

Registered number: 07630662

# **Reece Group Limited**

## **Directors' report and financial statements**

**31 December 2015**



# Reece Group Limited

## Company Information

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<b>Directors</b>	RD Anderton PJ Kite AD Reece JP Reece
<b>Company secretary</b>	PJ Kite
<b>Registered number</b>	07630662
<b>Registered office</b>	Armstrong Works Scotswood Road Newcastle upon Tyne Tyne & Wear NE15 6UX
<b>Independent auditor</b>	UNW LLP Chartered Accountants Citygate St. James' Boulevard Newcastle upon Tyne NE1 4JE
<b>Bankers</b>	HSBC Maingate Team Valley Trading Estate Gateshead NE11 0BE

# **Reece Group Limited**

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# Reece Group Limited

## Group strategic report Year ended 31 December 2015

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The directors present their report and the financial statements for the year ended 31 December 2015.

Reece Group Limited is a privately owned business and the holding company for a number of innovative North East engineering businesses, operating in the defence, oil and gas, power generation, construction and subsea markets.

The group's strategy is to grow the business through organic growth, acquisition and the creation of a world class manufacturing facility. In delivering this strategy, and growing the business, the group aims to achieve its vision of creating employment and wealth in the region in which it operates.

The group's financial performance for the year can be summarised as follows:

	<b>2015</b>		<b>2014</b>
	<b>£000</b>		<b>£000</b>
Turnover	<b>54,036</b>		51,006
Gross profit	<b>22,654</b>	<b>42%</b>	17,673 35%
EBITDA before exceptional costs	<b>3,826</b>		(174)
EBITDA after exceptional costs	<b>1,414</b>		(4,743)
Turnover per employee	<b>103</b>		99
Number of employees	<b>525</b>		514

2015 saw an improvement in the group's trading performance with a £3m (6%) increase in turnover and a £6m increase in profit after tax. The improved performance was primarily achieved through growth in the defence market.

Prior to investment in research and development (£2.4m) and expenditure on exceptional non-recurring costs (£2.5m) the business made a profit before tax of £3.9m.

The group also invested £4.7m in fixed assets for its growing operations and £165k was donated to local charities.

Following a number of acquisitions in 2012 and 2013 the business has continued with its strategy of creating a successful engineering business based upon developing a group of product businesses operating in a diverse range of markets supported by a world class subcontract manufacturer. In 2015 the business completed an investment in Continuous Retorts Ltd, a designer and manufacturer of retorts which sterilise or pasteurise food contained within plastic pouches, glass jars or tins, at high speed with low energy and water consumption. In 2016 the assets and IPR of MineWolf Systems were also acquired. Minewolf designs and manufactures counter-IED explosive ordnance disposal and mine clearance vehicles for armed forces, homeland security and NGOs.

The group places a high priority on training and developing its workforce. In 2015 the group employed 53 apprentices (2014: 47) and a group graduate programme is due to commence in September 2016.

The group continues to be a strong supporter of STEM initiatives promoting engineering as a career, working with local primary and secondary schools. Furthermore following the relocation to the Armstrong Works facility on Scotswood Road, the group has actively supported the regeneration of the West End of Newcastle, and has supported a number of local charities; to date over £380k has been donated to good causes.

## **Reece Group Limited**

### **Group strategic report (continued) Year ended 31 December 2015**

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The directors are also proud to support the wider projects of Reece Foundation, a charitable Trust created in 2008 which aims to promote engineering and manufacturing.

The Reece Group now consists of the following businesses:

Pearson Engineering Limited — a business operating in the defence sector that designs and manufactures a range of counter mine and counter IED equipment as well as combat engineering equipment that increase the capability of armoured fighting vehicles. It also provides an armoured vehicle refurbishment and upgrade service and with the addition of MineWolf a vehicle capability to clear mines and explosive devices. Pearson Engineering was awarded the Queen's Award for Enterprise in International Trade in 2013. The company owns the subsidiary Pearson Engineering Inc. based in the USA that provides services to the American defence market.

Responsive Engineering Limited — a business providing a wide range of subcontract manufacturing services including machining, welding, fabrication, pressing, assembly, testing as well as laser and water jet cutting, for the oil and gas, power generation, defence and sub-sea sectors. Its move to the Armstrong Works will allow it to expand its operations, increasing the scale of its manufacturing capability and its customer base. In 2016 the company has achieved accreditation for supplying manufacturing services to the Aerospace, Nuclear and Rail industries.

Velocity UK Limited — a business that offers a specialist road repair service, providing highly-skilled teams and road repair machines to local authorities across the UK. During 2013 it took its innovative road repair technology and services to overseas markets opening a branch in the USA and selling products in South America. It also won Exporter of the Year at the UKTI North East Business Awards.

Reece Innovation Centre Limited — a business in which opportunities in new products and markets are explored. It was officially launched in October 2013 and has become a centre for excellence in research and development.

Reece Property Limited – a business that manages the real estate of the Reece Group operations.

Reece Treasury Management Limited – the treasury management company for the group. The company was incorporated during the year on 19th February 2015.

The company also holds an investment in Continuous Retorts Limited, a designer and manufacture of retorts which sterilise or pasteurise food contained within plastic pouches, glass jars or tins, at high speed with low energy and water consumption.

#### **Principal risks and uncertainties**

##### ***Credit risk***

The majority of group debtors relate to amounts owed as set out in agreed legal contracts, and many of the debtors are owed from government related bodies. Historically the group has not considered there to be a significant credit risk however given the current global economic uncertainty this may change over time.

# Reece Group Limited

## Group strategic report (continued) Year ended 31 December 2015

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### Principal risks and uncertainties (continued)

#### ***Liquidity risk***

The group aims to mitigate liquidity risk by managing cash generated by its operations in the most effective manner. It is group policy to invoice amounts due on contracts as soon as possible; all amounts owed by debtors are collected promptly, all major capital expenditure must be approved by the directors.

#### ***Foreign currency risk***

The group has significant trade in US Dollars with its customers. To protect the business against the movement in exchange rate between the date of order acceptance and payment of the debt the company takes out forward exchange contracts. Without such forward contracts the business would not be able to enter large contracts denominated in foreign currency as the risk would be too great.

The value of the contracts in the group denominated in foreign currency has been significant and in order to be able to provide forward exchange rate contracts the banks have in the past looked to mitigate their default risk by covering exposure within the market place by requesting cash deposits as security. To manage this situation the group ring fences an appropriate proportion of its cash reserves for this purpose.

#### ***Working capital***

The group will seek to establish terms which minimise the working capital requirement. However it is inevitable that under some contracts the group will be required to provide finance for the initial stock and debtors before payments from the customer commence.

