COMPANY REGISTRATION NUMBER: 06409725

Princess Yachts (Holdings) Limited

Annual Report

For the year ended 31 December 2021

Princess Yachts (Holdings) Limited

Annual Report

for the year ended 31 December 2021

Contents

Princess Yachts (Holdings) Limited

Strategic Report for the year ended 31 December 2021

Business review and future developments

The Group manufactures and sells luxury motor yachts to a worldwide network of independent distributors from six locations in the South West of England and regional offices in Hong Kong and Fort Lauderdale, USA.

The results of the group, for the year under review, show turnover of £312.4m (2020: £244.4m), gross profit before exceptional costs of £9.2m (2020: (£8.2m)) and an operating loss before exceptional costs of (£1.7m) (2020: (£20.2m)). This equates to a gross margin of 2.9% (2020: (3.4)%) and operating loss margin of (0.5)% (2020: (8.3)%). The loss before tax was £19.2m (2020: £38.1m).

With the outbreak of COVID-19 continuing to influence the UK based operational sites, the year started under the third lockdown period with restricted working condition, unpredictable employee absenteeism and significant disruption on supply and lead times through our global supplier base. Despite these challenges the business returned to Turnover levels experienced in 2019 and importantly a significant turnaround on EBITDA to £11.7m (2020: £(10.7m)).

Business review and future developments (continued)

	2021 £m	2020 £m	Movement £m	Movement %
Revenue	312.4	244.4	68.0	27.8%
Operating (loss)/profit before exceptional costs	(1.7)	(20.2)	18.5	
EBITDA before exceptional costs	13.3	(6.8)	20.1	
EBITDA*	11.7	(10.7)	22.4	

* EBITDA includes Exceptional costs that are one-time in nature relating to specific Covid 19 costs, staff redundancy and transformation consultancy, see note 9.

Commercially, Princess benefitted from its decision to maintain its intensity of product development despite COVID disruptions. 2021 saw the launch of 3 class-leading new models: the V50, Y72 and X80 which, together with the rest of our renewed product range, drove enormous improvement in all key commercial indicators. Compared to 2020, the order book grew from £440m to £701m, retail sales grew from 209 to 316 yachts and dealer stock fell from 23 to 7 boats. As of June 2022, 99% of production in the next 12 months and 86% of production in the next 24 months was covered by an order.

Industrially, Princess encountered a number of significant headwinds. Whilst not repeating the full lockdown experienced in March 2020, the COVID-19 impact on operations through 2021 was large, disruptive and unpredictable with multiple waves of staff required to self-isolate due to "contact tracing". At its peak, the "pingdemic" experienced in the UK during summer 2021 resulted in over 15% of staff absent, with some boat lines effectively closed for a period due to these absences.

Furthermore, many of our suppliers were experiencing the same disruptions with widespread delays in supply during 2021 due to material, labour and logistics shortages. As we move into 2022, the majority of shortages have been resolved, but the smaller number that still exist are centred around components that are complex and time-consuming to retrofit such as powertrains, generators and air conditioning systems. In turn, these shortages have delayed the build of many boats and caused boats to be built out of sequence, resulting in higher labour hours and costs.

In the face of a rapidly growing order book, the company is investing in facilities and processes to allow us to achieve line rates which would result in 300 boats built each year. This transformation project was officially kicked off in Q4 2021 as "Project 300" and to date has delivered notable improvements in efficiency and line rates across several boat lines, often against continued supply chain headwinds.

Staff engagement has become a key metric through the post pandemic period, with monthly and all staff quarterly presentations continuing to update employees on the business performance. We are introducing a new Bonus scheme to incentive the team to achieve target build cost for each boat produced.

In addition, association with local sporting clubs (Plymouth Argyle, Plymouth Albion) has promoted family opportunities for employees, which has also enabled charitable support to Plymouth Children in Poverty.

Having completed the launch of the 72, 80, 85 and 95 platforms over recent years, Princess is now leveraging its unique platform architecture to launch an array of variants over the next two years including the Y95, S72, Y80, and S80. In 2022 we will also launch a brand new flybridge F65, which will also spawn a series of variants. This continued intensity will help Princess maintain and grow its market share leadership in the 35-100 foot market space. Total product development in 2021 was £11.6m (2020: £10.7m), with new capital expenditure of £2.6m (2020: £2.2m)

On-going capital will continue to be deployed to long term maintenance programmes and evaluating longer term plans for site expansion within the South West region. The Group continues to support the next generation of marine industry experts by promoting opportunities through South West colleges and supporting product innovation projects.

The Group continued to be supported through its multi-year agreement the Group's principal bankers HSBC and National Westminster Bank ("Bank Group"). The support and funding provided during the lockdown in 2020 had been repaid in 2021 within the agreed terms. The bank facility now continues under the same structural arrangements out to its expiry date in 2024. Through 2022, the focus will be to build and plan for a revised facility to support the new growth plans.

With a record order book, a transformation project to accelerate our build volumes, a full product launch schedule and confirmed financial backing, we expect to consolidate and grow our brand as the market leader despite the supply chain challenges we are experiencing.

Sustainability

During the past few years, Princess has made significant strides forward on its sustainability initiatives. As a boat designer, we have naturally focussed on the efficiency of our hulls and the space efficiency of our boats. Our improvements in hull efficiency have exceeded 20% from one generation to the next and, when coupled with innovative architecture on boats such as the X95, result in half the fuel burn per square foot of passenger space.

At the same time, we are also experimenting with alternative, more sustainable materials in the fit out of our boats as well improvements in our footprint in the way we produce boats, with initiatives in biomass heating, the use of solar energy and reduction of waste.

Brexit

Following the transition through 31st December 2020, no significant challenges have been encountered but continual assessment remains in place.

Covid-19

There continues to be significant macro-economic uncertainty as a result of the COVID-19 outbreak since the Balance Sheet date. With a European based supply chain, the Company is still experiencing disruption and uncertainty due to the availability of commodities, capacity restrictions and labour shortfalls. The Company expects to manage through this disruption due to its known order book and long term relationships with its suppliers. The company continues to monitor travel restrictions and corridors so that existing and potential customers can return to site visits and that our employees can also travel safely through the worldwide Distributor network.

The Directors have considered the adequacy of the financing facility and are confident the Group will continue to operate within its available facilities for the foreseeable future, subject to the potential impact of further COVID-19 pandemic restrictions. Please refer to the Going Concern section of the Directors' report for more details.

Key performance indicators

The ongoing financial performance and financial position of the company are monitored with reference to a series of key performance indicators which focus on the company's turnover, gross profit and cash balances. All of these are monitored and approved by the directors and were reviewed at regular meetings of the board held during the year under review. The gross margin achieved in 2021 was 2.9% (2020: (3.4)%). At the year-end there was a cash balance of £0.6m (2020: £3.6m).

Principal risks and uncertainties

The business is subject to a number of risks, with the principal area of risk and uncertainty relating to the economic conditions prevailing in world markets. To counter this, the company continues to invest heavily in new product development throughout its range of motor yachts to increase the range for potential clients across the world. In addition, the company continues to review its cost base to ensure it is appropriate to the level of activity, together with continuing to pursue new market opportunities as they arise.

The company's operations expose it to a variety of financial risks, including the effects of credit risk, liquidity risk, exchange rate and interest rate risk. The policies in place to mitigate the potential impact of these financial risks are as follows:

Financial Risk Management

Credit and liquidity risk:

Where appropriate, credit checks are made prior to the appointment of a new distributor and these are reviewed on a periodic basis together with ongoing checks in respect of existing distributors. Weekly reviews of the debtors' ledger are carried out with the finance and sales teams and action initiated, as appropriate, to collect any overdue amounts, thus optimising the company's liquidity position.

Exchange rate risk:

A proportion of the material cost is purchased in a currency other than sterling. In order to manage potential fluctuations in the exchange rate, a continuing programme of forward currency purchasing is in place and this is monitored on a monthly basis. As at 31 December 2021, the principal amounts of the forward currency contracts recognised at fair value, were €12,500,000 and $3,000,000.

Interest rate risk:

The rate of interest earned/paid on the company's cash balances and loans is monitored on an ongoing basis by continuing review of rates earned/paid that are available in the market. Deposits are made with reference to these rates, in conjunction with projections of future cash requirements. An element of interest rate payable on the loans is variable, the rate of interest paid is monitored on an ongoing basis.

Section 172

In accordance with section 172 of the Companies Act 2006 each of our directors' act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a. The likely consequences of any decision in the long term
b. The interests of the company's employees
c. The need to foster the company's business relationships with suppliers, customers and others
d. The impact of the company's operations on the community and the environment

e. The desirability of the company maintaining a reputation for high standards of business conduct, and
f. The need to act fairly as between members of the company.

The Board have received training on their section 172 duties and how they should be fulfilled. The Board also continue to review their approach to corporate governance, stakeholder engagement and environmental impact.

Decision Making

The Board undertook a strategic review facilitated by an independent external advisor in 2021. All directors were encouraged to share their thoughts, observations and instincts for the benefit of all. Directors also update their skills, knowledge and understanding of Princess Yachts (Holdings) Limited by meeting with senior management, visiting production operations and sector events (such as visits to boat shows) and by attending appropriate external seminars and training courses.

The Board has a robust decision process making that aligns with the Company strategy that enables agile and flexible decision making whilst remaining competitive. In consideration of the company's strategic goals and values in conjunction with the various stakeholder input. Regular and positive interaction with the Parent Company Board further enables oversight and scrutiny.

Stakeholder Engagement

The Board take account of the views, opinions and interests of all relevant stakeholders when reaching their decisions. The Board receives a variety of forms of information that facilitates proper consideration of the impact of decisions on stakeholders.

