

# **Reece Group Limited**

## **Annual report and financial statements**

**31 December 2016**



# Reece Group Limited

## Company Information

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<b>Directors</b>	AD Reece JP Reece
<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

## Contents

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	Page
Group strategic report	1 - 3
Directors' report	4 - 5
Directors' responsibilities statement	6
Independent auditor's report to the members of Reece Group Limited	7 - 8
Consolidated profit and loss account	9
Consolidated statement of comprehensive income	10
Consolidated balance sheet	11
Company balance sheet	12
Consolidated statement of changes in equity	13
Company statement of changes in equity	14
Consolidated statement of cash flows	15 - 16
Notes to the financial statements	17 - 44

# Reece Group Limited

## Group strategic report Year ended 31 December 2016

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### Introduction

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 operates from Armstrong Works, a 32,000 sq. m. manufacturing facility on the banks of the Tyne and the group's home since 2014. The facility provides a world class, state of the art manufacturing facility, offering the opportunity not only to unite the group's portfolio of innovative and award winning engineering companies but also gives the group and its companies the capacity and scope for significant future growth in a climate conducive to innovation and creativity.

### Business review, key performance indicators and future outlook

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

	<b>2016</b>		<b>2015</b>
	<b>£000</b>		<b>£000</b>
Turnover	<b>42,075</b>		54,036
Gross profit	<b>14,793</b>	<b>35%</b>	22,655 42%
Net loss after taxation	<b>(3,953)</b>		(928)
Turnover per employee	<b>91</b>		103
Net assets	<b>137,776</b>		144,238
Number of employees	<b>462</b>		525

2016 proved to be a challenging trading year for a number of the group's companies:

The downturn in the oil and gas market resulted in Responsive Engineering suffering a significant trading loss. Fortunately, this has been bearable due to previous financial caution within the group. The company has commenced a successful diversification strategy and 2017 is heading for a significantly stronger performance, with high-profile contracts in the nuclear and rail industries being delivered successfully. The company is now well positioned for anticipated growth in business to the aerospace, rail, power generation and construction markets, in addition to supporting long standing and new customers in the oil & gas market where market conditions are expected to improve in the medium term.

Pearson Engineering had another successful year, with a steady run of profitable work despite a reduction in turnover, due to the intrinsic variability in contracts from year to year in the defence market. 2017 has started very well, with some good contracts won already and more long-term prospects on the horizon. Integration of its new mine clearance equipment division, MineWolf, is proceeding well and it has now successfully re-established itself in the market as part of the Pearson Engineering brand. There also continues to be strong interest in its defence sub-contract services business stream and the business remains very well positioned to support a range of active and planned UK defence programmes.

Velocity also faced challenging trading conditions. While repairing an impressive 290,000 potholes within the UK last year, progress was slower than expected in the USA. However, 2017 is already seeing an improvement and the company is reviewing its strategic way forward in America.

# Reece Group Limited

## Group strategic report Year ended 31 December 2016

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### Business review, key performance indicators and future outlook (continued)

Reece Innovation has made significant progress to date with both products and customers, but this has been at a cost that is not sustainable in the long term. We have now created a more streamlined organisation to focus on commercialising the newly developed products and providing design engineering solutions and R&D services to a more targeted group of markets.

Despite the difficult trading year, the future outlook for the group remains strong with good growth prospects in both new and existing markets and financial performance in 2017 reflecting the positive impact of recent operational changes put in place across the group.

The group's financial position also remains strong with net assets of £138 million (2015: £144m).

### Research and development

The group remains committed to engineering research and development with the objective of developing the best products in the market place and creating a market for those products. To this end the group continues to invest considerable sums in research and development. The R&D programme is active and growing, including traditional business areas as well as emerging technologies. The total expenditure charged in the consolidated profit and loss account during the year was £1.5m (2015: £2.4m).

### STEM and charitable activities

The group is a strong supporter of STEM (Science, Technology, Engineering and Maths) initiatives to promote engineering as a career, through with a number of local primary and secondary schools. The Board of Directors is also proud to support the wider projects of Reece Foundation, a charitable Trust created in 2008 which aims to promote engineering and manufacturing.

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 £615k has been donated to good causes.

### Principal risks and uncertainties

The main risks faced by the group and how they might affect its performance, position or future prospects are set out below:

#### **Credit risk**

The majority of group debtors relate to amounts owed as set out in agreed legal contracts, and many of the customers are government-related bodies. Historically the group has not considered there to be a significant credit risk however this is evaluated on a contract by contract basis and credit insurance is taken if considered necessary.

#### **Foreign currency risk**

The group has significant trade in foreign currencies 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 group takes out forward exchange contracts. In order to be able to provide forward exchange rate contracts, the banks have in the past looked to mitigate their default risk by requesting cash deposits as security. To manage this situation the group ring fences an appropriate proportion of its cash reserves for this purpose.

