282**	**40**	**14,057**	**4,405**	**87,623**	**2,461**	**117,868**

11. Property, plant and equipment (continued)

	Land and Buildings £000	Long-term leasehold property £000	Plant and machinery and motor vehicles £000	Right of use asset £000	Ships £000	Assets under construction £000	Total £000
Accumulated depreciation and impairment							
At 1 January 2019	1,828	-	10,320	-	41,634	-	53,782
Charge on owned assets for the year	273	-	837	212	5,557	-	6,879
Disposals	-	-	(2)	-	(3,413)	-	(3,415)
At 31 December 2019	2,101	-	11,155	212	43,778	-	57,246
Charge on owned assets for the year	264	-	834	280	6,002	-	7,380
Disposals	-	-	-	-	(384)	-	(384)
At 31 December 2020	**2,365**	**-**	**11,989**	**492**	**49,396**	**-**	**64,242**
Net book value							
At 31 December 2019	6,191	40	2,031	4,193	42,604	2,597	57,656
At 31 December 2020	**6,917**	**40**	**2,068**	**3,913**	**38,227**	**2,461**	**53,626**

Marine spares are included within assets under construction.

11. Property, plant and equipment (continued)

Assets on finance or under HP

Included within the net book value of £53.6 million (2019: £57.7 million) is £22.8 million (2019: £24.6 million) relating to assets held under finance lease agreements. Depreciation charged to the financial statements in the period in respect of such assets amounted to £1.8 million (2019: £1.5 million).

Capital commitments contracted to 31 December 2019 were £nil (2019: £Nil).

12. Investment property

(i) Non-current assets at fair value	2020 £000	2019 £000
At 1 January 2020 and 31 December 2020	**1,596**	1,596

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.

These valuations are now undertaken by the Directors. The Directors are of the view that there has been no material change in value since this valuation.

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 £1.0 million (2019: £1.1 million). The revaluation deficit (gross of tax) amounted to £Nil (2019 - £Nil).

(ii) Restrictions and obligations

At 31 December 2020, 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 2020, contractual obligations to purchase investment property amounted to £Nil (2019: £Nil).

13. Intangible assets

	Goodwill £000	Assets in course of construction £000	Brand £000	Customer relationships £000	Computer software £000	Total £000
Cost						
At 1 January 2019	315,278	337	26,317	780	1,286	343,998
Additions	-	773	-	-	-	773
Transfers	-	(126)	-	-	126	-
At 31 December 2019	315,278	984	26,317	780	1,412	344,771
Additions	-	605	-	-	-	605
Disposals	-	(69)	-	-	-	(69)
Transfers	-	(842)	-	-	842	-
At 31 December 2020	315,278	678	26,317	780	2,254	345,307

	Brand £000	Customer relationships £000	Computer software £000	Total £000
Accumulated amortisation and impairment				
At 1 January 2019	7,895	234	471	8,600
Charge for the year	5,263	156	379	5,798
At 31 December 2019	13,158	390	850	14,398
Charge for the year	5,263	156	599	6,018
At 31 December 2020	18,421	546	1,449	20,416

13. Intangible assets (continued)

	Goodwill £000	Assets in course of construction £000	Brand £000	Customer relationships £000	Computer software £000	Total £000
Net book value						
At 31 December 2019	315,278	985	13,159	390	562	330,373
At 31 December 2020	315,278	678	7,896	234	805	324,891

14. Goodwill and impairment

	2020 £000	2019 £000
Cost	**315,278**	315,278
Cost		
At 1 January	**315,278**	315,278
At 31 December	**315,278**	315,278
Accumulated impairment		
At 31 December	**-**	-

Impairment

The Group testes goodwill annually or more frequently if there is an indication of impairment.

Goodwill is allocated to the trading company. Its recoverable amount is determined by reference to the higher of its fair value less costs of disposal and its value in use. The valuation methodology is consistent with IFRS 13 level 3 hierarchy.