Corporate Governance Statement

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by The Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'), for the year ended 31 December 2021, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the 'Principles'), which are available at frc.org.uk. The following section explains the Company's approach to corporate governance, and its application of the principles. Further detail is given in the full report available on the Company website.

Principle 1 - Purpose & Leadership

The company's purpose and values inform expected behaviours and practices throughout the organisation and are integrated into the business functions and operations. A healthy culture is vital to the company's competitive advantage and long-term value. The Board, Shareholders and Management are committed to embedding the desired culture in the company.

Principle 2 – Board Composition

The Board provides practical leadership to the Company and has an appropriate balance of executive directors (with access to non-executive directors) and of skills, knowledge and experience appropriate to meet the strategic needs and challenges of the organisation and to enable effective decision making.

There are a number of Shareholder Representatives that sit as board directors of the Parent Company, Princess Yachts (Holdings) Limited. The Executive Chairman & CEO and General Counsel both also sit on the Board of Princess Yachts (Holdings) Limited. The structure of the Parent Company's Board ensures that the Parent Company effectively acts as a supervisory board and ensures that the balance of responsibilities, accountabilities and decision making across Princess Yachts (Holdings) Limited are effectively maintained. The Shareholder Representatives play a pivotal role in creating the conditions for overall Board and individual Director effectiveness. They also bring experience in a variety of areas, in addition to perspectives and challenges from outside the sectors in which Princess Yachts (Holdings) Limited operates.

The size and composition are appropriate to our moderately sized yet focused business. The Directors have equal voting rights when making decisions and all Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at PYL's expense.

Principle 3 - Director Responsibilities

There is a clear division of responsibility between the Executive Chairman, the Directors and the Non-Executive Directors of the Parent Company Board. Clear terms and obligations in the Shareholders Investment Agreements supports effective decision making.

Principle 4 – Opportunity and Risk

The Board seeks out opportunity whilst mitigating risk. The Board is at the forefront of the company's strategy to focus on renewal of its product range, innovation, customer care and operational improvements to drive the long-term sustainable growth of the company. The Company has continued its review of the risk management processes. The project has identified inherent and emerging risks as is now progressing to determine the appropriate methods of managing risk. Additionally, this will ensure that there is a coherent approach to risk identification, classification and mitigation.

Principle 5 – Remuneration

Remuneration is ultimately overseen by the Parent Company Board. The Board promotes executive remuneration structures aligned to the long-term sustainable success of the company, considering pay and conditions elsewhere in Princess Yachts (Holdings) Limited. The Parent Company Board plays an oversight role in respect of executive remuneration and is responsible for overseeing recommendations from the Board concerning the remuneration and recruitment strategy, long-term incentive plans. Advice is taken from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking.

Principle 6 – Stakeholder Relationships and Engagement

The Company is committed to continuing to develop effective relationships with all of its key stakeholders such as the Workforce, Distributors, Customers, Suppliers and the Local Community and Region. All have bespoke mechanisms dedicated to enhancing those relationships, increasing engagement and having specific regard to their views when taking decisions.

Further detail is contained in the full governance statement available on the Company website.

Future Developments

Other than the Covid-19 epidemic risks described above, during the year, the Company continued to evaluate the risks and opportunities of the exit from the European Union ("Brexit"). Likely scenarios have been assessed in conjunction with the government timeframes, with actions centred around the impact to the supply chain and despatch arrangements of our completed boats. Supplier lead times, the impact of tariffs and currency fluctuations are examples of areas under continual review.

Looking forward with the appointment of the Board of Directors complete, the focus continues on production improvements, implementation of quality systems and successfully launching an array of innovative new yachts that increases product renewal intensity and broadens the product range.

Princess Yachts (Holdings) Limited

This report was approved by the board of Directors on 29 September 2022 and signed on behalf of the board by:

A M Sheriff

Director

29 September 2022

Registered Number 06409725

The Directors present their report and the audited consolidated and company financial statements for the year ended 31 December 2021

Principal activities and Incorporation

The Group's (incorporating Princess Yachts Limited and Felix Engineering Limited) principal activities are those associated with the manufacture and sale of motor yachts to a worldwide network of independent dealers from six locations in the south west of England. The company (Princess Yachts (Holdings) Limited) is a private limited company, domiciled in the United Kingdom, incorporated in United Kingdom, registered office being C/O Princess Yachts Limited, Newport Street, Plymouth, Devon PL1 3QG. Its principal activity is that of a holding and investment company for the Group. The ultimate parent undertaking of the company is RNO Group S.C.A., a company registered in Luxembourg.

Future developments

Information on the future developments and financial risk management are contained within the Strategic Report.

Going concern

The results of the Group, for the year under review, show turnover of £312.4m (2020: £244.4m), gross profit before exceptional costs of £9.2m (2020: (£8.2m)) and an operating loss before exceptional costs of (£1.7m) (2020: £20.2m) This equates to a gross margin of 2.9% (2020: (3.4)%) and operating loss margin of (0.5)% (2020: (8.3)%). The loss before tax was £19.2m (2020: £38.1m).

The Group continues to meet its day to day working capital requirements from cashflows generated from operations and banking facilities provided by the Group's principal bankers HSBC and National Westminster Bank ("Bank Group"). These facilities were introduced in May 2019 and have been continued through the pandemic. During 2021, the Group had a net cash increase of £28.7m (2020: increase of £1.7m) driven primarily by customer advances on yachts ordered or in production offset by operating losses. As at 31 December 2021 the Group utilised an agreed revolving credit facility and ancillary services facility totalling £40m of which £20.3 was drawn.

As a result of COVID, in June 2020, the Shareholders and Bank Group provided a working capital cash advance of £18.7m, of which £10.1m remained outstanding at 31 December 2021. At the time of signing the financial statements this has reduced further to £5.0m, all of which remained payable to the Shareholders. The Group has total bank group net debt of £52.9m at 31 December 2021, (2020: £61.8m). The terms of the debt require the Group to comply with quarterly covenant testing on Gross Leverage to EBITDA, Cashflow Cover and Interest Cover. Scheduled bank loan repayments have remained in place throughout the period, aligned to the master facility agreement, along with covenants reset to the 2022 plan and beyond as noted below.

Whilst demand across the entire range of Princess Yachts has remained strong, the operational environment remains challenging and therefore the business forecasting continues to be assessed using a base case and downside case approach. Within each case, scenarios include completing a projected boat volume and how the supply chain, inflation, energy prices, staff levels and latest government intervention programmes impact the financial outcomes. Cashflow forecast projections consider areas such as the impact of deferring capital expenditure, adjustments to the long-term product development roadmap and deferring the remaining COVID loans to shareholders.

In evaluating the going concern assumption, the Directors utilise existing business and commercial forecasts to demonstrate that the Group will return to profitability. The base and downside forecasts are based on a confirmed order book for future sales into 2023 and flexing the achievable production volumes. Beyond volume sensitivity, specific assumptions are included on expenditure increases, such as inflation and all cost inputs across the production facilities. The forecasts also include provision for the future impact of increasing UK energy price increases and without any government assistance. The impact of COVID-19 has been recognised through the disruption within the supply chain and has been assumed to continue throughout 2023 with no immediate recovery back to pre-pandemic levels. On-going delays in transit shipments have been considered, as have the availability of recruiting skilled workers against a continuing attrition level. With demand for boats known well into 2023 and beyond, these downside forecasts represent a continuation of the 2021 and 2022 operating environment and represents management's best estimate of a downside scenario that could occur i.e. without any positive change from existing operational influences. The downside scenario shows sufficient forecast liquidity and was used to reset bank covenants for the remainder of 2022 and beyond. As a consequence, the Directors have considered the adequacy of the financing facility and are confident the Group will continue to operate within its available facilities for the foreseeable future.

After consideration of the above matters, the Directors are of the opinion that it remains appropriate to prepare the financial statements on a going concern basis.

Results and dividend

The Group's results are shown in the Consolidated Income Statement on page 16. No ordinary share dividends have been paid or are proposed (2020: nil).

Research and development

The Group continues to develop new motor yachts to add to the existing range, with several new models having been launched during the year under review and with several more in the pipeline. Refer to note 11 for further details.

Directors

The Directors of the company during the year and up to the date of signing the financial statements were:

A Bratt

N Brunel

B Dauchin

F Hauser

D Heidecorn

A Sheriff

Employees

The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests.

Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in contributing towards its success. The Group encourages the involvement of employees' by means of regular works committee meetings and the issue of periodic newsletters. The Group has a companywide bonus scheme.

Qualifying indemnity provision

During the year and up to the date of signing the financial statements the Company had in force an indemnity provision in favour of one or more Directors of Princess Yachts (Holdings) Limited, against liability in respect of proceedings brought by third parties, subject to conditions set out in section 234 of the Companies Act 2006.

Disclosure of information in the strategic report

For details of how the Company engages with its stakeholders and how these feeds into the Company strategy please see the Corporate Governance Statement in the Directors' Report and the Strategic Report. One specific example would be the investment made in the Quality systems and After Sales infrastructure, which, whilst also following direct customer and distributor feedback, also aligns with the longer-term transformation of operational effectiveness.

Streamlined Energy and Carbon Reporting

The following figures make up the reporting for Princess Yachts Ltd, 2021 is the second year that the Princess Yachts Ltd has provided this report information.

Scope 1 - consumption and emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations, such as company vehicle fleets, and grey fleet.

Scope 2 - consumption and emissions relate to indirect emissions relating to the consumption of purchased electricity in day-to-day business operations.

Scope 3 - consumption and emissions relate to indirect emissions from sources connected to the business, such as suppliers and distributers.

