RNO Limited

Annual Report

for the year ended 31 December 2016

Registered number: 06409725

RNO Limited

Annual Report

for the year ended 31 December 2016

Contents

RNO Limited

Strategic Report for the year ended 31 December 2016

Business review and future developments
The group (incorporating Princess Yachts International Plc and Felix Engineering Limited) manufactures and sells luxury motor yachts to a worldwide network of independent distributors from six locations in the South West of England.

The results of the group, for the year under review, show an operating loss before exceptional costs of £4.9m (2015: £19.3m) on turnover of £216.7m (2015: £201.2m). This equates to a margin of -2.3% (2016: -9.6%).

Following the appointment in 2016 of Antony Sheriff as Executive Chairman, the Board approved an aggressive long-term business plan. In the coming years, the results of this plan is expected to return the Group into a profitable and cash generating business. The plan is centred on investment in an aggressive product strategy, recruitment to the senior leadership team and developing best in class production processes. This initial investment phase will continue into 2017.

As predicted with the start of the initial investment within the long term plan, the group continued to improve its turnover and gross profit levels year on year. This reflects the continued product replacement plan, which resulted in more sales in the larger boats, generating larger margins.

The 35M won the 2016 World Superyacht Award (as previously won by the 40M) the 75 Motor Yacht and V58 won 2017 Motor Boat awards and the V40 won the Asia Boating Award 2017.

	2016 £m	2015 £m	Movement £m
Turnover	216.7	201.2	15.5
Gross profit/(loss)	6.8	(8.5)	15.3
Operating loss before exceptional costs	(4.9)	(19.3)	14.4
Cash Balance	31.0	0.4	30.6

Exceptional costs in the year reflect redundancy costs and one-time consultancy fees incurred with the implementation of the long term plan.

In July 2016, on the basis of the more ambitious and attractive business plan, shareholders injected net £8.795m into the Group with a further £4.4m made available to draw down in 2017. The Directors believe that this, together with its other bank facilities, will support our capital programme and keep the group on a solid financial footing for the rest of 2017 and beyond. At the year-end there was a net cash balance of £31.049m (2015: £0.404m).

The order book remained strong throughout 2016 due to the strength in new product launches, and was further enhanced by the weakening pound from July onwards. At the end of 2016, the order book stretched to an average of 18 months turnover, up from 12 months at the end of 2015. This trend has continued through Q1-2017, with many product lines available delivery slots now scheduled in the second half of 2018. It is especially encouraging that the strength of the order book stretches across the product line and across geographical regions.

The group continued to make progress with the insurance companies to settle damages caused by the hurricane force storm in February 2014. This is now expected to be completed during 2017.

Looking forward the Board is focussed on stabilising production, improving quality and successfully launching an array of new yachts that increases product renewal intensity and broadens the product range, while significantly reducing complexity and costs at all levels of the business.

Given a strong and strengthening order book for 2017, a stabilised production system and a refreshed product line, the Board expect continued growth and a substantially improved performance in 2017. The Board also considers that the relative weakness of Sterling against other currencies will be beneficial throughout 2017.

Strategic Report for the year ended 31 December 2016 (continued)

Net liabilities of the group at 31 December 2016 totalled (£35.24m) a decrease of £23.49m over the corresponding position last year (2015: (£11.75m) due to the combination of the loss in the year and the actuarial loss on the defined benefit pension scheme, in which scheme liabilities increased by £23m to £110m due to the decrease in the discount rate to 2.8% (2015: 3.7%), this being more significant than the increase in assets to £95m (2015: £77m).

Key performance indicators
The ongoing financial performance and financial position of the group are monitored with reference to a series of key performance indicators which focus on the company's turnover, gross profit and total cash balances. All of these are monitored and approved by the directors and were reviewed at regular meetings of the board held during the year under review. The gross margin achieved in 2016 was 3.1% (2015: -4.2%). At the year-end there was a net cash balance of £31.049m (2015: £0.404m).

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

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

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

Exchange rate risk:
A proportion of the material cost is purchased in a currency other than sterling. In order to manage potential fluctuations in the exchange rate, a continuing programme of forward currency purchasing is in place and this is monitored on a monthly basis.

Interest rate risk:
The rate of interest earned on the company's cash balances is monitored on an ongoing basis by continuing review of rates available in the market. Deposits are made with reference to these rates, in conjunction with projections of future cash requirements.

This report was approved by the board of directors on 21 June 2017 and signed on behalf of the board by:

A M Sheriff
Director

Registered Number 0640972

RNO Limited

Directors' Report for the year ended 31 December 2016

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

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

Disclosure of information in the strategic report:
Information on the future developments and financial risk management are contained within the Strategic Report.