#### ***Deliverability risk***

When tendering for large scale contracts customers will review the strength of balance sheets in order to confirm suppliers are able to deliver on potential contracts. It is understandable that customers need to be satisfied that suppliers have sufficient working capital to be able to fulfil orders and that should anything go wrong suppliers have the ability to finance any remedial work required under warranty. To manage this customer concern the group retains sufficient funds to continually demonstrate a strong long term financial position.

#### ***Bank risk***

The lack of confidence surrounding UK banks remains a concern to the business. Whilst government and regulators are taking action to ensure banks' balance sheets are strengthened, the holding of funds in banks is not seen as having no risk. The group's risk is reduced by spreading funds across a number of banks where credit rating and other available financial information indicates risk is low.

#### ***Interest rate risk***

All cash is invested in interest bearing bank accounts at either a variable or fixed rate. Therefore whilst financial assets, liabilities, interest charges and interest income and cash flows can be affected by movements in interest rates these are managed by continually reviewing where cash is held and moving funds as appropriate.

## **Reece Group Limited**

### **Group strategic report (continued) Year ended 31 December 2015**

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This report was approved by the board on 9 September 2016 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'PJ Kite', with a long horizontal stroke extending from the bottom right.

**PJ Kite**  
Director

# **Reece Group Limited**

## **Directors' report Year ended 31 December 2015**

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The directors present their report and the financial statements for the year ended 31 December 2015.

### **Results and dividends**

The loss for the year, after taxation, amounted to £928,000 (2014 - £6,907,000).

Details of interim dividends paid are given in note 28 to the financial statements. The directors do not recommend a final dividend in respect of the year.

### **Directors**

The directors who served during the year were:

RD Anderton  
PJ Kite  
RH Maudslay (resigned 30 June 2016)  
AD Reece  
JP Reece

### **Employee involvement**

The group is committed to the development of employee consultation and thereby to the greater involvement of employees in the group's operations. Consultation is achieved both on a formal basis in conjunction with works committees and through informal briefing sessions and discussions with groups of employees.

### **Employees**

It is the group's policy to work towards true equality of opportunity for employees and applicants for employment regardless of race, nationality, ethnic origin, religion, gender, sexual orientation or marital status. Applications for employment by disabled persons are always fully and fairly considered, having regard to the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and the appropriate training is arranged.

### **Post balance sheet events**

In January 2016 the assets and IPR of MineWolf Systems were acquired. Minewolf designs and manufactures counter-IED explosive ordnance disposal and mine clearance vehicles for armed forces, homeland security and NGOs. The business will operate as a unit within Pearson Engineering Limited from the Armstrong Works facility in Newcastle upon Tyne.

In January 2016 the decision was made by the directors of Pipe Coil Technology Limited to cease trading following a review of the business which concluded that the company, including its US subsidiary, was no longer considered to be viable. This conclusion was reached due to the continuing low level of sales coupled with the company's ongoing losses and the lack of sufficient improvement potential given the future outlook for the markets which the company supplies.



## **Reece Group Limited**

### **Directors' report Year ended 31 December 2015**

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#### **Matters covered in the strategic report**

The following information, which would otherwise be disclosed in the director's report, is instead disclosed in the strategic report, as permitted by c414C(11) of the Companies Act 2006:

- future developments
- research and development activities
- financial risk management objectives and policies

#### **Disclosure of information to auditor**


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

- so far as that director is aware, there is no relevant audit information of which the company and the group's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the group's auditor is aware of that information.

#### **Auditor**

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and UNW LLP will therefore continue in office.

This report was approved by the board on 9 September 2016 and signed on its behalf by:

  
**PJ Kite**  
Director

## **Reece Group Limited**

### **Directors' responsibilities statement Year ended 31 December 2015**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **Independent auditor's report to the members of Reece Group Limited**

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We have audited the financial statements of Reece Group Limited for the year ended 31 December 2015, set out on pages 10 to 47. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the group strategic report and the directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the group strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.




## **Independent auditor's report to the members of Reece Group Limited**

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### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



**Andrew Wilson BA FCA (Senior Statutory Auditor)**  
for and on behalf of UNW LLP, Statutory Auditor  
Chartered Accountants  
Newcastle upon Tyne

9 September 2016

# Reece Group Limited

## Consolidated profit and loss account Year ended 31 December 2015

	Note	2015 £000	2014 £000
Turnover	5	54,036	51,006
Cost of sales		(31,278)	(33,333)
Exceptional cost of sales		(103)	-
<b>Gross profit</b>		<b>22,655</b>	<b>17,673</b>
Distribution costs		(882)	(818)
Administrative expenses		(21,972)	(21,438)
Exceptional administrative expenses		(2,369)	(4,569)
Other operating income	6	787	436
<b>Operating loss</b>	7	<b>(1,781)</b>	<b>(8,716)</b>
Income from current assets investments		44	-
Change in fair value of investments		56	-
Interest receivable and similar income		747	1,147
Interest payable and similar charges	12	(65)	95
<b>Loss on ordinary activities before taxation</b>		<b>(999)</b>	<b>(7,474)</b>
Tax on loss on ordinary activities	13	71	567
<b>Loss for the year</b>		<b>(928)</b>	<b>(6,907)</b>

The notes on pages 18 to 47 form part of these financial statements.

## Reece Group Limited

### Consolidated statement of comprehensive income Year ended 31 December 2015

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	2015 £000	2014 £000
Loss for the financial year	(928)	(6,907)
<b>Other comprehensive income:</b>		
Currency translation differences	(77)	(59)
<b>Total comprehensive income for the year</b>	<b>(1,005)</b>	<b>(6,966)</b>

The notes on pages 18 to 47 form part of these financial statements.

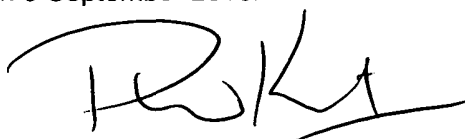
# Reece Group Limited

## Consolidated balance sheet At 31 December 2015

	Note	2015 £000	2014 £000
<b>Fixed assets</b>			
Intangible assets	15	6,976	7,990
Tangible assets	16	26,312	24,167
Investments	17	782	-
		<u>34,070</u>	<u>32,157</u>
<b>Current assets</b>			
Stocks	18	7,155	7,826
Debtors	19	14,799	12,176
Current asset investments	20	21,312	-
Cash at bank and in hand		79,928	111,973
		<u>123,194</u>	<u>131,975</u>
Creditors: amounts falling due within one year	21	(11,249)	(10,374)
<b>Net current assets</b>		<u>111,945</u>	<u>121,601</u>
<b>Total assets less current liabilities</b>		<u>146,015</u>	<u>153,758</u>
Creditors: amounts falling due after more than one year	22	(189)	(3,620)
Provisions for liabilities	26	(1,588)	(1,895)
<b>Net assets</b>		<u>144,238</u>	<u>148,243</u>
<b>Capital and reserves</b>			
Called up share capital	27	-	-
Profit and loss account		144,238	148,243
<b>Total equity</b>		<u>144,238</u>	<u>148,243</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 9 September 2016.