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

In carrying out impairment reviews of goodwill, intangible, tangible and right-of-use assets (including assets in the course of constructions), a number of significant assumptions have to be made when preparing cash flow projections from which to determine value in use and also in assessing fair value less costs of disposal. These include revenue growth, the extent and timing of future cash flows and discount rate. In determining the discount rate, the judgement reflected the impact of Covid on the demand for Isle of Wight travel and the consequential uncertainties including the lack of reliable traffic forecasts, and the future operating environment. Accordingly, there is inherent uncertainty in respect of the judgements on the discount rate. As a sensitivity, a 1% change in the discount rate would result in a £88.5m change in the discounted cash flow, and a 1% change in the long-term EBIDTA growth rate would result in a £22.0m change in the discounted cash flow.

Should the outcome in respect of these matters differ or changes in expectations arise, further impairment charges may be required which would materially impact operating results in future periods.

15. Subsidiaries

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Subsidiary undertaking	Principal activity	Place of incorporation and operation	Shares held (%) 2020	2019
1) Red Funnel Limited	Intermediate holding company	United Kingdom	100	100
2) Red Funnel Limited	Direct Holdings	United Kingdom	100	100
3) Steam Coffee Company Limited *	Indirect Holdings	United Kingdom	100	100
4) Isle of Wight Holidays Limited *	Indirect Holdings	United Kingdom	100	100
5) Red Funnel (Pension Trustees) Limited *	Indirect Holdings	United Kingdom	100	100
6) Falcon Acquisitions Limited ***	Indirect Holdings	United Kingdom	100	100
7) Southampton Isle of Wight and South of England Royal Mail Steam Packet Company Limited **	Indirect Holdings	United Kingdom	100	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 Limited
** subsidiary of Falcon Acquisitions Limited
*** subsidiary of Red Funnel Limited

The registered addresses of the above subsidiary undertakings are the same as the administration office address stated within the Company information (page 1).

15. Subsidiaries (continued)

15a Investments in subsidiaries - company

	2020 £000	2019 £000
Cost and net book value at 31 December	**157,257**	157,257

The Group's principal subsidiary undertakings are listed in note 15 to the Consolidated Financial Statements.

16. Inventories

	2020 £000	2019 £000
Marine spares	**-**	323
Catering stocks	**164**	128
Fuel oil	**145**	181
	309	632

The marine spares were reclassified to assets under construction, within Tangible fixed assets during the year.

17. Derivative financial instruments

	2020 £000	2019 £000
Derivative financial assets		
Derivatives designated as hedging instruments		
Interest rate swaps – cash flow hedges	**-**	-
Total derivatives designated as hedging instruments	**-**	-

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.

17. Derivative financial instruments (continued)

	2020 £000	2019 £000
Derivative financial liabilities		
Derivatives not designated as hedging instruments		
Interest rate swaps – cash flow hedge	**3,427**	1,423
Total derivatives designated as hedging instruments	**3,427**	1,423
Derivates designated as hedging instruments		
Current and non-current		
Current	**1,403**	303
Non-current	**2,024**	1,120
Total derivative financial liabilities	**3,427**	1,423

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 2020 totalled £60m (2019: £60m). Their fair value was a liability of £2,777,174 (2019: £1,305,158). 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 (2019: £nil).

At 31 December 2020, 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 2020 will be released to the consolidated statement of comprehensive income as the related interest expense is recognised.

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 £2,788,303 (2019: £2,784,681) Metric Tonnes. The fair value of the swap as at 31 December 2020 was a liability of £649,837 (2019: Liability £117,720). 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 2020, 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 2020 will be released in the period or periods during which the hedged forecast transaction affects the Consolidated Statement of Comprehensive Income.

18. Trade and other receivables

	2020 £000	2019 £000
Trade receivables	**2,074**	1,504
Receivables from related parties	**-**	-
Prepayments and accrued income	**1,142**	1,101
Other receivables	**3,139**	1,233
Deferred tax	**2,867**	-
Total trade and other receivables	**9,222**	3,838

The carrying value of trade and other receivables classified as loans and receivables approximates fair value.