# Reece Group Limited

## Group strategic report Year ended 31 December 2016

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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 customers are collected promptly, and all major capital expenditure must be approved by the directors.

#### ***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.

#### ***Delivery 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 group continuously monitors the position of all UK banks where it holds funds. The group reduces potential exposure 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.

This report was approved by the board on 7 August 2017 and signed on its behalf by:



**JP Reece**  
Director

# Reece Group Limited

## Directors' report Year ended 31 December 2016

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The directors present their report and the financial statements for the year ended 31 December 2016.

### Results and dividends

The loss for the year, after taxation and minority interests, amounted to £3,888,000 (2015 - £928,000).

Details of interim dividends paid in the year are given in note 30 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, and changes since the year end, were as follows:

RD Anderton (resigned 28 February 2017)  
PJ Kite (resigned 28 March 2017)  
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

There have been no significant events affecting the company or group since the year end.

### 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 section 414C(11) of the Companies Act 2006:

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

# Reece Group Limited

## Directors' report (continued) Year ended 31 December 2016

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### 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 the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company'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 7 August 2017 and signed on its behalf by:



**JP Reece**  
Director



# **Reece Group Limited**

## **Directors' responsibilities statement Year ended 31 December 2016**

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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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, 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 2016, set out on pages 9 to 44. 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 on page 6, 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 2016 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.



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

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

In our opinion, based on the work undertaken in the course of the audit, 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 those financial statements and such reports have been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the group strategic report or the directors' report.

### **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.

A handwritten signature in black ink, appearing to read 'David Redhead'.

**David Redhead (Senior Statutory Auditor)**  
**for and on behalf of UNW LLP, Statutory Auditor**  
Chartered Accountants  
Newcastle upon Tyne

7 August 2017

# Reece Group Limited

## Consolidated profit and loss account Year ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover	5	42,075	54,036
Cost of sales		(27,282)	(31,278)
Exceptional cost of sales	8	-	(103)
<b>Gross profit</b>		<b>14,793</b>	<b>22,655</b>
Distribution costs		(2,028)	(882)
Administrative expenses		(21,789)	(21,972)
Exceptional administrative expenses	8	-	(2,369)
Other operating income	6	559	787
<b>Operating loss</b>	7	<b>(8,465)</b>	<b>(1,781)</b>
Income from current asset investments	26	560	44
Change in fair value of investments	26	3,161	56
Interest receivable and similar income		397	747
Interest payable and similar charges	12	(20)	(65)
<b>Loss on ordinary activities before taxation</b>		<b>(4,367)</b>	<b>(999)</b>
Tax on loss on ordinary activities	13	414	71
<b>Loss for the financial year</b>		<b>(3,953)</b>	<b>(928)</b>
<b>Loss for the year attributable to:</b>			
Non-controlling interests		(65)	-
Owners of the parent company		(3,888)	(928)
		<b>(3,953)</b>	<b>(928)</b>

The notes on pages 17 to 44 form part of these financial statements.

## Reece Group Limited

### Consolidated statement of comprehensive income Year ended 31 December 2016

	2016 £000	2015 £000
Loss for the financial year	(3,953)	(928)
<b>Other comprehensive income</b>		
Currency translation differences	357	(77)
<b>Other comprehensive income for the year</b>	357	(77)
<b>Total comprehensive income for the year</b>	<b>(3,596)</b>	<b>(1,005)</b>
<b>Total comprehensive income attributable to:</b>		
Non-controlling interest	(65)	-
Owners of the parent company	(3,531)	(1,005)
	<b>(3,596)</b>	<b>(1,005)</b>

The notes on pages 17 to 44 form part of these financial statements.

# Reece Group Limited

## Consolidated balance sheet At 31 December 2016

	Note	2016 £000	2015 £000
<b>Fixed assets</b>			
Intangible assets	15	6,237	6,976
Tangible assets	16	25,183	26,312
Investment property	17	4,894	-
Investments	18	-	782
		<u>36,314</u>	<u>34,070</u>
<b>Current assets</b>			
Stocks	20	5,809	7,155
Debtors	21	14,267	14,799
Current asset investments	22	57,443	21,312
Cash at bank and in hand		34,841	79,928
		<u>112,360</u>	<u>123,194</u>
Creditors: amounts falling due within one year	23	(7,966)	(11,249)
<b>Net current assets</b>		<u>104,394</u>	<u>111,945</u>
<b>Total assets less current liabilities</b>		<u>140,708</u>	<u>146,015</u>
Creditors: amounts falling due after more than one year	24	(1,997)	(189)
<b>Provisions for liabilities</b>	28	(935)	(1,588)
<b>Net assets</b>		<u>137,776</u>	<u>144,238</u>
<b>Capital and reserves</b>			
Called up share capital	29	-	-
Profit and loss account	29	137,707	144,238
<b>Equity attributable to owners of the parent company</b>		<u>137,707</u>	<u>144,238</u>
Non-controlling interests		69	-
<b>Total equity</b>		<u>137,776</u>	<u>144,238</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 7 August 2017.