PJ Kite  
Director



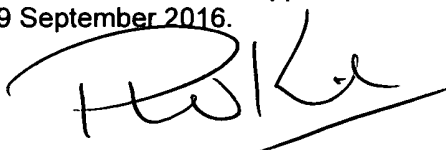
# Reece Group Limited

## Company balance sheet At 31 December 2015

	Note	2015 £000	2014 £000
<b>Fixed assets</b>			
Tangible assets	16	152	113
Investments	17	18,242	22,902
		<u>18,394</u>	<u>23,015</u>
<b>Current assets</b>			
Debtors: amounts falling due after more than one year	19	6,115	19,292
Debtors: amounts falling due within one year	19	52,370	825
Cash at bank and in hand		2,679	11,797
		<u>61,164</u>	<u>31,914</u>
Creditors: amounts falling due within one year	21	(234)	(756)
<b>Net current assets</b>		<u>60,930</u>	<u>31,158</u>
<b>Net assets</b>		<u><u>79,324</u></u>	<u><u>54,173</u></u>
<b>Capital and reserves</b>			
Called up share capital	27	-	-
Profit and loss account		79,324	54,173
<b>Total equity</b>		<u><u>79,324</u></u>	<u><u>54,173</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 9 September 2016.

PJ Kite  
Director



Company registered number: 07630662

The notes on pages 18 to 47 form part of these financial statements.



## Reece Group Limited

### Consolidated statement of changes in equity Year ended 31 December 2015

	Share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2015	-	148,243	148,243
Loss for the year	-	(928)	(928)
Currency translation differences	-	(77)	(77)
Dividends	-	(3,000)	(3,000)
<b>At 31 December 2015</b>	<b>-</b>	<b>144,238</b>	<b>144,238</b>

### Consolidated statement of changes in equity Year ended 31 December 2014

	Share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2014	-	155,209	155,209
Loss for the year	-	(6,907)	(6,907)
Currency translation differences	-	(59)	(59)
<b>At 31 December 2014</b>	<b>-</b>	<b>148,243</b>	<b>148,243</b>

The notes on pages 18 to 47 form part of these financial statements:

## Reece Group Limited

### Company statement of changes in equity Year ended 31 December 2015

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	Share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2015	-	54,173	54,173
Profit for the year	-	28,151	28,151
Dividends	-	(3,000)	(3,000)
At 31 December 2015	-	79,324	79,324

### Company statement of changes in equity Year ended 31 December 2014

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	Share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2014	-	56,122	56,122
Loss for the year	-	(1,949)	(1,949)
At 31 December 2014	-	54,173	54,173

The notes on pages 18 to 47 form part of these financial statements.

## Reece Group Limited

### Consolidated statement of cash flows Year ended 31 December 2015

	2015 £000	2014 £000
<b>Cash flows from operating activities</b>		
Profit for the financial year	(928)	(6,907)
<b>Adjustments for:</b>		
Interest and dividends receivable	(791)	(1,147)
Fair value movements	(56)	-
Interest payable	49	(95)
Charge for taxation	(71)	(567)
Amortisation of intangible assets	1,010	1,665
Depreciation of tangible assets	2,186	2,308
Impairments of fixed assets	457	390
Loss on disposal of tangible assets	25	152
Decrease/(increase) in stocks	671	(2,132)
(Increase)/decrease in debtors	(1,799)	15,772
Decrease in creditors	(1,684)	(4,427)
(Decrease)/increase in provisions	(307)	1,541
Corporation tax paid	(929)	(2,090)
<b>Net cash generated from operating activities</b>	<b>(2,167)</b>	<b>4,463</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible fixed assets	-	(1)
Purchase of tangible fixed assets	(4,735)	(5,686)
Sale of tangible fixed assets	81	358
Purchase of unlisted investments	(782)	-
Purchase of short term listed investments	(21,312)	-
Purchase of subsidiary undertaking (deferred consideration)	-	(80)
Interest and dividends received	791	1,147
<b>Net cash from investing activities</b>	<b>(25,957)</b>	<b>(4,262)</b>
<b>Cash flows from financing activities</b>		
Repayment of other loans	(400)	-
Repayment of finance leases	(472)	(578)
Dividends paid	(3,000)	(2,000)
Interest paid	(49)	(54)
<b>Net cash used in financing activities</b>	<b>(3,921)</b>	<b>(2,632)</b>

## Reece Group Limited

### Consolidated Statement of cash flows (continued)

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<b>Net decrease in cash and cash equivalents</b>	<b>(32,045)</b>	<b>(2,431)</b>
Cash and cash equivalents at beginning of year	<b>111,973</b>	114,404
<b>Cash and cash equivalents at the end of year</b>	<b>79,928</b>	<b>111,973</b>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	<b>79,928</b>	111,973

The notes on pages 18 to 47 form part of these financial statements.

# **Reece Group Limited**

## **Notes to the financial statements Year ended 31 December 2015**

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### **1. General information**

Reece Group Limited ('the company') and its subsidiaries (together 'the group') are engineering businesses, operating in the defence, oil and gas, power generation, construction and subsea markets.

The company is a private company limited by shares, incorporated and domiciled in the United Kingdom. The address of the registered office is given in the company information page of these financial statements.

### **2. Statement of compliance**

The financial statements have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

### **3. Accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The group and company have adopted FRS 102 in the current year and an explanation of how the transition to FRS 102 has affected the reported financial performance and position is given in note 34.

#### **3.1 Basis of preparation of financial statements**

These financial statements comprise the consolidated (group) financial statements and the company's separate financial statements. However, as permitted by section 408 of the Companies Act 2006, the separate profit and loss account of the company is not presented.

The financial statements are prepared on a going concern basis and under the historical cost convention, as modified by the measurement of certain financial assets and liabilities at fair value. They are presented in pounds sterling and rounded to the nearest £000.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company'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 4.