Going concern
The directors have undertaken detailed reviews of the group's forecast trading position as well as the trading positions of its distributors around the world, and the group's indebtedness, and are satisfied that the company and group have adequate resources to continue trading for the foreseeable future. The parent company RNO Group S.C.A. have provided written confirmation of their intention to support RNO Group for a period of at least 12 months.

Results and dividend
The group's results are shown in the Consolidated Income Statement on page 9. No ordinary share dividends have been paid or are proposed (2015: none).

Research and development
The group continues to develop new motor yachts to add to the existing range, with several new models having been launched during the year under review and with several more in the pipeline.

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

C M Folleas (Resigned 4 July 2016)
P M Franchet
C J Gates
P G Houël
D S King (Resigned 6 August 2015)
P J C Mellier
A Pallavicini
D R Piette (Resigned 4 May 2016)
P H Skipworth (Resigned 29 February 2016)
E S Velasco
A M Sheriff (appointed 16 March 2016)
A R Bratt (appointed 14 March 2017)

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

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

Directors' Report for the year ended 31 December 2016 (continued)

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

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

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

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

In preparing the financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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

RNO Limited

Directors' Report for the year ended 31 December 2016 (continued)

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

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the directors report is approved so far as each director is aware:

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

On behalf of the board

A M Sheriff
Director

Independent auditors' report to the members of RNO Limited

Report on the financial statements

Our opinion

In our opinion:

- RNO Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2016 and of the group's loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated Balance Sheet as at 31 December 2016;
- the Company Balance Sheet as at 31 December 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Company Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Company Statement of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the group financial statements is IFRSs as adopted by the European Union, and applicable law. The financial reporting framework that has been applied in the preparation of the company financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

Independent auditors' report to the members of RNO Limited (continued)

In addition, we read all the financial and non-financial information in the Annual 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Heather Ancient

Heather Ancient (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Plymouth
27 June 2017

RNO Limited

Consolidated Income Statement for the year ended 31 December 2016

	Note	**2016** **£'000**	2015 £'000
Continuing operations			
Revenue	2	**216,707**	201,233
Cost of sales		**(209,885)**	(209,711)
Gross profit / (loss)		**6,822**	(8,478)
Distribution costs		**(8,432)**	(7,315)
Administrative expenses		**(3,651)**	(4,098)
Other income		402	581
Operating loss before exceptional costs		**(4,859)**	(19,310)
Exceptional costs		(4,839)	(1,533)
Operating loss	5	**(9,698)**	(20,843)
Finance income	3	**27**	1
Finance costs	4	**(10,148)**	(5,469)
Loss before income tax		**(19,819)**	(26,311)
Income tax credit	8	**1,382**	2,449
Loss for the year from continuing operations	22	**(18,437)**	(23,862)

The notes on pages 18 to 43 are integral to these consolidated financial statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2016

	Note	**2016 £'000**	2015 £'000
Loss for the year		(18,437)	(23,862)
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit and loss			
Actuarial (loss)/gain on post-employment benefit obligations	20	**(6,088)**	5,000
Movement on deferred tax relating to pension liability	18	**1,035**	-
Other comprehensive (expense) / income for the year, net of tax		**(5,053)**	5,000
Total comprehensive expense for the year		**(23,490)**	(18,862)

The notes on pages 18 to 43 are integral to these consolidated financial statements.

RNO Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2016

	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Total Equity £'000
At 1 January 2016	40	4,105	(15,899)	(11,754)
Loss for the year	-	-	(18,437)	(18,437)
Actuarial loss on post-employment benefit obligations	-	-	(6,088)	(6,088)
Movement on deferred tax relating to pension liability	-	-	1,035	1,035
At 31 December 2016	**40**	**4,105**	**(39,389)**	**(35,244)**

	Called up share capital £'000	Share premium account £'000	Retained earnings / (Acc'd losses) £'000	Total Equity £'000
At 1 January 2015	40	4,105	2,963	7,108
Loss for the year	-	-	(23,862)	(23,862)
Actuarial (loss)/gain on post-employment benefit obligations	-	-	5,000	5,000
At 31 December 2015	**40**	**4,105**	**(15,899)**	**(11,754)**

The notes on pages 18 to 43 are integral to these consolidated financial statements.

RNO Limited

Company Statement of Changes in Equity for the year ended 31 December 2016

	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Total Equity £'000
At 1 January 2016	40	4,105	(49,198)	(45,053)
Loss for the year	-	-	(9,827)	(9,827)
Excess payment for group relief	-	-	258	258
At 31 December 2016	**40**	**4,105**	**(58,767)**	**(54,622)**

	Called up share capital £'000	Share premium account £'000	Retained earnings / (Acc'd losses) £'000	Total Equity £'000
At 1 January 2015	40	4,105	(47,050)	(42,905)
Loss for the year	-	-	(5,183)	(5,183)
Dividend income	-	-	3,000	3,000
	-	-	35	35
At 31 December 2015	**40**	**4,105**	**(49,198)**	**(45,053)**

The notes on pages 18 to 43 are integral to these consolidated financial statements.