JP Reece  
Director



The notes on pages 17 to 44 form part of these financial statements.

# Reece Group Limited

## Company balance sheet At 31 December 2016

	Note	2016 £000	2015 £000
<b>Fixed assets</b>			
Tangible assets	16	101	152
Investments	18	17,460	18,242
		<u>17,561</u>	<u>18,394</u>
<b>Current assets</b>			
Debtors: amounts falling due after more than one year	21	10,182	6,115
Debtors: amounts falling due within one year	21	64,862	52,370
Cash at bank and in hand		137	2,679
		<u>75,181</u>	<u>61,164</u>
Creditors: amounts falling due within one year	23	(126)	(234)
<b>Net current assets</b>		<u>75,055</u>	<u>60,930</u>
Creditors: amounts falling due after more than one year	24	(1,933)	-
<b>Net assets</b>		<u>90,683</u>	<u>79,324</u>
<b>Capital and reserves</b>			
Called up share capital	29	-	-
Profit and loss account	29	90,683	79,324
<b>Total equity</b>		<u>90,683</u>	<u>79,324</u>

The company has taken advantage of the exemption allowed under section 408 of the Companies Act and has not presented its own profit and loss account in these financial statements. The profit after tax for the parent company in the year was £14,359,000 (2015 - £28,151,000).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 7 August 2017.

JP Reece  
Director



Company registered number: 07630662

The notes on pages 17 to 44 form part of these financial statements.

# Reece Group Limited

## Consolidated statement of changes in equity Year ended 31 December 2016

	Called up share capital £000	Profit and loss account £000	Equity attributable to owners of parent company £000	Non- controlling interests £000	Total equity £000
<b>At 1 January 2015</b>	-	148,243	148,243	-	148,243
Loss for the year	-	(928)	(928)	-	(928)
Currency translation differences	-	(77)	(77)	-	(77)
Dividends	-	(3,000)	(3,000)	-	(3,000)
<b>At 1 January 2016</b>	-	144,238	144,238	-	144,238
Loss for the year	-	(3,888)	(3,888)	(65)	(3,953)
Currency translation differences	-	357	357	-	357
Non-controlling interest arising on acquisition of subsidiary	-	-	-	134	134
Dividends	-	(3,000)	(3,000)	-	(3,000)
<b>At 31 December 2016</b>	-	137,707	137,707	69	137,776

The notes on pages 17 to 44 form part of these financial statements.



## Reece Group Limited

### Company statement of changes in equity Year ended 31 December 2016

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	<b>Called up share capital</b>	<b>Profit and loss account</b>	<b>Total equity</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 1 January 2015</b>	-	54,173	54,173
Profit for the year	-	28,151	28,151
Dividends	-	(3,000)	(3,000)
	<hr/>	<hr/>	<hr/>
<b>At 1 January 2016</b>	-	79,324	79,324
Profit for the year	-	14,359	14,359
Dividends	-	(3,000)	(3,000)
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2016</b>	-	90,683	90,683

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The notes on pages 17 to 44 form part of these financial statements.

# Reece Group Limited

## Consolidated statement of cash flows Year ended 31 December 2016

	2016 £000	2015 £000
<b>Cash flows from operating activities</b>		
Loss for the year	(3,953)	(928)
<b>Adjustments for:</b>		
Interest and dividends receivable	(957)	(791)
Fair value movements	(3,161)	(56)
Interest payable	20	49
Credit for taxation	(414)	(71)
Amortisation of intangible assets	1,039	1,010
Depreciation of tangible assets	2,294	2,186
Impairments of fixed assets	1,121	457
(Profit)/ loss on disposal of tangible assets	(9)	25
Decrease in stocks	1,346	671
(Increase)/decrease in debtors	325	(1,799)
Foreign exchange movements	12	-
Increase/(decrease) in creditors	(880)	(1,684)
Decrease in provisions	(653)	(307)
Corporation tax repaid/ (paid)	875	(929)
<b>Net cash used in operating activities</b>	<b>(2,995)</b>	<b>(2,167)</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible fixed assets	(300)	-
Purchase of tangible fixed assets	(908)	(4,735)
Sale of tangible fixed assets	126	81
Purchase of investment properties	(4,894)	-
Purchase of unlisted investments	-	(782)
Purchase of short term listed investments	(14,166)	(21,312)
Sale of short term listed investments	6,206	-
Fixed term cash deposits	(25,000)	-
Acquisition of subsidiary undertaking, net of cash acquired with subsidiary	(27)	-
Interest and dividends received	957	791
<b>Net cash used in investing activities</b>	<b>(38,006)</b>	<b>(25,957)</b>

# Reece Group Limited

## Consolidated statement of cash flows (continued) Year ended 31 December 2016

	2016 £000	2015 £000
<b>Cash flows from financing activities</b>		
Repayment of other loans	(750)	(400)
Repayment of finance leases	(316)	(472)
Dividends paid	(3,000)	(3,000)
Interest paid	(20)	(49)
<b>Net cash used in financing activities</b>	<b>(4,086)</b>	<b>(3,921)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(45,087)</b>	<b>(32,045)</b>
Cash and cash equivalents at beginning of year	79,928	111,973
<b>Cash and cash equivalents at the end of year</b>	<b>34,841</b>	<b>79,928</b>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	34,841	79,928

The notes on pages 17 to 44 form part of these financial statements.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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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 appended to 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.