## **Reece Group Limited**

### **Notes to the financial statements Year ended 31 December 2015**

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#### **3. Accounting policies (continued)**

##### **3.2 Reduced disclosures**

FRS 102 allows a qualifying entity certain disclosure exemptions. The company meets the definition of a qualifying entity in respect of its separate (non-group) financial statements and has taken advantage of the disclosure exemptions relating to certain financial instruments disclosure, presentation of a cash-flow statement and remuneration of key management personnel. The equivalent disclosures, on a consolidated basis, are included in the consolidated financial statements.

##### **3.3 Basis of consolidation**

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings as if they formed a single entity. Intercompany transactions and balances are therefore eliminated in full and, where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method, under which the acquiree's identifiable assets (including intangible assets), liabilities and contingent liabilities are recognised initially in the consolidated balance sheet at fair value.

In accordance with the transitional exemption available in FRS 102, the group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102, being 1 January 2014.

##### **3.4 Dividends**

Dividends and other distributions to the company's members are recognised when they become legally payable.

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 3. Accounting policies (continued)

##### 3.5 Revenue recognition

###### **Turnover**

Turnover comprises revenue recognised in respect of goods and services supplied during the year, net of discounts and excluding Value Added Tax.

###### *Sale of goods:*

Unless construction contract accounting is applied, turnover is recognised either when the goods are physically delivered to the customer or when customer is notified that the goods are ready for collection, depending on the agreed terms of sale.

When construction contract accounting is applied, if the outcome of the contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

###### *Rendering of services:*

Revenue is recognised as services are provided. Where a contract has only been partially completed at the balance sheet date, turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

###### **Other operating income**

###### *Government grants:*

Government grants are recognised on the accruals basis. Grants relating to assets are recognised in the profit and loss account over the expected life of the asset. Other grants are recognised in the profit and loss account over the period in which the related costs are recognised. Grant monies received but deferred to future periods are included on the balance sheet within creditors.

###### *Rental income:*

Rental income is recognised on a straight line basis over the period of the lease.

###### **Dividend and interest income**

Dividend income is recognised when the right to receive payment is established. Interest income is recognised on an accruals basis.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

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### 3. Accounting policies (continued)

#### 3.6 Intangible fixed assets and amortisation

Intangible assets are stated at cost, less accumulated amortisation and accumulated impairment losses.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase of a business over the fair value of the identifiable net assets, liabilities and contingent liabilities acquired.

Amortisation is provided on all intangible assets, including goodwill, so as to write off the cost of the assets over their estimated useful life as follows:

Goodwill	-	10% straight line
Patents	-	20% straight line

Goodwill and other intangible assets are assessed for impairment when there are indicators of impairment and any impairment is charged to the profit and loss account. Useful lives are reviewed at the end of each reporting period, and adjusted if appropriate. The effect of any change is accounted for prospectively.

#### 3.7 Tangible fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price plus any further costs directly attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on all tangible fixed assets, other than freehold land and assets under construction, at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their estimated useful lives as follows:

Freehold property	-	50 years straight line
Long leasehold property	-	40 to 50 years straight line
Leasehold improvements	-	lease term
Plant and machinery	-	5 to 10 years
Motor vehicles	-	4 to 7 years straight line
Fixtures and fittings	-	2 to 8 years straight line
Office and computer equipment	-	3 years straight line

Asset residual values and useful lives are reviewed at the end of each reporting period, and adjusted if appropriate. The effect of any change is accounted for prospectively.

#### 3.8 Fixed asset investments

In the company balance sheet, investments in subsidiary undertakings are measured at cost less accumulated impairment losses.



# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

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### 3. Accounting policies (continued)

#### 3.9 Stocks

Stocks are stated at the lower of cost or estimated selling price less costs to complete and sell. Cost includes all direct costs and, for manufactured stocks and work in progress, an appropriate proportion of fixed and variable overheads (based on normal operating capacity). Cost is determined using the first-in first-out (FIFO) method.

Provision is made as necessary for damaged, obsolete or slow-moving items.

#### 3.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments which bear insignificant risk of change in value and have original maturities of three months or less, and bank overdrafts. Bank overdrafts, when applicable, are shown within creditors due within one year.

#### 3.11 Financial instruments

##### ***Basic debt financial assets and liabilities***

Debt financial assets and liabilities, including trade, intercompany and other accounts receivable and payable are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, in which case the transaction is measured at the present value of the future receipts discounted at a market rate of interest. All debt financial assets and liabilities are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period debt financial assets are assessed for impairment, and their carrying value reduced if necessary. Any impairment charge is recognised in the profit and loss account.

##### ***Investments in equity instruments***

Investments in equity instruments which are not subsidiaries, associates or joint ventures are measured initially at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in the profit and loss account, except that investments in equity instruments which are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

##### ***Derivative financial instruments***

Derivative financial instruments, comprising forward currency contracts, are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value at each reporting date. Changes in fair value are recognised in the profit and loss account within administrative expenses.

The group does not currently apply hedge accounting for its forward currency contracts.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

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### 3. Accounting policies (continued)

#### 3.12 Leasing

Assets held under finance leases and hire purchase contracts, which confer rights and obligations on the group similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease term and their useful lives. The capital elements of future lease obligations are recorded as liabilities, and the interest elements are charge to the profit and loss account over the period of the leases to produce a constant periodic rate of charge on the remaining balance of the liability.

Leases that do not confer rights and obligations approximating to ownership are classified as operating leases. Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the lease term, even if payments are not made on such a basis.

#### 3.13 Provisions for liabilities

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

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

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

#### 3.14 Employee benefits

##### ***Short-term benefits***

Short-term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense in the period in which the employee's entitlement to the benefit accrues.

##### ***Defined contribution pension plan***

The group makes contributions to defined benefit pension plans for its employees. Contributions are recognised as an expense when they fall due. Amounts due but not yet paid are included within creditors on the balance sheet.

The assets of the plans are held separately from the group in independently administered funds.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

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### 3. Accounting policies (continued)

#### 3.15 Research and development

Research and development expenditure is written off to the profit and loss account in the period in which it is incurred.

#### 3.16 Foreign currency translation

The company's functional currency is the pound sterling.

##### *Transactions and balances*

Transactions in foreign currencies are translated into sterling using the spot exchange rates at the dates of the transactions. At each period end, foreign currency monetary assets and liabilities are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions and from the period-end retranslation are recognised in the profit and loss account.

##### *Translation*

The trading results of group undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits or losses at average rates are recognised in 'other comprehensive income'.

#### 3.17 Taxation

The taxation expense for the year comprises current and deferred tax and is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income, or directly in equity, in which case the tax expense is also recognised in other comprehensive income or directly in equity.