RNO Limited

Consolidated Balance Sheet as at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**44,346**	46,040
Intangible assets	10	**115,560**	115,661
Investments	11	**179**	212
Deferred income tax assets	18	**8,847**	6,460
		168,932	168,373
Current assets			
Inventories	13	**70,278**	80,806
Trade and other receivables	14	**9,663**	12,615
Cash and cash equivalents	24	**31,049**	2,287
		110,990	95,708
Total assets		**279,922**	**264,081**
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	21	**40**	40
Share premium account	22	**4,105**	4,105
Accumulated losses	22	**(39,389)**	(15,899)
Total equity		**(35,244)**	(11,754)
Liabilities			
Non-current liabilities			
Borrowings	16	**201,822**	182,214
Deferred government grants	17	**6,131**	6,182
Deferred income tax liabilities	18	**1,961**	2,032
Retirement benefit obligations	20	**14,880**	9,892
Provisions for other liabilities and charges	19	**3,175**	5,153
		227,969	205,473

Consolidated Balance Sheet as at 31 December 2016 (continued)

	Note	**2016 £'000**	2015 £'000
Current liabilities			
Trade and other payables	15	**84,197**	63,479
Borrowings	16	**3,000**	6,883
		87,197	70,362
Total liabilities		**315,166**	275,835
Total equity and liabilities		**279,922**	264,081

The notes on pages 18 to 43 are integral to these consolidated financial statements.

The financial statements on pages 9 to 43 were approved by the board of directors on 21 June 2017 and were signed on its behalf by:

A McSheriff
Director

Registered number: 06409725

Company Balance Sheet as at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Investments	11	**187,006**	187,006
Current assets			
Cash at bank and in hand		**18**	100
Debtors	14	**360**	714
		378	814
Creditors: amounts falling due within one year	15	**(40,184)**	(50,659)
Net current liabilities		**(39,806)**	(49,845)
Total assets less current liabilities		**147,200**	137,161
Creditors: amounts falling due after one year	16	**(201,822)**	(182,214)
Net liabilities		**(54,622)**	(45,053)
Capital and reserves			
Called up share capital	21	**40**	40
Share premium account	22	**4,105**	4,105
Profit and loss account	22	**(58,767)**	(49,198)
Total shareholders' deficit		**(54,622)**	(45,053)

The financial statements on pages 9 to 43 were approved by the board of directors on 21 June 2017 and were signed on its behalf by:

A M Sheriff
Director

Registered number: 06409725

RNO Limited

Consolidated Statement of Cash Flows for the year ended 31 December 2016

	Note	**2016 £'000**	2015 £'000
Cash flows from operating activities			
Cash generated from operations	23	**28,979**	15,068
Interest paid		**(433)**	(2,354)
Income tax received		**-**	699
Net cash generated from operating activities		**28,546**	13,413
Cash flows from investing activities			
Purchases of property, plant and equipment	9	**(885)**	(1,185)
Proceeds from sale of property, plant and equipment		**-**	38
Research & development expenditure on development of new yachts	10	**(6,004)**	(5,138)
Interest received	3	**27**	1
Net cash used in investing activities		**(6,862)**	(6,284)
Cash flows from financing activities			
Repayments of borrowings		-	(5,000)
Shareholder loan drawdown	24	8,961	-
Net cash generated from/(used in) financing activities		**8,961**	(5,000)
Net increase in cash and cash equivalents		**30,645**	2,129
Movement in borrowings	24	**(8,961)**	5,000
Other non-cash movements	24	**(8,647)**	(3,250)
Net debt at 1 January	24	**(186,810)**	(190,689)
Net debt at 31 December	24	**(173,773)**	(186,810)

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Company Statement of Cash Flows for the year ended 31 December 2016

	Notes	**2016** **£'000**	2015 £'000
Cash flows from operating activities			
Cash (used in) /generated from operations	25	**(8,609)**	6,224
Interest paid		**(433)**	(2,224)
Income tax received		**-**	-
Net cash generated from operating activities		**(9,042)**	4,000
Cash flows from investing activities			
Interest received		**-**	1
Net cash used in investing activities		**-**	1
Cash flows from financing activities			
Repayments of borrowings		-	(5,000)
Shareholder loan drawdown		8,961	1,000
Net cash generated from/(used in) financing activities		**8,961**	(4,000)
Net increase in cash and cash equivalents		**(81)**	-
Movement in borrowings	26	**(8,961)**	5,000
Other non-cash movements	26	**(8,647)**	(3,464)
Net debt at 1 January	26	**(187,114)**	(188,650)
Net debt at 31 December	26	**(204,803)**	(187,114)

Accounting Policies

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

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

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

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

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

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

New standards which are now effective
No new standards have been adopted by the group for the financial year beginning on 1 January 2016.