The total consumption (kWh) figures for energy supplies reportable by Princess Yachts Ltd are as follows:

Utility and Scope	2021 UK Consumption (kWh)
Grid-Supplied Electricity (Scope 2)	17,087,073
Gaseous and other fuels (Scope 1)	48,648,097
Transportation (Scope 1 and 3)	216,944
Total	**65,952,114**
No Cost for 2021 Global (excluding UK Consumption (kWh)	

The total emission (tCO2e) figures for energy supplies reportable by Princess Yachts Ltd are as follows.

Utility and Scope	2021 UK Consumption (tCO2e)
Grid-Supplied Electricity (Scope 2)	3,628.10
Gaseous and other fuels (Scope 1)	10,352.41
Transportation (Scope 1 and 3)	50.30
Total	**14,030.81**
No Cost for 2021 Global (excluding UK Consumption (kWh)	

Intensity Metric

An intensity metric of tCO2e per £m Turnover has been applied for the annual total emissions of Princess Yachts Ltd. The methodology of the intensity metric calculations is detailed below, and results of this analysis is as follows:

Intensity Metric	2021 UK Intensity Metric	2021 Global (excluding UK) Intensity Metric
tCO2e / £m turnover	44.92	0.00

Reporting Methodology

Scope 1 and 2 consumption and CO2e emission data has been calculated in line with the 2020 UK Government environmental reporting guidance. The following Emission Factor Databases consistent with the 2020 UK Government environmental reporting guidance have been used, utilising the current published kWh gross calorific value (CV) and kgCO2e emissions factors relevant for reporting year 01/01/2021 – 31/12/2021: Database 2021, Version 1.0.

Estimations undertaken to cover missing billing periods for properties directly invoiced to Princess Yachts Ltd were calculated on a kWh/day pro-rata basis at meter level. These estimations equated to 2% of reported consumption.

Intensity metrics have been calculated utilising the 2021 reportable figures for the following metrics, and tCO2e for both individual sources and total emissions were then divided by this figure to determine the tCO2e per metric: Total turnover £312.4m

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Statement of disclosure of information to auditors
In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the Directors' report is approved so far as each director is aware:

- there is no relevant audit information of which the Group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and company's auditors are aware of that information.

This report was approved by the board of directors on 29 September 2022 and signed on behalf of the board by:

A Sheriff

On behalf of the board

A M Sheriff

Director

29 September 2022

Report on the audit of the financial statements

Opinion

In our opinion:

- Princess Yachts (Holdings) Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's loss and the group's and company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated Balance Sheet and the Company Balance Sheet as at 31 December 2021; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the Company Statement of Cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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 and the 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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report , we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report .

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement , the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the requirements of UK tax law and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential posting of inappropriate journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Testing journal entries to identify any entries which met our risk criteria, in particular journal entries with unusual account combinations to revenue;
- Testing management bias in estimates, including in respect of the determination of the defined benefit pension scheme liability; and
- Performing unpredictable procedures as part of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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 or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
30 September 2022

Princess Yachts (Holdings) Limited

Consolidated Income Statement for the year ended 31 December 2021

	Note	**2021 £'000 Excluding exceptional items**	**2021 £'000 Exceptional items (note 9)**	**2021 £'000 Total**	2020 £'000 Total
Revenue	2	**312,376**	-	**312,376**	244,441
Cost of sales		**(303,166)**	(1,544)	**(304,710)**	(256,429)
Gross profit / (loss)		**9,210**	(1,544)	**7,666**	(11,988)
Distribution costs		**(5,881)**	-	**(5,881)**	(8,257)
Administrative expenses		**(6,276)**	-	**(6,276)**	(4,697)
Other operating income	3	**1,218**	-	**1,218**	833
Operating loss	5	**(1,729)**	(1,544)	**(3,273)**	(24,109)
Finance costs	4	**(15,932)**	-	**(15,932)**	(14,039)
Loss before income tax		**(17,661)**	(1,544)	**(19,205)**	(38,148)
Income tax credit	8	**2,894**	-	**2,894**	2,570
Loss for the year from continuing operations	23	**(14,767)**	(1,544)	**(16,311)**	(35,578)

The above income and expenditure all relates to continuing operations.

The notes on pages 33 to 57 are integral to these consolidated financial statements.

Princess Yachts (Holdings) Limited

Consolidated Statement of Comprehensive Income for the year ended 31 December 2021

	Note	**2021 £'000**	2020 £'000
Loss for the year		**(16,311)**	(35,578)
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Actuarial gain on post-employment benefit obligations	21	**968**	28
Revaluation of Investments		**4**	
Movement on deferred tax relating to pension liability	19	**(243)**	(6)
Other comprehensive income for the year, net of tax		**729**	22
Total comprehensive expense for the year		**(15,582)**	(35,556)

Princess Yachts (Holdings) Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Total Equity £'000
At 1 January 2020	**40**	**4,105**	**(55,076)**	**(50,931)**
Loss for the year	-	-	(35,578)	(35,578)
Other comprehensive income				
Actuarial gain on post-employment benefit obligations	-	-	28	28
Movement on deferred tax relating to pension liability	-	-	(6)	(6)
Total other comprehensive income	**-**	**-**	**22**	**22**
Total comprehensive expense	**-**	**-**	**(35,556)**	**(35,556)**
At 31 December 2020	**40**	**4,105**	**(90,632)**	**(86,487)**

	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Total Equity £'000
At 1 January 2021	**40**	**4,105**	**(90,632)**	**(86,487)**
Loss for the year	-	-	(16,311)	(16,311)
Other comprehensive income:				
Actuarial gain on post-employment benefit obligations	-	-	968	968
Revaluation of investments	-	-	4	4
Movement on deferred tax relating to pension liability	-	-	(243)	(243)
Total other comprehensive income	**-**	**-**	**729**	**729**
Total comprehensive expense	**-**	**-**	**(15,582)**	**(15,582)**
At 31 December 2021	**40**	**4,105**	**(106,214)**	**(102,069)**

The notes on pages 33 to 57 are integral to these consolidated financial statements

Princess Yachts (Holdings) Limited

Company Statement of Changes in Equity for the year ended 31 December 2021

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total shareholders' deficit £'000
At 1 January 2020	40	4,105	(86,882)	(82,737)
Loss for the year	-	-	(10,968)	(10,968)
At 31 December 2020	**40**	**4,105**	**(97,850)**	**(93,705)**

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total shareholders' deficit £'000
At 1 January 2021	**40**	**4,105**	**(97,850)**	**(93,705)**
Loss for the year	**-**	**-**	**(10,933)**	**(10,933)**
At 31 December 2021	**40**	**4,105**	**(108,783)**	**(104,638)**

The notes on pages 33 to 57 are integral to these consolidated financial statements.

Princess Yachts (Holdings) Limited

Consolidated Balance Sheet as at 31 December 2021

	Note	**2021** **£'000**	2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**52,008**	53,891
Intangible assets	11	**127,346**	126,207
Investments	12	**57**	53
Deferred income tax assets	19	**17,468**	13,031
		196,879	193,182
Current assets			
Inventories	14	**64,489**	69,299
Corporation tax		**810**	2,079
Trade and other receivables	15	**33,381**	22,954
Cash and cash equivalents	25	**583**	3,603
		99,263	97,935
Total assets		**296,142**	291,117
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	22	**40**	40
Share premium account	23	**4,105**	4,105
Accumulated losses	23	**(106,214)**	(90,632)
Total equity		**(102,069)**	(86,487)
Liabilities			
Non-current liabilities			
Borrowings	17	**218,196**	210,916
Deferred government grants	18	**-**	-
Deferred income tax liabilities	19	**9,034**	7,248
Retirement benefit obligations	21	**2,595**	4,948
Provisions for other liabilities and charges	20	**2,643**	3,011
		232,468	226,123

Princess Yachts (Holdings) Limited

Consolidated Balance Sheet as at 31 December 2021

	Note	**2021** **£'000**	2020 £'000
Current liabilities			
Trade and other payables	16	**153,410**	132,056
Borrowings	17	**12,333**	19,425
		165,743	151,481
Total liabilities		**398,211**	377,604
Total equity and liabilities		**296,142**	291,117

The notes on pages 33 to 57 are integral to these consolidated financial statements.

The financial statements on pages 15 to 57 were approved by the board of Directors on 29 September 2022 and were signed on its behalf by:

A M Sheriff
Director

Registered number: 06409725

Princess Yachts (Holdings) Limited

Company Balance Sheet as at 31 December 2021

	Note	**2021 £'000**	2020 £'000
Fixed Assets			
Investments	12	**187,006**	187,006
Current assets			
Trade and other receivables	15	**-**	-
Cash at bank and in hand		**3**	4
Deferred income tax assets		**817**	617
Total current assets		**820**	621
Creditors: amounts falling due within one year	16	**(72,843)**	(69,372)
Borrowings	17	**(2,200)**	(2,200)
Net current liabilities		**(74,223)**	(70,951)
Total assets less current liabilities		**112,783**	116,055
Creditors: amounts falling due after more than one year	17	**(217,421)**	(209,760)
Net liabilities		**(104,638)**	(93,705)
Capital and reserves			
Called up share capital	22	**40**	40
Share premium account	23	**4,105**	4,105
Profit and loss account	23	**(108,783)**	(97,850)
Total shareholders' deficit		**(104,638)**	(93,705)

The notes on pages 33 to 57 are integral to these consolidated financial statements.

The company's loss for the year is £10,933,000 (2020: loss of £10,968,000).