Current tax is the amount of income tax payable in respect of the taxable profit for the current or past reporting periods. It is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax represents the future tax consequences of transactions and events recognised in the financial statements of current and previous periods, and arises from 'timing differences' (where transactions or events are included in the financial statements in periods different from those in which they are assessed for tax). Deferred tax is recognised in respect of all timing differences, except that unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing differences.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

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### 4. Judgments in applying accounting policies and key sources of estimation uncertainty

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 reasonably under the circumstances.

#### *Significant judgments in applying the group's accounting policies*

**Revenue recognition** - judgement is required to determine whether to apply construction contract accounting (and recognise revenue as work progresses) or to only recognise revenue when a piece of work is fully complete and delivered to the customer. When making this judgement, management considers factors such as the duration of a contract and its significance to the activities of the group / component of the group as a whole.

**Classification of investments** - investments (other than investments in subsidiary undertakings) are classified as fixed or current asset investments, depending on management's objectives in holding the investment. See notes 17 and 20.

**Carrying value of investments and intercompany receivables** - for the company balance management must be satisfied that the carrying value of investments in subsidiaries, and any loans receivable from those subsidiaries do not exceed their recoverable amount. This involves consideration of the most recent trading performance and financial position of the subsidiary, and also forecasts for future trading. The forward looking element of the assessment is inherently subject to uncertainty. See note 17 for the carrying amount of investments in subsidiaries, and note 19 for the carrying amount of intercompany receivables.

#### *Key sources of estimation uncertainty*

Accounting estimates, by definition, will 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:

**Useful lives of tangible fixed assets** - the annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful lives and the residual values of the assets, which are re-assessed annually and amended when necessary to reflect current estimates. There have been no changes in the estimation bases during the current reporting period. See note 16 for the carrying amount of fixed assets and note 3.6 for the useful lives of each class of asset.

**Impairment of debtors** - the group estimates the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile and historical experience. See note 19 for the carrying amount of the debtors and associated impairment provision.

**Provisions** - provision is made for product rectification costs under warranty and onerous leases, including dilapidation costs under those leases. These provisions require management's best estimate of the costs that will be incurred, based on contractual requirements and historical experience. See note 26.

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 5. Analysis of turnover

Analysis of turnover by category:

	2015 £000	2014 £000
Goods	47,320	44,080
Services	6,716	6,926
	<u>54,036</u>	<u>51,006</u>

Analysis of turnover by geography:

	2015 £000	2014 £000
United Kingdom	25,488	28,593
Rest of Europe	939	781
Rest of the world	27,609	21,632
	<u>54,036</u>	<u>51,006</u>

#### 6. Other operating income

	2015 £000	2014 £000
Rent receivable	725	214
Government grants receivable	62	222
	<u>787</u>	<u>436</u>

#### 7. Operating loss

The operating loss is stated after charging/(crediting):

	2015 £000	2014 £000
Research and development charged as an expense	2,417	2,584
Depreciation of tangible fixed assets	2,186	2,308
Amortisation of intangible assets, including goodwill	1,010	1,665
Stock charged as an expense	25,116	25,190
Exchange differences	297	(516)
Fair value remeasurement of forward currency contracts	(694)	941
	<u></u>	<u></u>

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 8. Exceptional items

	2015 £000	2014 £000
Armstrong Works - redevelopment and relocation costs	747	2,939
Onerous lease provision on vacated premises	276	1,630
Redundancies	890	-
Asset impairments (intangibles, tangibles and stocks)	559	-
	<u>2,472</u>	<u>4,569</u>

All asset impairments have been charged to exceptional administrative expenses, apart from impairments of stock (£103,000) which have been charged to exceptional cost of sales.

#### 9. Auditor's remuneration

	2015 £000	2014 £000
Fees payable to the company's auditor for the audit of these financial statements	<u>10</u>	<u>10</u>
Fees payable to the company's auditor for other services:		
- The audit of the company's subsidiaries	61	58
- Tax compliance services	28	21
- Tax advisory services	-	48
- Recruitment services	18	-
- Corporate finance services	32	-
	<u>139</u>	<u>127</u>

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 10. Staff costs

Staff costs, including directors' remuneration, were as follows:

	2015 £000	2014 £000
Wages and salaries	19,385	18,893
Social security costs	2,057	1,802
Employer contributions to defined contribution pension schemes	396	355
	<u>21,838</u>	<u>21,050</u>

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

	2015 No.	2014 No.
Production staff	289	290
Administrative staff	173	167
Management staff	10	10
Apprentices	53	47
	<u>525</u>	<u>514</u>

#### 11. Directors' remuneration

	2015 £000	2014 £000
Aggregate emoluments	556	350
Company contributions to defined contribution pension schemes	44	17
	<u>600</u>	<u>367</u>

During the year retirement benefits were accruing to 2 directors (2014 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £216,000 (2014 - £ 186,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £30,000 (2014 - £9,000).

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 12. Interest payable and similar charges

	2015 £000	2014 £000
Bank interest payable	24	-
Other loan interest payable	10	(147)
Finance leases and hire purchase contracts	31	52
	<u>65</u>	<u>(95)</u>

Other loan interest payable in 2014 includes a credit of £149,000, being the reversal of interest accrued in prior periods on a vendor loan, which was subsequently waived.

#### 13. Taxation

	2015 £000	2014 £000
<b>Current tax</b>		
UK Corporation tax on loss for the year	-	(94)
Adjustments in respect of previous periods	(103)	(248)
<b>Total current tax</b>	<u>(103)</u>	<u>(342)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	38	(289)
Adjustment in respect of previous periods	(6)	52
Changes to tax rates	-	12
<b>Total deferred tax</b>	<u>32</u>	<u>(225)</u>
<b>Tax on loss on ordinary activities</b>	<u>(71)</u>	<u>(567)</u>



## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 13. Taxation (continued)

##### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2014 - higher than) the standard rate of corporation tax in the UK of 20.25% (2014 - 21.49%). The differences are explained below:

	2015 £000	2014 £000
Loss on ordinary activities before tax	<u>(1,000)</u>	<u>(7,474)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.49%)	(203)	(1,606)
Effects of:		
Expenses not deductible for tax purposes	235	82
Adjustments in respect of prior periods - current tax	(104)	(248)
Adjustments in respect of prior periods - deferred tax	(6)	52
Non-taxable income	(15)	-
Benefit of research and development enhanced deduction	(80)	(86)
Movements in unrecognised deferred tax	102	1,534
Other	-	(295)
Total tax charge for the year	<u>(71)</u>	<u>(567)</u>

#### 14. Parent company profit for the year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The profit after tax of the parent company for the year was £28,151,000 (2014 - £1,949,000).