#### 3.1 Basis of preparation

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 investment properties and 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 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

#### **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 exemptions relating to certain financial instruments disclosures, 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.

# **Reece Group Limited**

## **Notes to the financial statements Year ended 31 December 2016**

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

#### **3.2 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 passes. Where control of a subsidiary is achieved in stages, the initial acquisition that gives the group control is accounted for as a business combination. Thereafter where the group increases its controlling interest in the subsidiary the transaction is treated as a transaction between equity holders. Any differences between the fair value of the consideration paid and the carrying amount of the non-controlling interest acquired is recognised directly in equity. No changes are made to the carrying value of assets, liabilities or provisions for contingent liabilities.

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.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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### 3. Accounting policies (continued)

#### 3.3 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 2016

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### 3. Accounting policies (continued)

#### 3.4 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	-	10%-20% straight line

Goodwill and other intangible assets are assessed at the end of each reporting period for 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.

#### 3.5 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, investment properties 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.

#### 3.6 Investment property

Investment property is carried at fair value determined annually based on the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the profit and loss account.

#### 3.7 Fixed asset investments

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

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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### 3. Accounting policies (continued)

#### 3.8 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.

#### 3.9 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. Fixed term cash deposits with a maturity at inception of more than three months are shown within current asset investments and bank overdrafts, when applicable, are shown within creditors due within one year.

#### 3.10 Financial instruments

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

Debt financial assets and liabilities, including fixed term cash deposits, 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 2016

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### 3. Accounting policies (continued)

#### 3.11 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 charged 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.

#### 3.12 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.

#### 3.13 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.

#### 3.14 Research and development

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

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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### 3. Accounting policies (continued)

#### 3.15 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 of monetary assets and liabilities 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'.

#### 3.16 Exceptional items

The group classifies certain one off charges or credits that have a material impact on the group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the group.

#### 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.

#### 3.18 Dividends

Dividends and other distributions to the company's members are recognised as a liability in the financial statements when they have been approved by the members. These amounts are recognised in the statement of changes in equity.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including best expectations of future events.

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

**Revenue recognition** - judgment is required to determine whether to apply construction contract accounting (and recognise revenue as work progresses) or to only recognise revenue when an order is fully complete and delivered to the customer. When making this judgment, management consider factors such as the duration of a contract and its significance to the activities of the entity 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 18 and 22 for the carrying amount of investments classified as fixed assets and current assets respectively.

**Carrying value of investments and intercompany receivables** - in the company balance sheet, 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 18 for the carrying amount of investments in subsidiaries and note 21 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:

**Impairment of intangible assets and goodwill** - the group considers whether intangible assets and goodwill are impaired. Where an indication of impairment is identified the assessment of recoverable value requires an estimation of the recoverable value of the cash generating units (CGUs) to which it relates. This requires estimation of the future cash flows from the CGUs and also the selection of appropriate discount rates in order to calculate the net present value of those cash flows.

**Carrying value and useful lives of tangible fixed assets** - the carrying value and annual depreciation charge in respect of tangible fixed assets are sensitive to changes in their expected utilisation, 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 to the estimation bases during the current reporting period. See note 16 for the carrying amount of fixed assets and note 3.5 for the useful lives of each class of asset.

**Valuation of work in progress** - it is necessary to consider whether the accumulated cost of work in progress is ultimately recoverable, or whether a provision is required. When determining the need for provision, management considers the level of risk inherent in each project (which tends to be greater for more complex, unique or first in class projects and those of longer duration) and apply their best estimate of future time and material requirements. See note 20 for the carrying value of work in progress.

**Impairment of debtors** - the group estimates the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management consider factors including the current credit rating of the debtor, the ageing profile and historical experience. See note 21 for the carrying amount of debtors.