Standards not yet effective
As at the date of authorisation of these financial statements, the following Standards and Interpretations as well as amendments to existing Standards and Interpretations, which have not been applied in these financial statements, were in issue but not effective:

IAS 7 'Statement of Cash Flows' (effective 2017)
IFRS 9 'Financial Instruments' (effective 2018)
IFRS 15 'Revenue from contracts with customers' (effective 2018)
IFRS 16 'Leases' (Effective 2019)
Amendments to IFRS 12'Disclosures of interests in other entities' (effective 2017)
Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective 2018)
Amendments to IAS 12 'Income taxes' (effective 2017)
Amendments to IFRS 2 'Share based payments' (effective 2018)
Amendments to IFRS 15 'Revenue from contracts with customers' (effective 2018)
Amendments to IFRS 4 'Insurance contracts' (effective 2018)
Amendments to IAS 40 'Investment property' (effective 2018)
IFRIC 22 'Foreign currency transactions and advance considerations' (effective 2018)

RNO Limited

Accounting Policies (continued)

Standards not yet effective (continued)

Management have reviewed the changes under IFRS 15 'Revenue from contracts with customers', and concluded that it will have no material impact on how the group recognise revenue.
Management will quantify the effect of adopting the remaining standards in due course as the implementation date nears.

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

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

Going concern
The directors have undertaken detailed reviews of the group's forecast trading position as well as the trading positions of its distributors around the world, and the group's indebtedness, and are satisfied that the company and group have adequate resources to continue trading for the foreseeable future. The group has received covenant waivers for 2015 and 2016 whilst financial and corporate restructuring has taken place, the next covenant reporting date being 31 December 2017.

Revenue recognition
Turnover is the invoiced value of goods, net of value added tax and discounts. For yachts under 80 feet in length, turnover from the sale of goods is recognised when the significant risks and benefits of product ownership transfer to the buyer (and the yacht is fully paid for), which may be upon shipment, completion of the product or the product being ready for delivery, based on specific contract terms.

Long-term contract accounting
Revenue and profit recognised in the year reflects management's best estimate of the value of work completed on each yacht over 80 feet in length. The degree of completion, which forms the basis of this estimate, is assessed by reference to the labour cost expended in the construction process at the accounting date as a percentage of the total expected labour cost for the yacht. The resultant percentage is then applied to management's estimate of the total expected revenue and profit on completion of the yacht to determine the amounts to be recognised in the financial statements. Losses are recognised as soon as they are identified. The amount by which recorded turnover exceeds payments received on account is classified separately as contract receivables.

Research and development costs
Costs directly associated with the development of new yachts (material and labour) are capitalised and amortised over the period during which it is expected sales revenues will be generated as the result of establishing a commercially viable and separately identifiable project. Capitalised costs are reviewed annually and will be written off where continuing carry forward is no longer considered to be appropriate.

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

RNO Limited

Accounting Policies (continued)

Grants
Government grants are treated as deferred income in the balance sheet and credited to trading results over the estimated useful economic lives of the assets to which they relate. Amortisation of government grants commences once all grant conditions have been met and there is no longer a possibility of repayment.

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

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

The group adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 1 January 2013. Accordingly, the group has classified its financial assets in the following categories:

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

ii) ***Loans, liabilities and receivables***
Loans, liabilities and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets. The group's loans, liabilities and receivables comprise "trade and other receivables" "trade and other payables" and "cash and cash equivalents" in the balance sheet. Loans, liabilities and receivables are held at amortised cost.

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

Operating leases
Costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term.

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

Accounting Policies (continued)

Property, plant and equipment
Property, plant and equipment are recorded at its purchase cost, together with any associated expense of acquisition. In 2013 the group acquired a number of heritage buildings with the acquisition of South Yard in Plymouth. These assets are held at cost (being £1) and are not being depreciated.

Property, plant and equipment (continued)
Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight line basis, over the expected useful economic life of the asset concerned. Freehold land and assets under construction are not depreciated. The principal economic lives are:

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

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

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

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

Capital risk management
The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

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

Deferred tax is accounted for on an undiscounted basis at expected rates on all differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they

Accounting Policies (continued)

Tax, including deferred tax (continued)
are included in the financial statements. A deferred tax asset is only recognised where the directors are satisfied that the amount is recoverable.