The financial statements on pages 15 to 57 were approved by the board of Directors on 29 September 2022 and were signed on its behalf by:

A M Sheriff
Director

Registered number: 06409725

Princess Yachts (Holdings) Limited

Consolidated Statement of Cash Flows for the year ended 31 December 2021

	Note	**2021 £'000**	2020 £'000
Cash flows from operating activities			
Cash generated from / (used in) operations	24	**29,412**	(8,323)
Interest paid		**(2,100)**	(2,476)
Net cash generated from / (used in) operating activities		**27,312**	(10,799)
Cash flows from investing activities			
Purchases of property, plant and equipment	10	**(2,581)**	(2,186)
Research & development expenditure on development of new yachts	11	**(11,620)**	(10,650)
Net cash used in investing activities		**(14,201)**	(12,836)
Cash flows from financing activities			
Advance of borrowings	25	**(9,350)**	8,300
Shareholder loan advance	25	**-**	17,000
Net cash (used in) / generated from financing activities		**(9,350)**	25,300
Net increase in cash and cash equivalents	25	**3,761**	1,665
Movement in borrowings	25	**9,350**	(25,300)
Movement in borrowings and cash	25	**13,111**	(23,635)
Other non-cash movements	25	**(13,391)**	(6,292)
Net debt at the beginning of the year	25	**(243,822)**	(213,895)
Net debt at the end of the year	25	**(244,102)**	(243,822)

The notes on pages 33 to 57 are integral to these consolidated financial statements.

Princess Yachts (Holdings) Limited

Company Statement of Cash Flows for the year ended 31 December 2021

	Note	**2021** **£'000**	2020 £'000
Cash flows from operating activities			
Cash used in operations	26	**(1)**	-
Net cash used in operating and investing activities		**(1)**	-
Cash flows from financing activities			
Repayments of borrowings		**(2,200)**	(2,200)
Receipt of new borrowings		**-**	10,000
Net cash (used in) / generated from financing activities		**(2,200)**	7,800
Net decrease in cash and cash equivalents		**(1)**	-
Movement in borrowings	27	**2,199**	(7,800)
Other non-cash movements	27	**(9,828)**	(9,399)
Net debt at the beginning of the year	27	**(211,956)**	(194,757)
Net debt at the end of the year	27	**(219,585)**	(211,956)

The notes on pages 33 to 57 are integral to these consolidated financial statements.

Group:

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the going concern basis under the historical cost convention and historic cost modified by the revaluation of financial assets and financial liabilities held at fair value through Profit & Loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.

The company is a private limited company, limited by shares, incorporated in the United Kingdom.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Accounting policies adopted by subsidiaries are consistent with the policies across the Group, with the exception of research and development costs, which are written off to the profit and loss account as incurred in subsidiaries. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

The Group has applied the exemption to omit the Company's Income Statement and Statement of Comprehensive Income from the financial statements, under section 408 of the Companies Act 2006. The company's Income Statement and Statement of Comprehensive Income for the financial year has been approved by the Directors in accordance with section 414 (1).

New standards which are now effective

No new or amended standards have been adopted by the Group for the financial year beginning on 1 January 2021.

Standards 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.

Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

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

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

In January 2021, 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 2021, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

Management will quantify the effect of adopting the remaining standards in due course as the implementation date nears.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and the equity instruments issued by the Group in exchange for control of the acquired, plus any costs directly attributable to the business combination. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the acquisition date.

Going concern (Group & Company)

The results of the Group, for the year under review, show turnover of £312.4m (2020: £244.4m), gross profit before exceptional costs of £9.2m (2020: (£8.2m)) and an operating loss before exceptional costs of (£1.7m) (2020: £20.2m) This equates to a gross margin of 2.9% (2020: (3.4)%) and operating loss margin of (0.5)% (2020: (8.3)%). The loss before tax was £19.2m (2020: £38.1m).

The Group continues to meet its day to day working capital requirements from cashflows generated from operations and banking facilities provided by the Group's principal bankers HSBC and National Westminster Bank ("Bank Group"). These facilities were introduced in May 2019 and have been continued through the pandemic. During 2021, the Group had a net cash increase of £28.7m (2020: increase of £1.7m) driven primarily by customer advances on yachts ordered or in production offset by operating losses. As at 31 December 2021 the Group utilised an agreed revolving credit facility and ancillary services facility totalling £40m of which £20.3 was drawn.

As a result of COVID, in June 2020, the Shareholders and Bank Group provided a working capital cash advance of £18.7m, of which £10.1m remained outstanding at 31 December 2021. At the time of signing the financial statements this has reduced further to £5.0m, all of which remained payable to the Shareholders. The Group has total bank group net debt of £52.9m at 31 December 2021, (2020: £61.8m). The terms of the debt require the Group to comply with quarterly covenant testing on Gross

Leverage to EBITDA, Cashflow Cover and Interest Cover. Scheduled bank loan repayments have remained in place throughout the period, aligned to the master facility agreement, along with covenants reset to the 2022 plan and beyond as noted below.

Whilst demand across the entire range of Princess Yachts has remained strong, the operational environment remains challenging and therefore the business forecasting continues to be assessed using a base case and downside case approach. Within each case, scenarios include completing a projected boat volume and how the supply chain, inflation, energy prices, staff levels and latest government intervention programmes impact the financial outcomes. Cashflow forecast projections consider areas such as the impact of deferring capital expenditure, adjustments to the long-term product development roadmap and deferring the remaining COVID loans to shareholders.

In evaluating the going concern assumption, the Directors utilise existing business and commercial forecasts to demonstrate that the Group will return to profitability. The base and downside forecasts are based on a confirmed order book for future sales into 2023 and flexing the achievable production volumes. Beyond volume sensitivity, specific assumptions are included on expenditure increases, such as inflation and all cost inputs across the production facilities. The forecasts also include provision for the future impact of increasing UK energy price increases and without any government assistance. The impact of COVID-19 has been recognised through the disruption within the supply chain and has been assumed to continue throughout 2023 with no immediate recovery back to pre-pandemic levels. On-going delays in transit shipments have been considered, as have the availability of recruiting skilled workers against a continuing attrition level. With demand for boats known well into 2023 and beyond, these downside forecasts represent a continuation of the 2021 and 2022 operating environment and represents management's best estimate of a downside scenario that could occur i.e. without any positive change from existing operational influences. The downside scenario shows sufficient forecast liquidity and was used to reset bank covenants for the remainder of 2022 and beyond. As a consequence, the Directors have considered the adequacy of the financing facility and are confident the Group will continue to operate within its available facilities for the foreseeable future.

After consideration of the above matters, the Directors are of the opinion that it remains appropriate to prepare the financial statements on a going concern basis.

Revenue recognition

Revenue recognition Revenue is measured at the fair value of the consideration which is expected to be received in exchange for goods and services provided, net of trade discounts and sales-related taxes. Revenue is recognised when all of the following conditions are satisfied:

• A contract exists with a customer.
• The performance obligations within the contract have been identified.
• The transaction price has been determined.
• The transaction price has been allocated to the performance obligations within the contract.
• Revenue is recognised as or when a performance obligation is satisfied which is normally on completion of the product or on shipment depending on contract terms.

Sale of goods - Revenue from the sale of goods is generally recognised at a point in time when control of the goods has transferred to the customer, usually being when the goods have been shipped to the customer in accordance with the contracted shipping terms. For certain boats, when the criteria in para 35 of IFRS15 is met, revenue is recognised over time as the boat is manufactured and the amount of revenue is recognised by reference to the labour hours incurred as a proportion of total labour hours. As Princess Yachts (Holdings) Limited no longer build Metre boats since the introduction of the X-class, no boats were accounted for over time at the balance sheet date.

Research and development costs

Costs directly associated with the development of new yachts (material and labour) are capitalised and amortised over the period, typically between 2 and 6 years, during which it is expected sales revenues will be generated as the result of establishing a commercially viable and separately identifiable project. Capitalised costs are reviewed annually and will be written off where continuing carry forward is no longer considered to be appropriate. Amortisation of £10.5m (2020: £9.2m) is included within cost of sales in the consolidated income statement.

Warranty cost

Provision is made for warranty costs that are estimated to arise in relation to boats sold. Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Grants

Government grants including £nil (2020: £12.0m) received in the year in respect of the CJRS are treated as deferred income in the balance sheet and credited to trading results over the estimated useful economic lives of the assets to which they relate. Amortisation of government grants commences once all conditions of the grant have been met or over the period in which the related expenditure is expensed to the profit and loss account.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date, except where they are covered by forward currency contracts, in which case the forward contract rate is used. Transactions denominated in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. All exchange differences are included in the Income Statement. The consolidated financial statements are presented in sterling, which is the company's functional and the Group's presentation currency.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity and debt instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. Direct issue costs are amortised over the life of the instrument. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise. Assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IFRS 9 'Financial Instruments. Accordingly, the Group has classified its financial assets in the following categories:

i) Financial assets at fair value through profit and loss
   Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if it has a readily ascertainable market value and it is publicly traded.

ii) Loans, liabilities and receivables
   The Group's loans, liabilities and receivables comprise "trade and other receivables" "trade and other payables" and "cash and cash equivalents" in the balance sheet. Loans, liabilities and receivables are held at amortised cost.

Assessment on Expected Credit Loss (ECL) on financial assets

The Group's financial assets, trade receivables, loans and other receivables are subject to consideration in respect of ECLs.

The Group keeps this position under regular review, using available information including:

- Monitoring receivables
- Any actual or expected change in industry or economic conditions
- Changes in counterparty credit ratings

Financial assets are written off when there is no expectation of recovery. The company has established a provision for doubtful debts which it continues to review and monitor.

Given the nature of the financial assets the ECL applied to each is deemed to be minimal and therefore any impairment loss immaterial.

Share capital

Debt and equity instruments are classified according to the substance of the contractual arrangements as required by IAS 32 'Financial Instruments: Disclosure and Presentations'. Ordinary shares are classified as equity. Preferences shares are classified as debt.

Intangible assets – goodwill

Purchased goodwill represents the excess of the cost of the acquisition of the business over the fair value of the net identifiable assets of the acquired business. Goodwill is not amortised but tested for impairment annually, or when trigger events occur, and carried at cost less accumulated impairment losses.