As at 31 December 2020 trade receivables of £387,144 (2019: £1,445,009) were past due but not impaired. They relate to customers with no default history. The ageing analysis of the receivables are as follows:

£173,942 (2019: £829,114) overdue up to one month
£148,203 (2019: £483,088) overdue up to two months
£64,999(2019: £132,507) overdue by over two months or more

As at 31 December 2020 trade receivables of £35,307 (2019: £28,587) were past due and fully impaired. The bad debt provision is a specific provision against 5 (2019: 2) customers where, in the view of the directors, there is a specific and objective evidence that the debt is impaired.

18a Trade and other receivables - company

	2020 £000	2019 £000
Amounts owed by group undertakings	135,419	122,795

19. Trade and other payables

	2020 £000	2019 £000
Trade payables	**2,287**	2,202
Other payables	**1,322**	769
Accruals	**4,467**	5,145
Other payables – tax and social security payments	**394**	494
Total trade and other payables	**8,470**	8,610

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

20. Loans and borrowings

	2020 £000	2019 £000
Non-current		
Bank loans – secured	**130,955**	125,899
MNOPF Liability	**202**	293
Finance leases	**20,564**	21,591
	151,721	147,783
Current		
MNOPF Liability	**90**	627
Shareholder loan notes – unsecured	**135,445**	122,821
Finance leases	**1,063**	1,200
	136,598	124,648
Total loans and borrowings	**288,319**	272,431

20. Loans and borrowings (continued)

Total debt issue costs of £3,043,535 (2019: £3,917,000) are offset against the bank loan balance and amortised over the life of the loan. Amortisation to date of £1,898,048 (2019: £1,760,000) has been charged to the statement of comprehensive income. Debt issue costs at 31 December 2020 were £2,844,000 (2019: £3,399,000).

All of the groups borrowings are denominated in sterling.

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 2023. 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 above commitments relate to finance leases for Red Jet 6, Red Jet 7 and Red Kestrel. These are secured against the assets, and have an implied interest rates of 9.67%, 5.24% and 4.48% with payment terms of 15 years, 10 years and 7 years respectively.

Bank Borrowings

At 31 December 2020 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 MNOPF liability relates to the defined benefit scheme for the Merchant Navy Officers Pension Fund (“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 2020.

The profile of the bank loan, shareholder loan note and MNOPF loan is as follows. The finance lease profile can be found in note 23.

Included within non-current finance leases are £3,946k of IFRS 16 recognised leases.

The loans and borrowings in the Company relate exclusively to the Shareholder Loan notes.

The carrying value of loans and borrowings classified as financial liabilities measured at amortised cost approximates fair value.

20 Loans and borrowings (continued)

Loans and borrowings - Group

	Bank loan £000	Shareholder loan note £000	Other loans £000	Finance leases £000	Total £000
2020					
Not later than one year	56,455	135,445	90	1,063	193,053
Later than one year and not later than five years	-		202	5,136	5,338
Later than five years	74,500			15,428	89,928
	130,955	**135,445**	**292**	**21,627**	**288,319**
2019					
Not later than one year	-	122,821	627	1,200	124,648
Later than one year and not later than five years	55,899	-	293	9,010	65,202
Later than five years	70,000	-	-	12,581	82,581
	125,899	122,821	920	22,791	272,431

20a Loans and borrowings – Company

	2020 £000	2019 £000
Current		
Shareholder loan note – unsecured	**100,000**	100,000
Interest payable on shareholder loan	**35,445**	22,821
Trade and other liabilities	**49**	49
	135,494	122,870

21. Share capital

	2020 Number	2020 £000	2019 Number	2019 £000
Authorised, issued and fully paid				
Shares treated as equity				
Ordinary A shares of £1.00 each	**10,000**	10	**10,000**	10
Ordinary B shares of £1.00 each	**10,000**	10	**10,000**	10
	20,000	20	**20,000**	20

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.