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 15. Intangible assets

#### Group

	Patents £000	Goodwill £000	Total £000
<b>Cost</b>			
At 1 January 2015 and 31 December 2015	14	18,987	19,001
<b>Amortisation</b>			
At 1 January 2015	6	11,005	11,011
Charge for the year	2	1,008	1,010
Impairment charge	4	-	4
At 31 December 2015	12	12,013	12,025
<b>Net book value</b>			
At 31 December 2015	2	6,974	6,976
At 31 December 2014	7	7,983	7,990

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 16. Tangible fixed assets

#### Group

	Freehold property £000	Leasehold Property £000	Plant and machinery £000	Motor vehicles £000	Other £000	Total £000
<b>Cost</b>						
At 1 January 2015	1,705	13,966	12,240	438	3,988	32,337
Additions	-	2,665	804	105	1,161	4,735
Disposals	(74)	-	(87)	(42)	(159)	(362)
Foreign exchange movements	160	-	7	2	3	172
At 31 December 2015	<u>1,791</u>	<u>16,631</u>	<u>12,964</u>	<u>503</u>	<u>4,993</u>	<u>36,882</u>
<b>Depreciation</b>						
At 1 January 2015	131	1,215	3,826	50	2,945	8,167
Charge for the year	95	378	1,108	148	457	2,186
On disposals	(54)	-	(81)	(18)	(103)	(256)
Impairments	-	-	423	-	30	453
Foreign exchange movements	12	-	5	2	1	20
At 31 December 2015	<u>184</u>	<u>1,593</u>	<u>5,281</u>	<u>182</u>	<u>3,330</u>	<u>10,570</u>
<b>Net book value</b>						
At 31 December 2015	<u>1,607</u>	<u>15,038</u>	<u>7,683</u>	<u>321</u>	<u>1,663</u>	<u>26,312</u>
At 31 December 2014	<u>1,574</u>	<u>12,750</u>	<u>8,414</u>	<u>387</u>	<u>1,042</u>	<u>24,167</u>

Leasehold property includes long leasehold property with a net book value of £14,840,000 (2014 - £12,505,000) and improvements to properties rented under operating leases with a net book value of £198,000 (2014 - £245,000).

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 16. Tangible fixed assets (continued)

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2015 £000	2014 £000
Plant and machinery	<u>1,521</u>	<u>2,093</u>

#### Company

	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Computer equipment £000	Total £000
<b>Cost</b>					
At 1 January 2015	-	114	2	33	149
Additions	12	72	7	6	97
Disposals	-	(42)	-	-	(42)
At 31 December 2015	<u>12</u>	<u>144</u>	<u>9</u>	<u>39</u>	<u>204</u>
<b>Depreciation</b>					
At 1 January 2015	-	26	-	10	36
Charge for the year	1	27	2	11	41
On disposals	-	(25)	-	-	(25)
At 31 December 2015	<u>1</u>	<u>28</u>	<u>2</u>	<u>21</u>	<u>52</u>
<b>Net book value</b>					
At 31 December 2015	<u>11</u>	<u>116</u>	<u>7</u>	<u>18</u>	<u>152</u>
At 31 December 2014	<u>-</u>	<u>88</u>	<u>2</u>	<u>23</u>	<u>113</u>

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 17. Fixed asset investments

##### Group

	Unlisted investments £000
<b>Cost</b>	
At 1 January 2015	-
Additions	782
At 31 December 2015	<u>782</u>
<b>Net book value</b>	
At 31 December 2015	<u><u>782</u></u>
At 31 December 2014	<u><u>-</u></u>

Investment additions is the group's investment in Continuous Retorts Limited.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 17. Fixed asset investments (continued)

#### Company

	Investments in subsidiary companies £000	Unlisted investments £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2015	27,195	-	27,195
Additions	10,445	782	11,227
Amounts written off	(1,610)	-	(1,610)
At 31 December 2015	36,030	782	36,812
<b>Impairment</b>			
At 1 January 2015	4,293	-	4,293
Charge for the year	14,277	-	14,277
At 31 December 2015	18,570	-	18,570
<b>Net book value</b>			
At 31 December 2015	17,460	782	18,242
At 31 December 2014	22,902	-	22,902

Additions of £10,445,000 represent the conversion of intercompany loans receivable.

The company's investment in Jayauto Limited has been reduced by £1,610,000 to its recoverable amount following the receipt of a dividend from Jayauto Limited of £10,445,000. The balance of the dividend (£8,835,000) has been recognised within the company's profit for the year (see note 14).

Impairment losses were recognised in the year in respect of the company's investments in Pipe Coil Technology Limited, Responsive Engineering Limited and Reece Property Limited.

A full list of the company's subsidiary undertakings, all of whose results and position are included within the consolidated financial statements, is given in note 33.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 18. Stocks

	<b>Group 2015 £000</b>	<b>Group 2014 £000</b>	<b>Company 2015 £000</b>	<b>Company 2014 £000</b>
Raw materials	746	872	-	-
Work in progress	6,409	6,954	-	-
	<u>7,155</u>	<u>7,826</u>	<u>-</u>	<u>-</u>

### 19. Debtors

	<b>Group 2015 £000</b>	<b>Group 2014 £000</b>	<b>Company 2015 £000</b>	<b>Company 2014 £000</b>
<b>Due after more than one year</b>				
Amounts owed by group undertakings	-	-	6,115	19,292

	<b>Group 2015 £000</b>	<b>Group 2014 £000</b>	<b>Company 2015 £000</b>	<b>Company 2014 £000</b>
<b>Due within one year</b>				
Trade debtors	9,862	7,469	-	-
Amounts owed by group undertakings	-	-	52,333	787
Other debtors	2,301	1,493	27	29
Prepayments and accrued income	2,475	1,106	10	9
Amounts recoverable on contracts	16	1,931	-	-
Deferred taxation (note 25)	145	177	-	-
	<u>14,799</u>	<u>12,176</u>	<u>52,370</u>	<u>825</u>

### 20. Current asset investments

	<b>Group 2015 £000</b>	<b>Group 2014 £000</b>	<b>Company 2015 £000</b>	<b>Company 2014 £000</b>
Listed investments	21,312	-	-	-

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

#### 21. Creditors: amounts falling due within one year

	<b>Group 2015 £000</b>	<b>Group 2014 £000</b>	<b>Company 2015 £000</b>	<b>Company 2014 £000</b>
Other loans	-	2	-	-
Payments received on account	858	322	-	-
Trade creditors	3,425	4,839	17	16
Amounts owed to group undertakings	-	-	80	-
Other taxation and social security	1,358	750	23	-
Net obligations under finance lease and hire purchase contracts	406	548	-	-
Other creditors	2,942	194	-	-
Accruals and deferred income	2,260	3,025	114	740
Derivative financial instruments	-	694	-	-
	<b>11,249</b>	<b>10,374</b>	<b>234</b>	<b>756</b>

Accruals and deferred income includes deferred government grants of £46,000 (2014 - £84,000).