Property, plant and equipment

Property, plant and equipment are recorded at its purchase cost, together with any associated expense of acquisition. Where the life of existing property, plant and equipment is significantly extended through subsequent expenditure, these costs are capitalised and depreciated over the extended period.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight-line basis, over the expected useful economic life of the asset concerned. Freehold land and assets under construction are not depreciated. The principal economic lives for this purpose [during the year and comparative year were]:

Freehold buildings	25 to 50 years
Cranes and hoists	7 to 20 years
Other plant and equipment	4 to 7 years
Motor vehicles	4 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively. No such changes have been made during the year or comparative year.

Inventory and work in progress

Inventory are stated at the lower of cost and net realisable value with due allowance being made for obsolete and slow-moving items. Raw materials are stated at cost on a "First in, First out" (FIFO) basis. Work in progress is stated at the accumulated cost of material, labour and an appropriate allocation of production overheads.

Non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period

Pensions

Pension scheme arrangements are accounted for in accordance with accounting standard IAS 19 'Retirement Benefits'. Scheme assets are determined at bid value and liabilities are calculated using the projected unit method discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. The expected return on assets and the increase or decrease in the present value of the liabilities for the year are included in other finance expense. Actuarial gains and losses are recognised in the Statement of Comprehensive Income. The pension deficit is included in the balance sheet, net of the related deferred tax. The Group also operates defined contribution pension arrangements. Contributions are charged to the income statement when they fall due.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. 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. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

Tax, including deferred tax

The tax expense represents the sum of current tax expense and deferred tax expense. Current tax expense is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for on an undiscounted basis at expected rates on all differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. A deferred tax asset is only recognised where the Directors are satisfied that the amount is recoverable.

Fair values

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. The following analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Details of the Group's assets measured at fair value at 31 December 2021 are shown in note 13 of the financial statements.

Exceptional items

The Group classifies certain one-off charges or credits that have a material impact (both qualitative and quantitative) on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group.

Leases

For lessees, IFRS 16 requires most leases to be recognised on the balance sheet, eliminating the distinction between operating and finance leases. Under IFRS 16 the lessee recognises a right of use asset and corresponding liability. The asset is treated similarly to other non-financial assets and is depreciated accordingly. The liability is measured at the present value of future lease payments, payable over the term of the lease.

The Group has previously recognised operating leases as an expense on a straight-line basis over the term of the lease.

For any new contract, the Group considers whether a contract is, or contains a lease, defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. The Group therefore assess whether:

- The contract contains an identifiable asset, either explicitly identified in the contract or implicit identified at the time it is made available to the Group
- The Group has the right to obtain substantially all of the economic benefits of use from the asset throughout the period, considering its rights within the contract
- The Group has the right to direct the use of the asset throughout the period of use.

Impairment of assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset) may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation.

Thereafter any excess is recognised in profit or loss. If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

Company:

These financial statements are prepared on the going concern basis and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, unless otherwise stated, are set out below.

Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit or loss and fair value through other comprehensive income. The accounting policies have been applied consistently, other than where new policies have been adopted.

Tax, including deferred tax

The tax expense represents the sum of current tax expense and deferred tax expense. Current tax expense is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Group relief is claimed from other Group companies in respect of their losses, to offset taxable profits in this company. £0.50 is paid for each £1 of tax losses surrendered across the Group. As this payment is in excess of the expected amount payable (equating to the tax rate for the year of 19.0%), any amount above this level is taken direct to reserves through the Statement of Comprehensive Income

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Pre 1 April 2017, a net deferred tax asset was recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Due to changes in legislation, tax losses incurred post 1 April 2017 can be carried forward and surrendered through Group relief and therefore a net deferred tax asset is recognised on the basis the losses will be utilised within the taxable profits of the Group in the future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

The deferred tax balances above have been calculated at 25% (2020: 19%) being the substantively enacted rate at 31 December 2021.

Fixed asset investments

Unlisted investments, excluding those relating to the subsidiary companies, are stated at market value using, where applicable, the AIM quoted price as an indicator. The Companies Act 2006 alternative rules have been adopted. The amount of any profit or loss arising on revaluation is taken to the revaluation reserve. Subsidiary investments are held at the lower of cost and net realisable value.

Investments in Subsidiary Companies

The Investment in the subsidiary companies are held at cost less accumulated impairment losses.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity and debt instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Direct issue costs are amortised over the life of the instrument. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise. Assets are derecognised when the rights to receive cash flows have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

1 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) *Estimated impairment of goodwill and of investment in subsidiaries (Group and Company)*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 11).

b) *Useful economic lives of capitalised development costs (Group)*

Development costs relating to the introduction of new yacht models are capitalised and amortised over the period during which it is expected sales revenues will be generated. This period is the average useful life for new models developed over recent years. A one-year reduction in the period over which such development costs are amortised would have impacted profit before income tax by £2.1m (2020: £2.6m). Additional information is disclosed in note 11.

c) Pension benefits (Group and Company)

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.

The Group determines the appropriate discount rate at the end of each year. This is the rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 21.

d) Revenue recognition – long-term contract accounting (Group and Company)

Certain yachts over 80 feet in length are accounted for under long-term contract accounting, with revenue and profit being based on the degree of completion at year end. The revenue and profit recognised are calculated using the labour hours incurred as a percentage of total forecast labour hours to complete, multiplied by the proportion of the expected profit on completion. Estimates are required for the percentage completion of the yacht itself, and also on the estimate of the overall profit to be generated. A 1% decrease in the overall expected profit would reduce gross profit by £nil (2020: £nil). A 1% decrease in the percentage completion of the yachts would reduce gross profit by £nil (2020: £nil).

e) Warranty Provision (Group and Company)

Historical warranty spend data is collated across all models and used to estimate future warranty spend based on boats sold and the balance of warranty period remaining. When historical information is unavailable, for instance on new launches an estimate is made by reference to the historic warranty spend on a similar size of yacht. During the year £6.9m additional provision was booked with utilisation of £7.3m. The closing provision was £2.6m (2020: £3.0m). Additional information is disclosed in note 20.

1 Critical accounting estimates and judgements (continued)

f) Deferred tax asset (Group and Company)

A deferred tax asset is recognised on the basis of forecasted taxable profits for the Group which will utilise the tax losses. Forecasts have been prepared showing substantial revenue growth reflecting high levels of current and future demand for yachts, combined with expected improvements in profitability from steps taken to improve efficiency. Given the inherent uncertainty in trading forecasts, there remains a risk that future profits will be insufficient to recover the losses recognised. In addition, the government has announced its intention to reduce the enacted tax rate from 25% back to 19%. If this change is enacted the deferred tax asset will reduce accordingly.

There is an unrecognised deferred tax asset in Princess Yachts (Holdings) Limited of £2.2m (2020: £1.7m) relating to losses carried forward. This has not been recognised due to uncertainty that sufficient taxable profits will be generated in future in that company in order to utilise the tax losses. Additional information can be found under note 8.

2 Revenue

All revenue derives from UK boat manufacturing activities and originates in the UK. The Directors consider that there is only one operating segment, relating to the principal activity.

	2021 £'000	2020 £'000
Revenue recognised when delivered	**312,376**	244,441
Revenue	**312,376**	244,441

3 Other operating income

	2021 £'000	2020 £'000
Research & development tax credit	**1,193**	721
Other income	**25**	112
Other operating income	**1,218**	833

4 Finance costs

	2021 £'000	2020 £'000
Interest payable on bank loan	**4,645**	3,104
Amortisation of bank loan issue cost	**2,358**	740
Finance costs in relation to leases (note 28)	**85**	84
Interest payable on other loans (note 25)	**1,678**	3,071
Preference share dividend (note 25)	**7,111**	6,727
Other finance expense – pensions (note 21)	**55**	313
Net finance costs payable	**15,932**	14,039

5 Operating loss

	2021 £'000	2020 £'000
Operating loss is stated after charging/(crediting):		
Depreciation of property, plant & equipment (note 10)	**4,586**	4,429
Staff costs (note 7)	**116,701**	110,219
Provision for doubtful debts	**91**	25
Provision for obsolete stock	**(311)**	37
Loss on disposal of property, plant & equipment	**-**	54
Amortisation of development costs (note 11)	**10,482**	9,176
Amortisation of government grant income (note 18)	**(64)**	(158)
UK Government Coronavirus Job Retention Scheme grant income (included as a deduction to cost of sales)	**-**	(12,036)
Research and development tax credit	**(1,193)**	(721)
Inventory expensed in the year	**144,191**	120,629
Operating lease rentals	**496**	614

6 Auditors' remuneration

	2021 £'000	2020 £'000
Fees payable to company's auditors and their associates for the audit of the company and consolidated financial statements	**35**	35
Fees payable to the company's auditors and their associates for other services:		
The audit of the company's subsidiaries	**195**	120
Taxation compliance services	**-**	39
	230	194

7 Staff numbers and costs

The average monthly number of employees for the Group during 2021 and 2020 was:

By activity	**2021 Group Number**	2020 Group Number	**2021 Company Number**	2020 Company Number
Production	**2,926**	2,757	**-**	-
Selling and distribution	**56**	63	**-**	-
Administration	**91**	90	**6**	6
	3,073	2,910	**6**	6

7 Staff numbers and costs (continued)

Employee costs	Group 2021 £'000	Group 2020 £'000
Wages and salaries	**103,929**	98,159
Social security costs	**10,061**	9,640
Other pension costs	**2,711**	2,420
Sub-total	**116,701**	110,219
Less: Grant Income (CJRS)	**-**	(12,036)
	116,701	98,183

No employee costs in 2021 or 2020 relate to the company.

Directors' emoluments

The Directors are remunerated through Princess Yachts Limited, a 100% wholly owned subsidiary, in respect of their services to the Group.