22. Reserves

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

Share premium

Amount subscribed for share capital in excess of nominal value.

Hedging reserves

Includes the cumulative value of all movements in the hedging reserve.

Retained earnings

All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

All descriptions of the above reserves apply to both the Consolidated and Single Entity Financial Statements.

23. Leases

Finance lease – lessee

Future lease payments are due as follows:

2020	Minimum payments £000	Interest £000	Present value £'000
Not later than one year	2,171	(1,108)	1,063
Between one year and five years	8,833	(3,697)	5,136
Later than five years	17,077	(1,649)	15,428
	28,081	(6,454)	21,627
2019			
Not later than one year	2,356	(1,156)	1,200
Between one year and five years	12,960	(3,950)	9,010
Later than five years	14,867	(2,286)	12,581
	30,183	(7,392)	22,791

A trading subsidiary within the group has entered into 3 finance lease arrangements for a vessel (Red Kestrel) and two high speed Catamarans (Red Jet 6 and Red Jet 7).

The implied interest rate of the leases are 4.48%, 9.67% and 5.24% over 7 years, 15 years and 10 years respectively.

Each of the leases are on a fixed payment basis.

Operating leases – lessee

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

	2020 £000	2019 £000
Not later than one year	**655**	749
Between one year and five years	**2,029**	2,202
Later than five years	**3,216**	4,818
	5,900	7,769

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.

24. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the financial period, the Group paid £86,000 (2019: £107,000) to Visit Isle of Wight Limited for advertising and sponsorship. J M Green, a director of the Group, is also a director of Visit Isle of Wight Limited. There were credits of £4,000 (2019 - £nil) owing to Visit Isle of Wight Limited at 31 December 2020. J M Green resigned as director of the company on 15 November 2019.

During the financial period, the group were paid £51,000 (2019: £42,000) by UK Sailing Academy for ferry travel to the Isle of Wight. Ms C E Locke and Mr K George, directors of the Group, were also directors of UK Sailing Academy. There was £Nil (2019: £Nil) owing from UK Sailing Academy at 31 December 2020.

During the financial period, the group paid £4,000 (2019: £17,000) to the Isle of Wight Chamber of Commerce for advertising and chamber membership. F Collins, a director of the Group, was also a director of Isle of Wight Chamber of Commerce during the year. There were credits of £Nil (2019: £Nil) owing to Isle of Wight Chamber of Commerce at 31 December 2020.

25. Events after the reporting date

The ongoing impact of COVID-19 continued into 2021 with the country entering a third national lockdown on January 4th 2021. This led to a material impact on volumes and revenue through the first half of 2021, but the relaxation of restrictions led to an increase in demand such that performance following relaxation has exceeded expectation based on an increased demand for UK staycations.

With the introduction of the third lockdown a government support scheme that had been in operation from April to July 2020 to safeguard services between the Isle of Wight and the UK was reintroduced in January 2021. When announced this second package covered the period November 2020 to March 2021, but was subsequently extended for a further month.

In securing its debt facilities in July 2021 the Company extended waivers to its banking covenants under the 2017 and 2018 Facilities Agreements until June 2022. At the same time, the Company also secured an amendment and restatement of its 2017 Facility Agreement providing facilities until July 2023.

In July 2021 the Company announced the resignation of Kevin George as Chair. Kevin had previously been CEO for three years and had held the role of Chair for four years. He was replaced by Stephen Ridgway, CBE, former CEO of Virgin Atlantic and Chair of the British Tourism Authority.

On 30 July 2021, the Group received £5m of funding through additional Shareholder Loan Notes. The funds were used to settle the entire balance of the CLBILS facility on the same day.

26. Ultimate controlling party

This is the largest group of undertakings for which group accounts are drawn up including all subsidiaries in the group. The group is headed by Red Funnel Holdings Limited.