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

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

Details of the group's assets measured at fair value at 31 December 2016 are shown in note 12 of the financial statements.

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

Company:

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

Basis of preparation
The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit or loss.

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

Going concern
The company meets its day-to-day working capital requirements through its bank facilities. The company's forecasts and projections show that the company should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements. The company has received covenant waivers for 2015 and 2016 whilst financial and corporate restructuring has taken place, the next covenant reporting date being 31 December 2017.

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based in historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances (note 1).

Accounting Policies (continued)

Tax, including deferred tax

The tax expense represents the sum of current tax expense and deferred tax expense. Current tax expense is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Group relief is claimed from other group companies in respect of their losses, to offset taxable profits in this company. £0.50 is paid for each £1 of tax losses surrendered across the group. As this payment is in excess of the expected amount payable (equating to the tax rate for the year of 20.5%), any amount above this level is taken direct to reserves through the Statement of Comprehensive Income.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Fixed asset investments

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

Investments in Subsidiary Companies

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

Financial instruments

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

Notes to the Consolidated Financial Statements

1 Critical accounting estimates and judgements

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

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

a) *Estimated impairment of goodwill (Group and Company)*

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated on page 20. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 10).

b) *Useful economic lives of yacht models for capitalisation of development costs (Group)*

Development costs relating to the introduction of new yacht models are capitalised and amortised off over the period during which it is expected sales revenues will be generated. This period is the average useful life for new models developed over recent years. A one year reduction in the period over which such development costs are amortised would have impacted profit before income tax by £1,501,000 (2015: £1,284,000).

c) Pension benefits (Group)

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying value of pension obligations.

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

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 20.

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

Yachts over 80 feet in length are accounted for under long-term contract accounting, with revenue and profit being based on the degree of completion at year end. The revenue and profit recognised are calculated using the labour cost incurred as a percentage of total forecast labour cost to complete, multiplied by the proportion of the expected profit on completion. Estimates are required for the percentage completion of the yacht itself, and also on the estimate of the overall profit to be generated. A 1% decrease in the overall expected profit would reduce gross profit by £75,000 (2015: £129,000). A 1% decrease in the percentage completion of the yachts would reduce gross profit by £117,000 (2015: £186,000).

e) Warranty Provision (Group)

Historical warranty spend data is collated across all models and used to estimate future warranty spend based on boats sold and the balance of warranty period remaining. When historical information is unavailable, for instance on new launches an estimate is made by reference to the historic warranty spend on a similar size of yacht.

Notes to the Consolidated Financial Statements (continued)

2 Revenue

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

	2016 £'000	2015 £'000
Revenue recognised when delivered	**198,409**	185,936
Revenue recognised according to long term contract accounting	**18,298**	15,297
Revenue	**216,707**	201,233

3 Finance income

	2016 £'000	2015 £'000
Interest receivable from bank deposits	**27**	1

4 Finance costs

	2016 £'000	2015 £'000
Interest payable on bank loan	**1,442**	702
Amortisation of bank loan issue cost	**325**	136
Interest payable on other loans (see note 16)	**2,637**	(985)
Other finance expense – pensions (see note 20)	**340**	519
Preference share dividend (see note 16b)	**5,404**	5,097
Net interest payable	**10,148**	5,469

5 Operating loss

	2016 £'000	2015 £'000
Operating profit is stated after charging/(crediting):		
Amortisation of development costs (note 10)	**6,105**	6,302
Depreciation of tangible fixed assets (note 9)	**2,578**	2,640
Amortisation of government grant income (note 17)	**(51)**	(51)
Research and development not capitalised	**857**	2,597
Profit on disposal of property, plant and equipment	**-**	(38)
Stock expensed in the year	**113,142**	108,525
Operating lease rentals – plant and machinery	**10**	18

Notes to the Consolidated Financial Statements (continued)

6 Auditor's remuneration

	2016 £'000	2015 £'000
Fees payable for the audit of the financial statements	**109**	150
Fees payable to the company's auditor and its associates for other services:		
Taxation compliance services	**20**	50
Other non-audit services	**-**	8
	129	208

7 Staff numbers and costs

The average monthly number of employees for the group during 2016 and 2015 was:

By activity	**2016 Group Number**	2015 Group Number	**2016 Company Number**	2015 Company Number
Production	**2,023**	2,236	**-**	-
Selling and distribution	**38**	33	**-**	-
Administration	**50**	48	**6**	8
	2,111	2,137	**6**	8

Employee costs	**Group 2016 £'000**	Group 2015 £'000	**Company 2016 £'000**	Company 2015 £'000
Wages and salaries	**67,473**	67,667	**-**	50
Social security costs	**6,440**	6,447	**-**	6
Other pension costs	**764**	1,372	**-**	-
	74,677	75,486	**-**	56

Directors' emoluments

Aggregate directors' emoluments for the year were £1,070,041 (2015: £359,866). The aggregate value of company contributions paid to a defined contribution pension scheme in respect of the directors' qualifying services is £25,500 (2015: £24,000). One director (2015: one) is accruing benefits under money purchase pension schemes. The number of directors with accrued benefits under the company's defined benefit pension scheme is one (2015: one).