**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 28 for details of provisions held by the group.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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### 5. Turnover

Analysis of turnover by category:

	2016 £000	2015 £000
Sale of goods	35,845	47,320
Provision of services	6,230	6,716
	<u>42,075</u>	<u>54,036</u>

Analysis of turnover by geography:

	2016 £000	2015 £000
United Kingdom	22,313	25,488
Rest of Europe	1,330	939
Rest of the world	18,432	27,609
	<u>42,075</u>	<u>54,036</u>

### 6. Other operating income

	2016 £000	2015 £000
Rental income	510	725
Government grant income	49	62
	<u>559</u>	<u>787</u>

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 7. Operating loss

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

	2016 £000	2015 £000
Research and development charged as an expense	1,784	1,572
Depreciation of tangible fixed assets	2,294	2,186
Amortisation of intangible assets	1,039	1,010
Impairment of goodwill (included in administrative expenses)	1,121	-
Impairment of tangible fixed assets (included within administrative expenses)	-	453
Stock charged as an expense	23,117	25,116
Operating lease charges	678	679
Exchange differences	82	297
Fair value remeasurement of forward currency contracts	-	(694)
	<u>          </u>	<u>          </u>

### 8. Exceptional items

	2016 £000	2015 £000
Armstrong Works - redevelopment and relocation costs	-	747
Onerous lease provision on vacated premises	-	276
Redundancies	-	890
Asset impairments (intangibles, tangibles and stocks)	-	559
	<u>          </u>	<u>          </u>
	-	2,472
	<u>          </u>	<u>          </u>

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

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 9. Auditor's remuneration

	2016 £000	2015 £000
Fees payable to the company's auditor for the audit of these financial statements	12	10
<b>Fees payable to the company's auditor in respect of:</b>		
- The audit of the company's subsidiaries	59	61
- Tax compliance services	49	28
- Recruitment services	-	18
- Corporate finance services	-	32
	<b>108</b>	<b>139</b>

### 10. Staff costs

Staff costs for the group, including directors' remuneration, were as follows:

	2016 £000	2015 £000
Wages and salaries	16,123	19,385
Social security costs	1,701	2,057
Employer contributions to defined contribution pension schemes	384	396
	<b>18,208</b>	<b>21,838</b>

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

	2016 No.	2015 No.
Production staff	258	289
Administrative staff	151	173
Management staff	17	10
Apprentices	36	53
	<b>462</b>	<b>525</b>

The average number of employees in the company, including the directors, during the year was 8 (2015 - 10) and their total staff costs were £606,649 (2015 - £629,323).

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 11. Directors' remuneration

	2016 £000	2015 £000
Aggregate emoluments	410	556
Company contributions to defined contribution pension schemes	10	44
	<u>420</u>	<u>600</u>

During the year retirement benefits were accruing to 1 director (2015 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £181,000 (2015 - £216,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £10,000 (2015 - £30,000).

### 12. Interest payable and similar charges

	2016 £000	2015 £000
Bank interest payable	4	24
Other loan interest payable	-	10
Finance leases and hire purchase contracts	16	31
	<u>20</u>	<u>65</u>

### 13. Taxation

	2016 £000	2015 £000
<b>Current tax</b>		
Adjustments in respect of previous periods	(338)	(103)
<b>Total current tax</b>	<u>(338)</u>	<u>(103)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	38	38
Adjustment in respect of previous periods	(125)	(6)
Changes to tax rates	11	-
<b>Total deferred tax</b>	<u>(76)</u>	<u>32</u>
<b>Tax on loss on ordinary activities</b>	<u>(414)</u>	<u>(71)</u>

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 13. Taxation (continued)

#### Reconciliation of tax charge

The tax assessed for the year is higher than (2015 - higher than) the standard rate of corporation tax in the UK of 20% (2015 - 20.25%). The differences are explained below:

	2016 £000	2015 £000
Loss on ordinary activities before taxation	(4,367)	(999)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	(873)	(203)
Effects of:		
Expenses not deductible for tax purposes	610	234
Adjustments in respect of prior periods - current tax	(338)	(103)
Adjustments in respect of prior periods - deferred tax	(125)	(6)
Non-taxable income	(86)	(15)
Benefit of research and development enhanced deduction	(125)	(80)
Changes in tax rates	11	-
Benefit of indexation	(7)	-
Movements in unrecognised deferred tax	519	102
<b>Total tax charge for the year</b>	<b>(414)</b>	<b>(71)</b>

#### Factors that may affect future current and total tax charges

At the balance sheet date, the group had unutilised trading losses of approximately £15,017,000 (2015 - £10,832,000) available to carry forward against future taxable profits. There exists an unrecognised deferred tax asset of approximately £1,914,000 (2015 - £1,597,000) in respect of these losses, which the directors have not recognised until such time as their recovery can be assessed with reasonable certainty. The unrecognised deferred tax asset has been measured based on tax rates substantively enacted by the balance sheet date, being 17% (2015 - 18%), that are expected to apply when the asset is recovered.