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

27. Defined benefit schemes

(i) Defined benefit scheme characteristics and funding

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 2019. A qualified actuary, independent of the scheme's sponsoring employer, has updated the scheme values to 31 December 2020. The major assumptions used by the actuary are shown below.

The scheme is in deficit and SIOW will make payment of annual contributions of £240,000 in respect of the deficit from February 2019 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 (2019: £Nil).

27. Defined Benefit Schemes (continued)

Reconciliation of present value of plan liabilities:	2020 £000	2019 £000
At the beginning of the year	**12,862**	12,361
Interest cost	**252**	333
Actuarial gains	**1,031**	669
Benefits paid	**(504)**	(517)
GMP Equalisation	**-**	16
At the end of the year	**13,641**	12,862

Reconciliation of present value of plan assets:	2020 £000	2019 £000
At the beginning of the year	**9,981**	9,335
Interest income	**198**	254
Actuarial gains	**601**	669
Employer contributions	**240**	240
Benefits paid	**(504)**	(517)
At the end of the year	**10,516**	9,981

Composition of plan assets	2020 £000	2019 £000
Equities	**3,954**	2,334
Corporate Bonds	**1,642**	4,068
Property	**1,510**	1,495
Fixed interest (mainly gifts)	**-**	505
Index linked	**2,365**	510
Diversified growth assets	**956**	917
Cash	**89**	152
Total plan assets	**10,516**	9,981

None of the fair values of the assets include any direct investments in the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

27. Defined Benefit Schemes (continued)

	2020 £000	2019 £000
Fair value of plan assets	**10,516**	9,981
Present value of plan liabilities	**(13,641)**	(12,862)
Net pension scheme liability	**(3,125)**	(2,881)

The fair value of Plan assets and liabilities including insured annuities is £11,514,000 (2019: £10,567,000) and £14,639,000 (2019: £13,448,000) respectivey.

The amounts recognised in profit or loss are as follows:

	2020 £000	2019 £000
Net interest cost	**-**	(79)
Interest on obligation	**(252)**	(349)
Interest income on plan assets	**198**	254
Total	**(54)**	(174)

The cumulative amount of actuarial loss recognised in the Consolidated Statement Profit or Loss and Other Comprehensive Income was £430,000 (2019 - £Nil).

The Group expects to contribute £240,000 to its Defined Benefit Pension Scheme in 2021.

27. Defined Benefit Schemes (continued)

Disaggregation of defined benefit	2020 £000	2019 £000
The fair value of the schemes assets is analysed as follows:		
Equity securities	**3,954**	2,334
Diversified growth assets	**956**	917
Fixed interest government bonds	**-**	505
Corporate bonds	**1,642**	4,068
Index linked government bonds	**2,365**	510
Property	**1,510**	1,495
Cash	**89**	152
Insured annuitants	**998**	586
	11,514	10,567

Defined benefit obligation - actuarial assumptions

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

	2020	2019
Discount rate	**1.05%**	2.00%
Retail price index	**2.95%**	3.20%
Consumer price index	**2.15%**	2.20%
Deferred revaluation of CPI (max 5%)	**2.15%**	2.20%
Pension increases of RPI (max 5%)	**2.95%**	3.20%
Expected return on assets	**1.05%**	2.00%
Longevity at retirement age (current pensioners)		
- Males	**26.4**	26
- Females	**27.5**	28
Longevity at retirement age (future pensioners)		
- Males	**28.9**	27
- Females	**30.1**	29

The weighted average duration of the defined benefit obligation at 31 December 2020 for current pensioners was 12 years (2019: 11 years).

Sensitivity

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

Assumptions	Change in assumptions	Impact on scheme liabilities
Discount rate	Increase/decrease by 1%	Decrease by 60%/increase by 75.68%
Price inflation (RPI)	Increase/decrease by 1%	Increase by 48%/decrease by 43%
Life expectancy at age 55	Increase in life expectancy by 1 year	Increase by 20%