The remuneration of the highest paid director was £836,041 (2015: £224,000). The highest paid director received emoluments before they became a director and these emoluments are included in in staff costs for the year.

Notes to the Consolidated Financial Statements (continued)

8 Income tax income

Analysis of (credit) to income statement

	2016 £'000	2015 £'000
Current tax:		
UK corporation tax at 20.00% (2015: 20.25%)	**41**	**34**
Total current tax	**41**	**34**
Deferred tax (note 18):		
Origination and reversal of timing differences	**(2,044)**	(2,999)
Change in tax rate	**541**	519
Adjustments relating to prior years	**80**	(3)
Total deferred tax	**(1,423)**	**(2,483)**
Total tax credit for the current year	**(1,382)**	**(2,449)**

The tax assessed for 2016 and 2015 reconciles to the standard effective rate of corporation tax in the UK as follows:

	2016 £'000	2015 £'000
Loss before taxation	**(19,819)**	(26,311)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.25%)	**(3,964)**	(5,328)
Effects of:		
Expenses not deductible for tax purposes	**1,214**	1,278
Adjustments to prior periods tax charge	**80**	(2)
Impact of unrecognised deferred tax assets	**747**	1,084
Deferred tax rate changes	**541**	519
Total tax credit for the current year	**(1,382)**	(2,449)

Factors that may affect future tax charges

Legislation was introduced during 2015 to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. The Groups profits for this financial year are taxed at an effective rates of 20% (2015: 20.25%). Deferred tax balances within the financial statements have been calculated using a rate of 17% (2015: 18%).

It was further announced in the March 2016 budget that the rate of corporation tax will be reduced to 17% for the Financial Year commencing 1 April 2020. This reduction has not been substantively enacted at the balance sheet date and therefore is not reflected in the financial statements.

Notes to the Consolidated Financial Statements (continued)

9 Property, plant and equipment

Group	Freehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2015	47,537	19,532	67,069
Additions	255	930	1,185
Disposals	-	(90)	(90)
At 1 January 2016	47,792	20,372	68,164
Additions	-	885	885
At 31 December 2016	47,792	21,257	69,049
Accumulated depreciation			
At 1 January 2015	5,252	14,323	19,575
Charge to income statement	1,030	1,610	2,640
Disposals	-	(90)	(90)
At 1 January 2016	6,282	15,843	22,125
Charge to income statement	1,030	1,548	2,578
31 December 2016	7,312	17,391	24,703
Net book value at 31 December 2016	**40,480**	**3,866**	**44,346**
Net book value at 31 December 2015	41,510	4,530	46,040

Notes to the Consolidated Financial Statements (continued)

10 Intangible assets

a) Capitalised development costs

Group	Total £'000
Cost	
At 1 January 2015	36,776
Additions	5,138
At 1 January 2016	41,914
Additions	6,004
At 31 December 2016	**47,918**
Accumulated amortisation	
At 1 January 2015	24,328
Charge to income statement – cost of sales	6,302
At 1 January 2016	30,630
Charge to income statement – cost of sales	6,105
At 31 December 2016	**36,735**
Net book value at 31 December 2016	**11,183**
Net book value at 31 December 2015	11,284

b) Goodwill

Group	£'000
Cost	
At 31 December 2016 and 31 December 2015	**104,377**
Total	
Net book value at 31 December 2016	**115,560**
Net book value at 31 December 2015	115,661

Impairment tests for goodwill
Management reviews the business performance at the one, overall, segmental level of the principal activity.

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

Notes to the Consolidated Financial Statements (continued)

10 Intangible assets (continued)

The key assumptions used for value-in-use calculations in 2016 and 2015 are as follows:

	2016	2015
Operating loss before depreciation (£'000)	**(7,432)**	(16,381)
Economic life (years)	**5**	5
Growth rate - %	**1.5%**	2.3%
Discount rate - %	**9%**	8%

Management determined projected operating profit before depreciation and amortisation based on past performance together with expectations of future market development. The discount rates used are pre-tax. Growth rate of 1.5% allowing for a two year recovery before returning to previous levels of growth experienced in 2013. The discount rate would need to increase to 19% before an impairment would be required.