#### 22. Creditors: amounts falling due after more than one year

	<b>Group 2015 £000</b>	<b>Group 2014 £000</b>	<b>Company 2015 £000</b>	<b>Company 2014 £000</b>
Net obligations under finance leases and hire purchase contracts	189	519	-	-
Other creditors	-	3,083	-	-
Accruals and deferred income	-	18	-	-
	<b>189</b>	<b>3,620</b>	<b>-</b>	<b>-</b>

Accruals and deferred income includes deferred government grants of £nil (2014 - £18,000).



## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 23. Hire purchase and finance leases

Minimum lease payments under finance leases and hire purchase contracts fall due as follows:

	<b>Group 2015 £000</b>	<b>Group 2014 £000</b>
Within one year	<b>422</b>	601
After one year and before two years	<b>123</b>	402
After two years and before five years	<b>66</b>	107
Less: finance charges allocated to future periods	<b>(16)</b>	(43)
<b>Carrying amount of liability</b>	<b>595</b>	1,067

The contracts primarily relate to plant and machinery used in the group's sub-contract manufacturing operations.

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 24. Financial instruments

The group has the following financial instruments:

	<b>Group 2015 £000</b>	<b>Group 2014 £000</b>
<b>Financial assets</b>		
Financial assets measured at fair value through profit or loss	<b>21,312</b>	-
Financial assets that are equity instruments measured at cost less impairment	<b>782</b>	-
Financial assets that are debt instruments measured at amortised cost	<b>12,135</b>	8,962
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	<b>8,583</b>	11,057
Derivative financial liabilities measured at fair value through profit or loss - forward foreign currency contracts	-	694
	<b>8,583</b>	11,751

Financial assets measured at fair value through profit or loss are investments in listed shares and other similar instruments. Total income from such investments in the year was £44,000 (2014 - £nil) and the net gain from changes in fair value was £56,000).

Financial assets measured at amortised cost comprise trade and other debtors (see note 19).

Financial liabilities measured at amortised cost comprise trade and other creditors and accruals (see notes 21 and 22).

The group enters into forward foreign currency contracts to mitigate the exchange risk for certain foreign currency sales. At 31 December 2014, the group had open contracts which matured between one and twelve months from the balance sheet date, and committed the group to sell USD 23,000,000 and receive fixed sterling amounts. The group had no open contracts at 31 December 2015.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the contracts are the forward exchange rates for GBP-USD.

The gains and losses in respect of the forward currency contracts are detailed in note 7.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 25. Deferred taxation

#### Group

	Deferred tax £000
At 1 January 2015	177
Charge to the profit and loss account in the year	(32)
<b>At 31 December 2015</b>	<b>145</b>

The deferred tax asset is made up as follows:

	Group 2015 £000	Group 2014 £000
Fixed assets timing differences	(311)	(251)
Losses	392	321
Other timing differences	64	107
	<b>145</b>	<b>177</b>

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2015

### 26. Provisions

#### Group

	Warranties £000	Onerous leases £000	Total £000
At 1 January 2015	265	1,630	1,895
Additions	110	276	386
Amounts utilised	(20)	(521)	(541)
Amounts reversed unused	(152)	-	(152)
<b>At 31 December 2015</b>	<b>203</b>	<b>1,385</b>	<b>1,588</b>

#### Warranties

The warranty provision reflects an estimate of the future warranty costs arising on sales made in the year, and is expected to be utilised within the next financial year.

#### Onerous leases

The onerous lease provision is an estimate of future costs relating to premises vacated during the previous financial year. It is expected to be utilised within the next two years.

All additions to and reversals of provisions are dealt with in the profit and loss account.

### 27. Share capital

	2015 £	2014 £
<b>Allotted, called up and fully paid</b>		
80 Ordinary A shares of £0.10 each	8	8
80 Ordinary B shares of £0.10 each	8	8
80 Ordinary C shares of £0.10 each	8	8
80 Ordinary D shares of £0.10 each	8	8
80 Ordinary E shares of £0.10 each	8	8
80 Ordinary F shares of £0.10 each	8	8
80 Ordinary G shares of £0.10 each	8	8
147 Ordinary H shares of £0.10 each	15	15
147 Ordinary I shares of £0.10 each	15	15
146 Ordinary J shares of £0.10 each	14	14
	<b>100</b>	<b>100</b>

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 27. Share capital (continued)

All classes of ordinary share rank pari passu in all respects, other than no dividend is payable on the J Ordinary shares until a threshold for dividends paid across all other classes of Ordinary share is exceeded.

Dividends paid on one class of share may differ from that paid on another class of share as the directors see fit.

#### 28. Dividends

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Dividends paid on equity share capital	<b>3,000</b>	-

#### 29. Commitments under operating leases

At 31 December the group had future minimum lease payments under non-cancellable operating leases as follows:

	<b>Group</b>	<b>Group</b>
	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
<b>Payments due:</b>		
Within one year	<b>502</b>	502
After one and before five years	<b>624</b>	624
After five years	<b>213</b>	253
<b>Total payments due</b>	<b>1,339</b>	1,379

The company had no commitments under non-cancellable operating leases.

## **Reece Group Limited**

### **Notes to the financial statements Year ended 31 December 2015**

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#### **30. Related party transactions**

##### **Group**

The total remuneration for key management personnel during the year was £600,000 (2014 - £367,000) being the remuneration and post employment benefits disclosed in note 11.

The group makes sales to Soil Machine Dynamics Limited, a company in which JP Reece was a director until 9 April 2015. The value of sales made in the period from 1 January 2015 to 9 April 2015 was £254,000 (2014 - £2,606,000 (full year)). At the year end, the outstanding balance due to the group in respect of these sales was £nil (2014 - £1,148,000).

The group made sales to the value of £31,000 (2014 - £nil) to Quality Hospital Solutions Limited. Reece Group Limited holds a non-controlling investment in Quality Hospital Solutions Limited. At the year end, £31,000 (£nil) is outstanding and included in debtors.

##### **Company**

Other than the transactions disclosed above and in note 11, the company's other related party transactions were with wholly owned subsidiaries and so have not been disclosed.

#### **31. Post balance sheet events**

In January 2016 the assets and IPR of MineWolf Systems were acquired. Minewolf designs and manufactures counter-IED explosive ordnance disposal and mine clearance vehicles for armed forces, homeland security and NGOs. The business will operate as a unit within Pearson Engineering Limited from the Armstrong Works facility in Newcastle upon Tyne.