### 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 £14,359,000 (2015 - £28,151,000).



# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 15. Intangible assets

#### Group

	Intellectual property £000	Goodwill £000	Total £000
<b>Cost</b>			
At 1 January 2016	14	18,987	19,001
Additions	300	1,121	1,421
At 31 December 2016	<u>314</u>	<u>20,108</u>	<u>20,422</u>
<b>Amortisation</b>			
At 1 January 2016	12	12,013	12,025
Charge for the year	31	1,008	1,039
Impairment	-	1,121	1,121
At 31 December 2016	<u>43</u>	<u>14,142</u>	<u>14,185</u>
<b>Net book value</b>			
At 31 December 2016	<u>271</u>	<u>5,966</u>	<u>6,237</u>
At 31 December 2015	<u>2</u>	<u>6,974</u>	<u>6,976</u>

Goodwill arising during the year has been fully impaired which, notwithstanding its future potential, reflects the stage of development of the investee business and the inherent uncertainty with regard to its future cash flows.

#### Company

The company had no intangible assets at the balance sheet date (2015: £nil).

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 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 2016	1,791	16,631	12,964	503	4,993	36,882
Additions	-	17	641	3	247	908
Acquisition of subsidiary	-	-	21	-	8	29
Disposals	-	(217)	(681)	(131)	(857)	(1,886)
Translation adjustments	364	-	17	10	48	439
At 31 December 2016	2,155	16,431	12,962	385	4,439	36,372
<b>Depreciation</b>						
At 1 January 2016	184	1,593	5,281	182	3,330	10,570
Charge for the year	54	339	1,215	124	562	2,294
Disposals	-	(217)	(584)	(131)	(837)	(1,769)
Translation adjustments	38	-	7	9	40	94
At 31 December 2016	276	1,715	5,919	184	3,095	11,189
<b>Net book value</b>						
At 31 December 2016	1,879	14,716	7,043	201	1,344	25,183
At 31 December 2015	1,607	15,038	7,683	321	1,663	26,312

Leasehold property includes long leasehold property with a net book value of £14,520,000 (2015 - £14,840,000) and improvements to properties rented under operating leases with a net book value of £196,000 (2015 - £198,000).

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

	2016 £000	2015 £000
Plant and machinery	937	1,521

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 16. Tangible fixed assets (continued)

#### Company

	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Computer equipment £000	Total £000
<b>Cost</b>					
At 1 January 2016 and 31 December 2016	12	144	9	39	204
<b>Depreciation</b>					
At 1 January 2016	1	28	2	21	52
Charge for the year	2	36	2	11	51
At 31 December 2016	3	64	4	32	103
<b>Net book value</b>					
At 31 December 2016	9	80	5	7	101
At 31 December 2015	11	116	7	18	152

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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### 17. Investment property

#### Group

	Freehold investment property £000
<b>Valuation</b>	
At 1 January 2016	-
Additions at cost	4,894
<b>At 31 December 2016</b>	<b>4,894</b>

Investment property held by the group was acquired during the year and the directors do not consider there to have been any changes in its fair value to the balance sheet date.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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### 18. Fixed asset investments

#### Group

	Unlisted investments £000
<b>Cost</b>	
At 1 January 2016	782
Transfers between classes	(772)
	<hr/>
At 31 December 2016	10
	<hr/>
<b>Impairment</b>	
At 1 January 2016	-
Charge in the year	10
	<hr/>
At 31 December 2016	10
	<hr/>
<b>Net book value</b>	
	<hr/>
At 31 December 2016	-
	<hr/>
At 31 December 2015	782
	<hr/>

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 18. Fixed asset investments (continued)

#### Company

	Investments in subsidiary companies £000	Unlisted investments £000	Total £000
<b>Cost</b>			
At 1 January 2016	36,030	782	36,812
Additions	750	-	750
Transfers between classes	772	(772)	-
At 31 December 2016	37,552	10	37,562
<b>Impairment</b>			
At 1 January 2016	18,570	-	18,570
Charge in the year	1,522	10	1,532
At 31 December 2016	20,092	10	20,102
<b>Net book value</b>			
At 31 December 2016	17,460	-	17,460
At 31 December 2015	17,460	782	18,242

During the year, Continuous Retorts Limited became a subsidiary undertaking, following a further £750,000 investment by the company which increased its ownership stake to 75%.

Having regard for its stage of development and consequently the inherent uncertainty regarding future cash flows the directors, notwithstanding its future potential, have fully provided against the company's investment in Continuous Retorts Limited until such time as its value can be more reliably estimated.

A full list of the company's direct and indirect subsidiary undertakings, all of whose results and position are included within the consolidated financial statements, is given in note 35.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 19. Acquisition of subsidiary

On 18 October 2016, the company increased its interest in Continuous Retorts Limited from 50% to 75% of the issued share capital for a consideration of £750,000, taking the total consideration paid to £1,521,950. The interest has been reclassified from an investment to a subsidiary undertaking.

Acquisitions of subsidiary undertakings are accounted for under the purchase method. The following table sets out the fair value to the group of the identifiable net assets and liabilities acquired.