Aggregate Directors' emoluments for the year were £1,221,000 (2020: £1,210,000). The aggregate value of company contributions paid to a defined contribution pension scheme in respect of the Directors' qualifying services are £26,000 (2020: £26,000). No directors (2020: none) are accruing benefits under money purchase pension schemes. There are no Directors with accrued benefits under the company's defined benefit pension scheme (2020: none).

The remuneration of the highest paid director was £1,042,000 (2020: £1,042,000). The highest paid director does not accrue benefits under the company's defined pension scheme. The same applied in the prior year.

The highest paid director did not exercise any share options in financial year 2021.

Key management compensation

Key management only includes directors whose salaries are disclosed above plus additional directors who are paid by a group company. The total compensation paid or payable to key management for employee services is salaries £3,669,000 (2020: £4,682,000) and post-employment benefits £252,000 (2020: £248,000)

8 Income tax credit

Analysis of credit to income statement

	2021	2020
	£'000	£'000
Current tax:		
UK corporation tax at 19% (2020: 19%)	-	(133)
Adjustments relating to prior years	-	12
Total current tax	-	(121)
Deferred tax (note 19):		
Origination and reversal of timing differences	**1,376**	5,195
Change in tax rate	**1,518**	(5)
Adjustments relating to prior years	-	(2,499)
Total deferred tax credit	**2,894**	2,691
Total tax credit for the current year	**2,894**	2,570

Adjustment relating to prior years of £2.5m relates changes in assumption used to calculate a deferred tax liability arising on consolidation in relation to non-qualifying fixed assets,

The tax assessed for 2021 and 2020 reconciles to the standard effective rate of corporation tax in the UK as follows:

	2021	2020
	£'000	£'000
Loss before income tax	**(19,205)**	(38,160)
Loss multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	**3,649**	7,251
Expenses not deductible for tax purposes	**(1,571)**	(1,499)
Income not taxable for tax purposes	**3**	5
Adjustments relating to prior years	-	(2,487)
Effects of other reliefs	**182**	-
Impact of unrecognised deferred tax assets / liabilities	**(1,174)**	(695)
Deferred tax rate changes	**1,805**	(5)
Total tax credit for the year	**2,894**	2,570

The deferred tax balances above have been calculated at 25% (2020: 19%) being the substantively enacted rate at 31 December 2021.

9 Exceptional items

	2021 £'000	2020 £'000
Consultancy costs	**589**	1,633
Redundancy costs	**-**	1,061
COVID-19 costs	**748**	1,234
Legal Settlements	**207**	-
	1,544	3,928

Exceptional consultancy costs relate to the additional cost of contracting consultants as part of the company transformation project and one-off computer support. Discrete Redundancy costs relate to the business staff restructuring programme. COVID-19 costs include incremental costs to the business incurred during the pandemic, which would not be in the course of normal business, including PPE and safety wear and additional cleaning costs.

10 Property, plant and equipment

Group	Freehold property £'000	Plant and equipment £'000	Right of use assets £'000	Total £'000
Cost				
At 1 January 2020	47,893	39,117	2,172	89,182
Additions	-	2,186	-	2,186
Disposal	(73)	-	-	(73)
At 31 December 2020	47,820	41,303	2,172	91,295
Additions	-	2,581	122	2,703
At 31 December 2021	47,820	43,884	2,294	93,998
Accumulated depreciation				
At 1 January 2020	9,928	22,553	513	32,994
Charge to income statement	885	3,029	515	4,429
Disposal	(19)	-	-	(19)
At 31 December 2020	10, 794	25,582	1,028	37,404
Charge to income statement	876	3,117	593	4,586
31 December 2021	11,670	28,699	1,621	41,990
Net book value at 31 December 2021	**36,150**	**15,185**	**673**	**52,008**
Net book value at 31 December 2020	37,026	15,721	1,144	53,891

The above right of use assets of £673,000 are secured on the asset to which the lease relates.

Freehold land included within freehold property amounts to £3,599,000 which is not depreciated.

11 Intangible assets

Capitalised development costs

Group	**2021 £'000**	2020 £'000
Cost		
At the beginning of the year	**49,385**	48,501
Additions	**11,620**	10,650
Disposals	**-**	(9,766)
At the end of the year	**61,005**	49,385
Accumulated amortisation		
At the beginning of the year	**27,555**	27,170
Charge to income statement – cost of sales	**10,482**	9,176
Disposals	**-**	(8,791)
At the end of the year	**38,037**	27,555
Total	**22,968**	21,830

Goodwill

Group	**2021 £'000**	2020 £'000
Cost		
At the beginning and at the end of the year	**104,377**	104,377

Net book value at the end of the year	**127,346**	126,207

Net impairment of development costs, included as disposals were £nil (2020: £1.0m)

Impairment tests for Development costs

Capitalised costs are reviewed annually and will be written off where continuing carry forward is no longer considered to be appropriate, such as a decision to cease production of a particular model. The impairment in the year relates to projects which are no longer going to be progressed by the Group.

Impairment tests for goodwill

Management reviews the business performance at the one, overall, segmental level of the principal activity.

11 Intangible assets (continued)

The recoverable amount of the only Cash Generating Unit has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the annual financial projections approved by management covering a four-year period, being management's lowest estimate for the future life of the business. The growth rates used do not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2021 and 2020 are as follows:

	2021	2020
EBITDA average growth rate (4 year period) - %	**42.3%**	30.0%
Long term growth rate - %	**2.0%**	2.0%
Discount rate - %	**10.5%**	10.5%

Management has determined the values assigned to each of the above key assumptions as follows:

Initial growth rate – Cash flows from the business plan are extrapolated out to year four using the implicit growth rate, shown in the table above as the initial growth rate. This is based on past performance and management expectations of market development

Long term growth rate – This is the weighted average growth rate used to extrapolate cash flows beyond the forecast period. The rates are consistent with forecasts included in industry reports and the improved production capacity and expanded product offering.

Discount rate – Discount rates are determined using rates that reflect current market assessment of the time value of money and the risk specific to the Group

Significant estimate impact of possible changes in key assumptions. The recoverable amount of the CGU would equal its carrying amount if the key assumptions were to change as follows:

	2021
EBITDA average growth rate (4 year period) - %	**42.3% to 30%**
Long term growth rate - %	**From 2.0% to (13.7%)**
Discount rate - %	**From 10.5% to 17.1%**

12 Investments

	Group 2021 £'000	2020 £'000	Company 2021 £'000	2020 £'000
Investment in Princess Yachts Limited	-	-	**187,006**	187,006
Other unlisted investments	**57**	53	-	-
	57	53	**187,006**	187,006

The principal subsidiary companies within Princess Yachts (Holdings) Limited, all with the registered office of Newport Street, Plymouth, Devon PL1 3QG, are:

Subsidiary	Holding	Nature of Business	Country of Incorporation
The Renwick Group Limited	100%	Holding company	United Kingdom
Princess Yachts Limited	100%	Manufacture of luxury motor yachts	United Kingdom

Other unlisted investments comprise various shares across a number of entities. The majority of these shares are held in Sutton Harbour Holdings plc, a business concerned with regional regeneration and development. The Group holds approximately 1% of this company's shares which are traded on the Alternative Investment Market. The original cost of these shares was £55,000 and valuation movements have been as follows:

Group	2021 £'000	2020 £'000
Market value at the beginning of the year	**53**	51
Revaluation	**4**	2
Market value at the end of the year	**57**	53

Copies of their financial statements are available at www.gov.UK.

13 Financial instruments by category

Group – 31 December 2021 Assets as per balance sheet	Loans, liabilities and receivables at amortised cost £'000	Assets and liabilities at fair value through profit and loss £'000	Total £'000
Financial assets at fair value - investments	-	57	57
Trade and other receivables excluding prepayments	28,596	-	28,596
Cash and cash equivalents	583	-	583
Total	**29,179**	**57**	**29,236**
Liabilities as per balance sheet			
Borrowings	218,195	-	218,195
Trade and other payables excluding non-financial liabilities	139,255	-	139,255
Total	**357,450**	**-**	**357,450**

Group – 31 December 2020

Assets as per balance sheet	Loans, liabilities and receivables at amortised cost £'000	Assets and liabilities at fair value through profit and loss £'000	Total £'000
Financial assets	-	53	53
Trade and other receivables excluding prepayments	23,143	-	23,143
Cash and cash equivalents	3,603	-	3,603
Total	**26,746**	**53**	**26,799**
Liabilities as per balance sheet			
Borrowings	210,916	-	210,916
Trade and other payables excluding non-financial liabilities	114,909	-	114,909
Total	**325,825**	**-**	**325,825**

13 Financial instruments by category (continued)

Company – 31 December 2021	Loans, liabilities and receivables at amortised cost £'000	Assets and liabilities at fair value through profit and loss £'000	Total £'000
Assets as per balance sheet			
Financial assets at fair value - investments	-	187,006	187,006
Cash and cash equivalents	3	-	3
Total	**3**	**187,006**	**187,009**
Liabilities as per balance sheet			
Borrowings	217,420	-	217,420
Trade and other payables excluding non-financial liabilities	72,843	-	72,843
	290,263	**-**	**290,263**

Company – 31 December 2020	Loans, liabilities and receivables £'000	Assets and liabilities at fair value through profit and loss £'000	Total £'000
Assets as per balance sheet			
Financial assets	-	187,006	187,006
Cash and cash equivalents	3	-	3
Total	3	187,006	187,009
Liabilities as per balance sheet			
Borrowings	209,760	-	209,760
Trade and other payables excluding non-financial liabilities	69,542	-	69,542
Total	279,302	-	279,302

14 Inventories

Group

	2021 £'000	2020 £'000
Raw materials and consumables	**8,874**	8,537
Work in progress	**55,615**	58,636
Finished goods and goods for resale	**-**	2,126
	64,489	69,299

There is no material difference between the balance sheet amount of inventory and its replacement cost. A slow moving/obsolete inventory provision of £1,581,000 (2020: £1,892,000) has been included within the raw materials analysis above. £Nil of inventory was written off in 2021 (2020: £Nil).