In January 2016 the decision was made to cease the trade of Pipe Coil Technology Limited and Pipe Coil Technology Inc, two subsidiary undertakings within the group. This decision was taken following a review of the business which concluded that it was no longer considered viable. This conclusion was reached due to the continuing low level of sales coupled with ongoing losses and the lack of sufficient improvement potential given the future outlook for the markets which the business supplies.

#### **32. Controlling party**

The ultimate controlling party is the Trustees of the Dr Reece Will Trust, as a body.

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 33. Subsidiary undertakings

The following were subsidiary undertakings of the company at the balance sheet date. All subsidiaries are wholly owned and, unless stated otherwise, are incorporated in the United Kingdom:

Name	Principal activity	Direct / indirect
Pearson Engineering Limited	Combat engineering equipment	Direct
Pearson Engineering Inc (USA)	Combat engineering equipment	Indirect
Pearson Real Estate LLP (USA)	Property	Indirect
Responsive Engineering (Holdings) Limited	Intermediate holding company	Direct
Responsive Engineering Limited	Sub-contract manufacturing services	Indirect
Velocity Works Limited	Intermediate holding company	Direct
Velocity (UK) Limited	Road repair services	Indirect
Velocity Road Solutions Inc (USA)	Road repair services	Indirect
Velocity Patching Limited	Dormant	Indirect
Pipe Coil Technology Limited	Coiling and pipe-handling equipment*	Direct
Pipe Coil Technology Inc (USA)	Coiling and pipe-handling equipment*	Indirect
Reece Treasury Management Limited	Group treasury function	Direct
Reece Property Limited	Group property function	Direct
Reece Innovation Centre Limited	Research and development	Direct
Jayauto Limited	Non-trading	Direct
Exact Machining (Holdings) Limited	Non-trading	Indirect
Exact Machining UK Limited	Non-trading	Indirect
Pressex UK Limited	Non-trading	Indirect
Weldex UK Limited	Non-trading	Indirect

\* Pipe Coil Technology Limited and Pipe Coil Technology Inc have ceased trading since the balance sheet date.

## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 34. Transition to FRS 102

This is the first year that the group and company have presented their financial statements under FRS 102. The last financial statements under the previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between the amounts as previously reported and as reported under FRS 102:

##### Reconciliation of equity at 1 January 2014

	Group £000	Company £000
Total equity at 1 January 2014 under previous UK GAAP	155,209	56,122
Foreign currency translation and derivative financial instruments	-	-
Intercompany loan - discounting adjustment	-	-
<b>Total equity at 1 January 2014 under FRS 102</b>	<b>155,209</b>	<b>56,122</b>

##### Reconciliation of equity at 31 December 2014

	Group £000	Company £000
Total equity at 31 December 2014 under previous UK GAAP	148,580	53,931
Foreign currency translation and derivative financial instruments	(421)	-
Deferred tax impact of adjustment	84	-
Intercompany loan - discounting adjustment	-	242
<b>Total equity at 31 December 2014 under FRS 102</b>	<b>148,243</b>	<b>54,173</b>

##### Reconciliation of loss for the year ended 31 December 2014

	Group £000	Company £000
Loss for the year under previous UK GAAP	(6,570)	(2,191)
Foreign currency translation and derivative financial instruments	(421)	-
Intercompany loan - discounting adjustment	84	-
Intercompany loan - discounting adjustment	-	242
<b>Loss for the year under FRS 102</b>	<b>(6,907)</b>	<b>(1,949)</b>



## Reece Group Limited

### Notes to the financial statements Year ended 31 December 2015

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#### 34. Transition to FRS 102 (continued)

##### ***Group - Foreign currency translation and derivative financial instruments***

When forward foreign currency contracts are used to hedge exposure to exchange risk, the previous UK GAAP allowed the hedged transaction to be measured at the future contracted rate. Under FRS 102, the hedged transaction is measured at the spot exchange rate on the date of the transaction, and any outstanding debtor or creditor at the balance sheet date is remeasured using the spot rate prevailing at that date. The matching foreign exchange contract is recognised as a separate derivative financial asset or liability, measured at fair value.

FRS 102 also requires recognition of forward currency contracts entered into where the hedged transaction has not yet occurred (eg a contract taken out against a confirmed future sale). Under the previous UK GAAP, such forward contracts were not recognised at all in the financial statements.

Accordingly, at transition on 1 January 2014, a derivative financial asset of £247,000 has been recognised, and foreign currency cash balances are reduced by £247,000, reflecting translation to sterling applying the spot exchange rate (net effect on equity was £nil).

At 31 December 2014, a derivative financial liability of £694,000 is recognised, and foreign currency cash balances are increased by £273,000 to reflect translation to sterling at the spot rate. The net effect on equity is £421,000 (reduction), which represents the loss on those forward currency contracts which were not recognised under the previous GAAP, as they were to hedge transactions which had not yet occurred by 31 December 2014. After deferred tax of £84,000 is recognised on the liability, the impact on equity is reduced to £337,000.

For the year ended 31 December 2014, fair value movements on forward currency contracts of £941,000 (loss) have been recognised, offset by a restatement of foreign exchange gains and losses by £520,000. The net effect was to reduce pre-tax profits for 2014 by £421,000 compared to profits previously reported. After deferred tax of £84,000, the reduction in post-tax profits was £337,000.

##### ***Company - intercompany loan adjustments***

FRS 102 requires financing transactions to be recognised at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument. There was no such requirement under previous UK GAAP.

At transition (1 January 2014) the company had a loan receivable from a subsidiary undertaking which was a financing transaction, since the rate of interest was below market rate for a similar debt instrument. Therefore, on transition to FRS 102, the carrying value of the debtor has been discounted by the difference between a market rate of interest and the rate actually charged. Accordingly, at transition the loan debtor is reduced by £242,000 and investments in subsidiaries increased by £242,000 (net effect on equity is £nil).

The discount adjustment is unwound over the term of the loan as interest income in the profit and loss account. This has decreased the company's reported loss for 2014 by £242,000.

## **Reece Group Limited**

### **Notes to the financial statements Year ended 31 December 2015**

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#### **34. Transition to FRS 102 (continued)**

The loan in place with the subsidiary at 31 December 2014 was also a financing transaction, due to the rate of interest being below market rate. Accordingly a restatement has been made to decrease (discount) the carrying amount of the loan debtor at that date by £324,000 and increase investments in subsidiaries by a corresponding amount (net effect on equity is £nil).