	Book value £000	Fair value adjustments £000	Fair value to group £000
<b>Assets acquired and liabilities assumed</b>			
Intangible fixed assets	105	(105)	-
Tangible fixed assets	29	-	29
Debtors	254	-	254
Cash at bank	723	-	723
Creditors and provisions	(442)	(29)	(471)
<b>Net assets</b>	<b>669</b>	<b>(134)</b>	<b>535</b>

	£000
<b>Satisfied by:</b>	
Cash	1,522

	£000
<b>Goodwill and non controlling interest</b>	
Goodwill arising on consolidation	1,121
Non controlling interest	(134)
	987

Fair value adjustments arising on acquisition relate to the directors' assessment of the carrying value of capitalised intellectual property and additional liabilities payable in respect of the acquired business.

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 20. Stocks

	<b>Group 2016 £000</b>	<b>Group 2015 £000</b>	<b>Company 2016 £000</b>	<b>Company 2015 £000</b>
Raw materials	1,503	746	-	-
Work in progress	4,306	6,409	-	-
	<b>5,809</b>	<b>7,155</b>	<b>-</b>	<b>-</b>

The group stock balances are stated after provisions for impairment of £92,055 (2015 - £58,646)

### 21. Debtors

	<b>Group 2016 £000</b>	<b>Group 2015 £000</b>	<b>Company 2016 £000</b>	<b>Company 2015 £000</b>
<b>Due after more than one year</b>				
Amounts owed by group undertakings	-	-	10,182	6,115
	<b>14,267</b>	<b>14,799</b>	<b>64,862</b>	<b>52,370</b>
<b>Due within one year</b>				
Trade debtors	10,490	9,862	8	-
Amounts owed by group undertakings	-	-	64,785	52,333
Other debtors	1,960	2,301	20	27
Prepayments and accrued income	1,596	2,475	26	10
Amounts recoverable on contracts	-	16	-	-
Deferred tax asset (note 27)	221	145	23	-
	<b>14,267</b>	<b>14,799</b>	<b>64,862</b>	<b>52,370</b>

Group trade debtors are stated after provisions for impairment of £85,440 (2015 - £41,300).

### 22. Current asset investments

	<b>Group 2016 £000</b>	<b>Group 2015 £000</b>	<b>Company 2016 £000</b>	<b>Company 2015 £000</b>
Listed investments (note 26)	32,443	21,312	-	-
Fixed term cash deposits (note 26)	25,000	-	-	-
	<b>57,443</b>	<b>21,312</b>	<b>-</b>	<b>-</b>



# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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

	<b>Group 2016 £000</b>	<b>Group 2015 £000</b>	<b>Company 2016 £000</b>	<b>Company 2015 £000</b>
Payments received on account	761	858	-	-
Trade creditors	3,376	3,425	55	17
Amounts owed to group undertakings	-	-	11	80
Other taxation and social security	941	1,358	16	23
Net obligations under finance lease and hire purchase contracts (note 25)	215	406	-	-
Other creditors	259	2,942	3	-
Accruals and deferred income	2,414	2,260	41	114
	<b>7,966</b>	<b>11,249</b>	<b>126</b>	<b>234</b>

Accruals and deferred income includes deferred government grants of £nil (2015 - £46,000).

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

	<b>Group 2016 £000</b>	<b>Group 2015 £000</b>	<b>Company 2016 £000</b>	<b>Company 2015 £000</b>
Other loans	1,933	-	1,933	-
Net obligations under finance leases and hire purchase contracts (note 25)	64	189	-	-
	<b>1,997</b>	<b>189</b>	<b>1,933</b>	<b>-</b>

### 25. Finance leases and hire purchase contracts

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

	<b>Group 2016 £000</b>	<b>Group 2015 £000</b>
Within one year	145	422
After one year and before five years	160	189
Less: finance charges allocated to future periods	(26)	(16)
<b>Carrying amount of liability</b>	<b>279</b>	<b>595</b>

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

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 26. Financial instruments

The group has the following financial instruments:

	<b>Group 2016 £000</b>	<b>Group 2015 £000</b>
<b>Financial assets</b>		
Financial assets measured at fair value through profit or loss	<b>32,443</b>	21,312
Financial assets that are equity instruments measured at cost less impairment (unlisted investments)	-	782
Financial assets that are debt instruments measured at amortised cost	<b>12,450</b>	12,163
Cash and fixed-term deposits	<b>59,841</b>	79,928
	<b>104,734</b>	114,185
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	<b>8,743</b>	9,485

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 £560,000 (2015 - £44,000) and the net gain from changes in fair value was £3,161,000 (2015 - £56,000 net gain).

Financial assets measured at amortised cost comprise trade and other debtors (see note 21).

Fixed term cash deposits of £25,000,000 (2015 - £nil) are included in current asset investments (see note 22). They had a maturity at inception of 4 to 12 months and a weighted average interest rate of 1.04%.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors and accruals (see notes 23 and 24).

The group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency sales. There were no open forward contracts at the balance sheet date (2015 - none) and the fair value gains or losses recognised on forward currency contracts during the year were £nil (2015 - £694,000 gain).