11 Investments

	Group 2016 £'000	2015 £'000	**Company 2016 £'000**	2015 £'000
Investment in Princess Yachts International Plc	-	-	**187,006**	187,006
Other unlisted investments	**179**	212	-	-
	179	212	**187,006**	187,006

The principal subsidiary companies within RNO Limited, all with the registered office of Newport Street, Plymouth, Devon PL1 3QG, are:

Subsidiary	**Holding**	**Nature of Business**	**Country of Incorporation**
The Renwick Group Limited	100%	Holding company	England
Princess Yachts International plc	100%	Manufacture of luxury motor yachts	England
Felix Engineering Limited	100%	Manufacture of luxury motor yachts	England

With effect from 14 June 2017, Princess Yachts International Plc was re-registered as a limited company. In the process, changing its name to Princess Yachts Limited.

Other unlisted investments

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

Notes to the Consolidated Financial Statements (continued)

11 Investments (continued)

Group	2016 £'000	2015 £'000
Market value at 1 January	**212**	232
Revaluation	**(33)**	(20)
Market value at 31 December	**179**	212

12 Financial instruments by category

Group – 31 December 2016

	Loans, liabilities and receivables £'000	Assets at fair value through profit and loss £'000	Total £'000
Assets as per balance sheet			
Financial assets at fair value	-	179	179
Trade and other receivables excluding prepayments	11,253	-	11,253
Cash and cash equivalents	31,049	-	31,049
Total	**42,302**	**179**	**42,481**
Liabilities as per balance sheet			
Borrowings	204,822	-	204,822
Trade and other payables excluding non-financial liabilities	110,579	-	110,579
Total	**315,401**	**-**	**315,401**

Notes to the Consolidated Financial Statements (continued)

12 Financial instruments by category (continued)

Group – 31 December 2015

	Loans, liabilities and receivables £'000	Assets at fair value through profit and loss £'000	Total £'000
Assets as per balance sheet			
Financial assets	-	212	212
Trade and other receivables excluding prepayments	12,615	-	12,615
Cash and cash equivalents	2,287	-	2,287
Total	**14,902**	**212**	**15,114**
Liabilities as per balance sheet			
Borrowings	189,097	-	189,097
Trade and other payables excluding non-financial liabilities	87,738	-	87,738
Total	**276,835**	**-**	**276,835**

13 Inventories

Group

	2016 £'000	2015 £'000
Contract work in progress	**7,508**	10,480
Raw materials	**8,758**	14,230
Short-term work in progress	**44,805**	36,329
Finished goods	**9,207**	19,767
	70,278	80,806

There is no material difference between the balance sheet amount of stock and its replacement cost. A slow moving/obsolete stock provision of £1,301,000 (2015: £945,000) has been included within the raw materials analysis above.

Notes to the Consolidated Financial Statements (continued)

14 Trade and other receivables

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Trade receivables	**3,021**	3,674	**-**	-
Corporation tax	**91**	221	**-**	-
Other receivables	**-**	-	**360**	714
Prepayments and accrued income	**6,551**	8,720	**-**	-
	9,663	12,615	**360**	714

The fair value of trade receivables is £3,021,000 (2015: £3,674,000). There are no trade receivables past due and not impaired and there is no provision for impaired receivables in either 2016 or 2015. The credit quality of those trade receivables not past due and not impaired is considered good. All trade receivables are denominated in Sterling for both 2016 and 2015.

15 Trade and other payables

	Group		Company	
Amounts due within one year	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Trade payables	**18,005**	29,526	**-**	-
Other payables	**12,522**	12,669	**534**	562
Amounts owed by group undertakings	**-**	-	**36,650**	45,097
Other taxation and social security	**2,265**	1,951	**-**	-
Bank loan (unsecured)	**-**	-	**3,000**	5,000
Accruals and deferred income	**51,405**	19,333	**-**	-
	84,197	63,479	**40,184**	50,659

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the Consolidated Financial Statements (continued)

16 Borrowings

Group and company	2016 £'000	2015 £'000
Non-current		
Bank loan (unsecured), net of issue costs	**28,407**	25,078
Redeemable preference shares	**99,659**	94,256
Shareholders' advances and other loans (unsecured)	**73,756**	62,880
	201,822	182,214

Current		
Bank loan (Company and Group- unsecured)	**3,000**	5,000
Bank overdrafts (Group unsecured)	**-**	1,883
	3,000	6,883

The borrowings are at market rate and as such are recognised at amortised cost. All borrowings are denominated in Sterling in both 2016 and 2015.