15 Trade and other receivables

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Trade receivables	**28,596**	20,944	**-**	-
Prepayments and accrued income	**4,785**	2,010	**-**	-
	33,381	22,954	**-**	-

The fair value of trade receivables is £28,596,000 (2020: £20,944,000).

	Group		Company	
Ageing of trade receivables	2021 £000	2020 £000	2021 £000	2020 £000
Due within one year	**28,765**	21,022	**-**	-
Provision for doubtful debts	**(169)**	(78)	**-**	-
Total	**28,596**	20,944	**-**	-

16 Trade and other payables

	Group		Company	
Amounts due within one year	**2021**	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Trade payables	**39,701**	45,295	-	-
Bank facility	**14,156**	17,084	-	-
Other payables and accruals	**14,666**	17,593	-	-
Amounts owed to Group undertakings	-	-	**72,843**	69,372
Other taxation and social security	**3,817**	3,325	-	-
Government grants	-	64	-	-
Deferred income	**81,070**	48,695	-	-
	153,410	132,056	**72,843**	69,372

Amounts owed to Group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged at 0.8%.

The Increase in deferred income is in line with the increased order book year on year, as disclosed within the Strategic Report the order book grew from £440m to £701m.

17 Borrowings

	Note	Group		Company	
		2021	2020	**2021**	2020
		£'000	£'000	**£'000**	£'000
Current					
Bank loan (Company and Group - secured)	a	**2,200**	2,200	**2,200**	2,200
Bank Loan (Group - secured)	b	**3,350**	10,500	-	-
Shareholder Advances (Group - secured)	b	**6,783**	6,725	-	-
		12,333	19,425	**2,200**	**2,200**
Non-current					
Bank loan (secured), net of issue costs	a	**34,442**	35,570	**34,442**	35,570
Redeemable preference shares	c	**131,450**	124,339	**131,450**	124,339
Leases capitalised		**775**	1,156	-	-
Shareholders' advances (unsecured)	d	**51,529**	49,851	**51,529**	49,851
		218,196	210,916	**217,421**	209,760

The borrowings are at market rate and as such are recognised at amortised cost. All borrowings are denominated in Sterling.

17 Borrowings (continued)

Maturity profile
The maturity profile of the carrying amount of borrowing at 31 December 2021 was as follows:

	Bank £'000	Redeemable preference shares £'000	Other loans £'000	Leases capitalised £'000	2021 Total £'000	2020 Total £'000
<1 year	5,550	-	6,783	-	12,333	19,425
1-5 years	34,442	131,450	51,528	775	218,195	210,916
	39,992	**131,450**	**58,311**	**775**	**230,528**	**230,341**

a) Bank loan
Loan Facility A being £10,000,000 repayable in biannual instalments of £1,100,000 terminating in December 2023. Loan facility B being £30,000,000 repayable in full on the termination date of 15 May 2024 and are secured on the assets of the group (note 10).

b) Working Capital Facilities

Following the temporary factory closure due to the global pandemic (COVID-19) in 2020, the banks and shareholders agreed a short-term financing facility primarily used to pay down suppliers, restart our supply chain and safely re-open our production facilities.

During June 2020 the shareholders and bank group provided a combined amount of £18.7m, of which £10.1m remained outstanding at the balance sheet date. The remaining bank debt (£3.35m) was repaid in full on 31 March 2022 and the shareholder loan is repayable by monthly instalments through 2022, with the final payment due 31 December 2022.

c) Preference shares

The cumulative preference shares comprise 62,100,000 shares of £0.01 each (authorised, issued at £0.99 premium and paid up). The shares, which do not carry any voting rights, are redeemable on or before 31 December 2024 at the option of the shareholders, who have confirmed that it is not their current intention to exercise their option before this date. The shares bear interest calculated at 72% of 5.08% plus 275 basis points of the subscription price p.a. on the par value of these shares on a cumulative basis.

On winding up, the preference shareholders rank above ordinary shareholders. On redemption or winding up, the preference shareholders are entitled to receive the subscription price together with any interest accrued but unpaid in respect of their shares. The accrued interest on preference shares amounts to £69,350,000 (2020: £62,239,000). The interest will be rolled up throughout the term of the preference shares.

d) Shareholders' advance and other loans

Other loans comprise shareholders' advances from RNO Group S.C.A. (£13,988,682 £11,209,178 and £26,329,950) (2020: £13,478,509, £10,559,178 and £25,816,676). Interest is being accrued and rolled up throughout the term of the loans.

18 Deferred government grants

Group	2021 £'000	2020 £'000
At 1 January	**64**	222
Amortisation in the year	**(64)**	(158)
At 31 December	-	64

	2021 £'000	2020 £'000
Current	-	64
	-	64

A grant of £4.5m was received during 2013 from the UK Government's Regional Growth Fund with regard to the company's development of its South Yard site at the Devonport Dock Yard. During 2021, the monitoring period obligations were completed and subsequently audited, with amortisation of £0.1m released in the year.

19 Deferred income tax

	Pension	Excess capital allowances over depreciation		Other Timing Difference		
Group	**Assets £'000**	**Assets £'000**	**Liabilities £'000**	**Assets £'000**	**Liabilities £'000**	**Total £'000**
At 1 January 2020	**1,038**	**6**	**(1,910)**	**7,590**	**(3,626)**	**3,098**
Movement recognised in income statement	(93)	(6)	(1,190)	4,502	(522)	2,691
Movement recognised in other comprehensive income	(6)	-	-	-	-	(6)
At 31 December 2020	**939**	-	**(3,100)**	**12,092**	**(4,148)**	**5,783**
Movement recognised in income statement	(47)	-	(192)	4,727	(1,594)	2,894
Movement recognised in other comprehensive income	(243)	-	-	-	-	(243)
At 31 December 2021	**649**	-	**(3,292)**	**16,819**	**(5,742)**	**8,434**

20 Provisions for other liabilities and charges

Warranty Provision	**2021** **£000**	2020 £000
At the beginning of the year	**3,011**	3,108
Additional provision made in the year	**6,901**	5,290
Charge against provision	**(7,269)**	(5,387)
At the end of the year	**2,643**	**3,011**

21 Retirement benefit obligations

Defined benefit scheme

Princess Yachts Limited, a wholly owned subsidiary within the Group, operates a defined benefit pension scheme which was closed to new entrants and accrual of pensionable service ceased on 31 May 2003. The scheme's funding is valued triennially by an independent qualified actuary using the accrued benefits method. At the last full valuation on 6 April 2019, the value of the scheme's assets (which are held separately from those of the Group) was £103,154,000 which was sufficient to cover 94% of the benefits accrued at that date.

During the year ended 31 December 2021, contributions of £1,440,000 (2020: £1,440,000) were made towards meeting the funding requirement. These are recognised in cost of sales. Contributions of £1,440,000 are expected to be made in 2022. The following information has been calculated by updating the valuation calculations carried out for the initial results of the formal valuation as at 6 April 2019.

The principal assumptions used by the actuary were:

Principal assumptions	**2021**	2020
Rate of increase in pay – uncapped members	**2.6%**	2.2%
Rate of increase in pay – capped members	**2.6%**	2.2%
Rate of increase in pension payment	**3.5%**	3.0%
Discount rate	**1.9%**	1.3%
Inflation	**3.5%**	3.1%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. At 31 December 2021 the assumed life expectations on retirement, at age 65 for current pensioners, were 21.0 years for men (2020: 21.0 years) and 23.5 years for women (2020: 23.4 years).

Assets and expected rates of return

The expected return on assets is based on the long-term future expected investment return of each asset class. The return on gilts is assumed to be the yield on the FTSE Actuaries 15-year gilt index and the return on corporate bonds is assumed to be the yield on the iBoxx Corporate AA 15+ index. The return on equities is assumed to be 3.5% p.a. margin above gilt yields

21 Retirement benefit obligations (continued)

	Bid value at 31 December 2021 £'000	Bid value at 31 December 2020 £'000
Equity instruments	**76,382**	61,513
Debt instruments	**35,645**	36,672
Property	**5,092**	2,366
Cash and cash equivalents	**3,819**	1,182
Other assets	**6,365**	16,562
Market value of assets	**127,303**	118,295
Present value of scheme liabilities (funded)	**(115,786)**	(123,243)
Effect of asset ceiling	**(14,112)**	-
Scheme liability	**(2,595)**	(4,948)

All the equity instruments above have been invested in quoted securities except for Nil (2020: £27.6m)

Amounts recognised in profit & loss	**2021 £'000**	2020 £'000
Expected return on assets	**1,529**	2,264
Interest on liabilities	**(1,584)**	(2,377)
Past service cost – pension equalisation	**-**	(200)
Other finance expense	**(55)**	(313)

Analysis of amounts recognised in Statement of Comprehensive Income:		
Actual return less expected return on assets	**8,918**	8,692
Experience adjustments arising on liabilities	**6,162**	(8,664)
Effect of asset ceiling	**(14,112)**	-
Actuarial gain in Statement of Comprehensive Income	**968**	28

21 Retirement benefit obligations (continued)

Reconciliation of fair value of scheme assets	2021 £'000	2020 £'000
Assets at the beginning of the year	**118,295**	108,229
Expected return on assets	**1,529**	2,264
Actuarial gain	**8,918**	8,692
Employer contributions	**1,440**	1,440
Benefits paid, net of transfers in	**(2,879)**	(2,330)
Assets at the end of the year	**127,303**	118,295