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 27. Deferred taxation

#### Group

	<b>2016 £000</b>	2015 £000
At beginning of year	145	177
Credit/(charge) to the profit and loss account in the year	76	(32)
<b>At end of year</b>	<b>221</b>	<b>145</b>

#### Company

	<b>2016 £000</b>
At beginning of year	-
Credit to the profit and loss account in the year	23
<b>At end of year</b>	<b>23</b>

The deferred tax asset is made up as follows:

	<b>Group 2016 £000</b>	Group 2015 £000	<b>Company 2016 £000</b>
Accelerated capital allowances	(150)	(311)	24
Losses carried forward	714	392	-
Short term timing differences	(343)	64	(1)
	<b>221</b>	<b>145</b>	<b>23</b>

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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### 28 Provisions

#### Group

	Warranties £000	Onerous leases £000	Total £000
At 1 January 2016	203	1,385	1,588
Additions	124	100	224
Utilised	(30)	(708)	(738)
Reversed unused	(139)	-	(139)
<b>At 31 December 2016</b>	<b>158</b>	<b>777</b>	<b>935</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 the future costs relating to vacated premises and is expected to be utilised within the next financial year.

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

#### Company

There were no provisions in the company (2015 - £nil).

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

### 29. Share capital and reserves

	2016 £	2015 £
<b>Shares classified as equity</b>		
<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
	<u>100</u>	<u>100</u>

All classes of ordinary share rank pari passu in all respects, other than no dividend is payable on the J Ordinary shares until an aggregate 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 decide.

#### Reserves

The profit and loss reserve is the group's / company's cumulative profits and losses, net of cumulative dividends paid and other adjustments.

### 30. Dividends

	2016 £000	2015 £000
Dividends paid on equity share capital	<u>3,000</u>	<u>3,000</u>

### 31. Contingent liabilities

From time to time, the group provides bank guarantees to its customers. At the balance sheet date, guarantees were in place amounting to £886,000 (2015 - £1,416,000).

# Reece Group Limited

## Notes to the financial statements Year ended 31 December 2016

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### 32. Commitments under operating leases

Future minimum lease payments under non-cancellable operating leases fall due as follows:

	<b>Group 2016 £000</b>	<b>Group 2015 £000</b>
<b>Payments due:</b>		
Within one year	<b>517</b>	502
After one and before five years	<b>162</b>	624
After five years	<b>172</b>	213
<b>Total</b>	<b>851</b>	1,339

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

### 33. Related party transactions

#### Group

The cost to the group for remuneration of key management personnel during the year was £890,000 (2015 - £929,000). This includes the directors' remuneration disclosed at note 11.

The group made sales to the value of £32,000 (2015 - £31,000) to Quality Hospital Solutions Limited. Reece Group Limited holds a non-controlling investment in Quality Hospital Solutions Limited. At the year end, £12,000 (2015 - £31,000) is outstanding and included in debtors.

In the first 3 months of the prior year, the group made sales to Soil Machine Dynamics of £254,000, during which period JP Reece was a director.

#### Company

Intercompany debtors includes a loan due from Continuous Retorts Limited, a 75% subsidiary undertaking of £256,555 (2015 - £nil).

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.

### 34. Controlling party

The ultimate parent 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 2016

### 35. Subsidiary undertakings

The following were subsidiary undertakings of the company at the balance sheet date. Unless noted otherwise, all subsidiaries have their registered office at: Armstrong Works, Scotswood Road, Newcastle upon Tyne, NE15 6UX.

Name	Principal activity	Direct / indirect	Reg.office
Pearson Engineering Limited	Combat engineering equipment	Direct	
Pearson Engineering Inc	Combat engineering equipment	Indirect	See note
Pearson Real Estate LLP	Property	Indirect	See note
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	Road repair services	Indirect	See note
Velocity Patching Limited	Dormant	Indirect	
Velocity Transport Solutions Limited	Vehicle and driver hire services	Indirect	
Pipe Coil Technology Limited	Non-trading	Direct	
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	Dormant	Direct	
Exact Machining (Holdings) Limited	Dormant	Indirect	
Exact Machining UK Limited	Dormant	Indirect	
Pressex UK Limited	Dormant	Indirect	
Weldex UK Limited	Dormant	Indirect	
Continuous Retorts Limited	Food processing	Direct	
Omnium Sensing Limited	Dormant	Direct	
Tellus Utilities Limited	Dormant	Direct	

#### Note - Registered office

Pearson Engineering Inc.	87 Amlajack Way, Newnan, GA, 30265, USA
Pearson Real Estate LLP	87 Amlajack Way, Newnan, GA, 30265, USA
Velocity Road Solutions Inc.	87 Amlajack Way, Newnan, GA, 30265, USA

All the subsidiaries are wholly-owned, other than Continuous Retorts Limited, in which the company holds 75% of the issued ordinary share capital.