Reconciliation of present value of scheme liabilities		
Liabilities at the beginning of the year	**(123,243)**	(114,332)
Interest cost	**(1,584)**	(2,377)
Past service cost – pension equalisation	**-**	(200)
Actuarial gain/(loss)	**5,457**	(8,664)
Benefits paid, net of transfers in	**2,879**	2,330
Experience (gains) on liabilities	**705**	-
Liabilities at the end of the year	**(115,786)**	(123,243)

The scheme assets are stated at bid value. The weighted average duration of the liabilities valued at 31 December 2021 is 18.0 years (2020: 18.0 years). The effect of changes to the principal actuarial assumptions on the value of the funded defined benefit obligations disclosed is summarised below:

Changes to Assumption	**2021 £'000**	2020 £'000
Discount rate increased by 1%	**(17,270)**	(19,378)
Discount rate decreased by 1%	**22,170**	25,132
RPI and associated assumptions increased by 1%	**16,470**	15,438
RPI and associated assumptions decreased by 1%	**(12,904)**	(13,433)

21 Retirement benefit obligations (continued)

History of experience gains and losses	**2021 £'000**	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Defined benefit obligation	**(115,786)**	(123,243)	(114,332)	(109,183)	(113,577)
Plan assets	**127,303**	118,295	108,229	96,478	100,671
Effect of asset ceiling	**(14,112)**	-	-	-	-
Deficit	**(2,595)**	(4,948)	(6,103)	(12,705)	(12,906)
Experience adjustments on plan liabilities	**5,457**	(8,664)	(5,633)	-	-
Experience adjustments on plan assets	**9,623**	8,692	11,143	(5,167)	4,044
Change in effect of asset ceiling	**(14,112)**	-	-	-	-

Defined contribution schemes

The Group also operates defined contribution pension schemes. Pension contributions in respect of these schemes were £2.7m (2020: £2.4m). Contributions outstanding at 31 December 2021 were £0.4m (2020: £0.3m) which were paid in January 2022.

22 Called up share capital

Group and company	**2021 Quantity**	**2021 £**	2020 Quantity	2020 £
Authorised				
A ordinary shares of £0.01 each	**3,000,000**	**30,000**	3,000,000	30,000
B ordinary shares of £0.01 each	**780,000**	**7,800**	780,000	7,800
C ordinary shares of £0.01 each	**200,000**	**2,000**	200,000	2,000
D ordinary shares of £0.01 each	**20,000**	**200**	20,000	200
At 31 December	**4,000,000**	**40,000**	4,000,000	40,000

Group and company	**2021 Quantity**	**2021 £**	2020 Quantity	2020 £
Authorised, allotted, issued and fully paid				
A ordinary shares of £0.01 each	3,000,000	30,000	3,000,000	30,000
B ordinary shares of £0.01 each	780,000	7,800	780,000	7,800
C ordinary shares of £0.01 each	200,000	2,000	200,000	2,000
D ordinary shares of £0.01 each	17,000	170	17,000	170
At 31 December	3,997,000	39,970	3,997,000	39,970

22 Called up share capital (continued)

The value of the shares allotted on the acquisition of The Renwick Group plc was £4.0m, reflecting a premium of £0.99 per share. During 2017, 200,000 B ordinary shares of £0.01 each in the capital of the company held by its parent, RNO Group S.C.A., were re-designated and converted to 200,000 C ordinary shares of £0.01. A further 20,000 B ordinary shares of £0.01 were converted to D ordinary shares with the same value.

The different classes of ordinary shares attract differing rights and entitlements. The A Ordinary and B Ordinary shares have rights to income, voting and capital. The C Ordinary and D Ordinary shares have specific entitlements calculated by reference to net equity value and net return actually received. Each C Ordinary and D Ordinary share is entitled to vote. The rights of each class of Ordinary Shares are subject to the prior entitlements of the redeemable preference shares, which are classified as a liability (see note 17). Further information can be obtained from Companies House.

23 Reserves

Group

	Share premium account £'000	Accumulated losses £'000	Total £'000
At 1 January 2020 - restated	**4,105**	**(55,076)**	**(50,971)**
Loss for the year	-	(35,578)	(35,578)
Actuarial gain on pension scheme (net of tax)	-	22	22
At 31 December 2020	**4,105**	**(90,632)**	**(86,527)**
Loss for the year	-	(16,311)	(16,311)
Actuarial gain on pension scheme (net of tax)	-	725	725
Revaluation of investments	-	4	4
At 31 December 2021	**4,105**	**(106,214)**	**(102,109)**

Company	Share premium account £'000	Accumulated losses £'000	Total £'000
At 1 January 2021	4,105	(97,850)	(93,745)
Loss for the year	-	(10,933)	(10,933)
At 31 December 2021	**4,105**	**(108,783)**	**(104,678)**

24 Cash generated from / (used in) operations

Group	2021 £'000	2020 £'000
Loss before income tax	(19,205)	(38,148)
Fair value movement on investments	(4)	(2)
Depreciation of property, plant and equipment	4,090	3,814
Amortisation of development costs	10,482	9,176
Impairment of development costs	-	975
Grant amortisation	(64)	(158)
Research & Development tax credit	(1,193)	(722)
Movement on provisions	(368)	(97)
Interest payable	15,932	13,957
Loss/(Profit) on disposal of property, plant and equipment	-	54
Decrease / (Increase) in inventory	4,810	(2,834)
(Increase) / decrease in trade and other receivables	(11,242)	4,026
(Decrease) / increase in trade payables	(5,593)	8,754
Increase / (decrease) / in other payables	33,207	(5,678)
Pension contributions	(1,440)	(1,440)
Net cash generated from / (used) in operating activities	29,412	(8,323)

25 Reconciliation of movement in net debt - Group

	Net debt at 1 January 2021 £'000	Cash flow £'000	Non-cash flow £'000	Net debt at 31 December 2021 £'000
Cash	3,603	(3,020)	-	**583**
Bank facility	(17,084)	6,250	(3,322)	**(14,156)**
Net cash movement	(13,481)	3,230	(3,322)	**(13,573)**
Bank loan	(37,770)	2,200	(1,072)	**(36,642)**
Working Capital Loan – Bank	(10,500)	7,150	-	**(3,350)**
Working Capital Loan - Shareholders	(6,725)	-	(58)	**(6,783)**
Shareholders' advances and other loans	(49,851)	-	(1,678)	**(51,529)**
Preference shares	(124,339)	-	(7,111)	**(131,450)**
Leases	(1,156)	531	(150)	**(775)**
Borrowing	(230,341)	9,881	(10,069)	**(230,529)**
Net debt	(243,822)	13,111	(13,391)	**(244,102)**

Non-cash flow includes £1,072,000 (2020: £1,070,000) accrued interest on PIK loans and £7,111,000 (2020: £6,727,000) accrued dividend on the preference shares.

26 Cash used in operations – Company

Company	**2021 £'000**	2020 £'000
Loss before income tax	**(11,102)**	(11,032)
Interest payable	**11,080**	11,032
Administration expenses	**21**	-
Net cash used in operating activities	**(1)**	-

27 Reconciliation of movement in net debt – Company

	Net debt at 1 January 2021 £'000	Cash flow £'000	Non-cash flow £'000	Net debt at 31 December 2021 £'000
Cash	4	(1)	-	**3**
Bank loan	(37,770)	2,200	(1,072)	**(36,642)**
Shareholders' advances and other loans	(49,851)	-	(1,678)	**(51,529)**
Preference shares	(124,339)	-	(7,111)	**(131,450)**
Borrowing	(211,960)	2,200	(9,861)	**(219,621)**
Net debt	(211,956)	2,199	(9,861)	**(219,618)**

28 Leases

The Group had lease commitments in respect of Property Plant and Equipment. Each lease is reflected on the balance sheet as a right of use asset and a lease liability. The lease term for the equipment ranges from 2 to 5 years. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative values.

The balance sheet shows the following in respect of leases

Right of use assets	**2021 £'000**	2020 £'000
Property, Plant and Equipment	**673**	1,144

Lease Liability	**2021 £'000**	2020 £'000
Non-current	**775**	1,156

Measurement of right of use asset

The right of use assets have been measured for IFRS16 at the amount equal to the leasing liability. A reconciliation of the lease liability is disclosure as follows:

28 Leases (continued)

	2021 £'000
Operating lease commitments at the beginning of the year	2,171
Leases obtained in the year	122
Discounted at implicit lease interest rate of 4%	(146)
Operating lease commitments at the end of the year	**2,147**

	2021 £'000
At the beginning of the year	1,156
Depreciation prior to 1 January 2021 under IFRS 16	122
Finance charge	85
Lease payments made in the year	(588)
At the end of year	**775**

Maturity analysis	2021 £'000
Between 1 and 5 years	775

29 Related party transactions

The Group and company had the following transactions with related parties in 2021 and 2020:

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. There were no transactions with related parties that are not members of the Group during the year. During the year the company made no loans to key management personnel.

Cumulative preference shares comprising 62,100,000 of £0.01 each are held by RNO Group S.C.A. (note 17). During the year, accrued interest of £7,111,000 (2020: £6,727,000) were added to the carrying value of the preference shares. In addition, £1,678,000 (2020: £3,167,000) of interest, on advances of £51,529,000 (2020: £49,581,000) made by RNO Group S.C.A. was charged to the income statement in the year.

30 Ultimate controlling party

The immediate parent undertaking is RNO Group S.C.A.

The smallest undertaking for which the company is a member and for which Group financial statements are prepared is Princess Yachts (Holdings) Limited and the largest Group for which consolidated financial statements are prepared is the ultimate parent undertaking, RNO Group S.C.A., a company incorporated in Luxembourg. These financial statements are not filed. The ultimate controlling party is L'Catterton S.A.S.