Maturity profile
The maturity profile of the carrying amount of borrowing at 31 December 2016 was as follows:

	Bank loan £'000	Redeemable preference shares £'000	Other loans £'000	Total £'000
<1 year	3,000	-	-	3,000
> 5 years	28,407	99,659	73,756	201,822
	31,407	**99,659**	**73,756**	**204,822**

a) Bank loan

On 26 September 2016 the Company and its parent, RNO Group SCA, agreed a debt restructuring with the bank regarding the Group's finance arrangements, including the amount payable by RNO Limited. Under the debt restructuring, one third interest payments were made with two thirds being capitalised into a separate payment in kind loan along with the £5,000,000 repayments that were due to be paid.

b) Preference shares

The cumulative preference shares comprise 62,100,000 shares of £0.01 each (authorised, issued at £0.99 premium and paid up). The shares, which do not carry any voting rights, are redeemable on or before 31 December 2020 at the option of the shareholders, who have confirmed that it is not their current intention to exercise their option before this date. The shares bear interest calculated at 72% of 5.08% plus 275 basis points of the subscription price p.a. on the par value of these shares on a cumulative basis.

Notes to the Consolidated Financial Statements (continued)

16 Borrowings (continued)

On winding up, the preference shareholders rank above ordinary shareholders. On redemption or winding up, the preference shareholders are entitled to receive the subscription price together with any interest accrued but unpaid in respect of their shares. The accrued interest on preference shares amounts to £37,559,000 (2015: £32,155,000). The interest will be rolled up throughout the term of the preference shares.

c) Shareholders' advance and other loans

Other loans comprise shareholders' advances from RNO Group S.C.A. (£49,908,000 and £15,000,000 plus interest). These advances are not due to be repaid until 31 October 2018.

In July 2016, the shareholders injected net funds of £8,961,363 into the Group with a further £4,645,015 to be made available in 2017. Interest repayments due in 2016 were rolled up into the loan balance and deferred.

For £15,000,000 of the loans, the interest is being rolled up throughout the term of the loan. For the remaining £39,500,000, the interest is paid bi-annually.

17 Deferred government grants

Group

	2016 £'000	2015 £'000
Non-current		
At 1 January	**6,182**	6,233
Received during the year	**-**	-
Amortisation in the year	**(51)**	(51)
At 31 December	**6,131**	6,182

A grant of £4,491,000 was received during 2013 from the UK Government's Regional Growth Fund with regard to the company's development of its South Yard site at the Devonport Dock Yard. Amortisation of this grant will commence on completion of the monitoring period. A small element of the historic grant will be amortised within the next 12 months (£51,000); however, it has not been reallocated to amounts falling due within one year on the grounds of being immaterial to these financial statements.

Notes to the Consolidated Financial Statements (continued)

18 Deferred income tax

Group

	Pension	Excess capital allowances over depreciation		Other timing differences		Total
	Assets	Assets	Liabilities	Assets	Liabilities	Net
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2015	3,163	421	-	851	(2,490)	1,945
Movement recognised in income statement	(1,382)	254	-	3,153	458	2,483
Movement recognised in other comprehensive income	-	-	-	-	-	-
At 1 January 2016	**1,781**	**675**	-	**4,004**	**(2,032)**	**4,428**
Movement recognised in income statement	(286)	256	-	1,382	71	1,423
Movement recognised in other comprehensive income	1,035	-	-	-	-	1,035
At 31 December 2016	**2,530**	**931**	-	**5,386**	**(1,961)**	**6,886**

Total deferred tax assets = £8,847,000 (2015: £6,460,000)

Total deferred tax liabilities = £1,961,000 (2015: £2,032,000)

All deferred tax assets and liabilities are reversing in more than 12 months.

There is an unrecognised deferred tax asset in RNO Limited of £1,377,000 relating to losses carried forward. This has not been recognised due to uncertainty that sufficient taxable profits will be generated in future in that company in order to utilise the tax losses.

19 Provisions for other liabilities and charges

Group

	Warranty cost
	£'000
1 January 2015	5,405
Utilised in the year	(5,405)
Additional provision made in the year	5,153
1 January 2016	**5,153**
Utilised in the year	(5,153)
Additional provision made in the year	3,175
31 December 2016	**3,175**

Historical warranty spend data is collated across all models and used to estimate future warranty spend based on boats sold and the balance of warranty period remaining. The warranty provision is reviewed and aligned per this analysis.

Notes to the Consolidated Financial Statements (continued)

20 Retirement benefit obligations

Defined benefit scheme

Princess Yachts International plc, a wholly owned subsidiary within the group, operates a defined benefit pension scheme which was closed to new entrants and accrual of pensionable service ceased on 31 May 2003. The scheme's funding is valued triennially by an independent qualified actuary using the accrued benefits method. At the last full valuation on 6 April 2016, the value of the scheme's assets (which are held separately from those of the group) was £82,700,000 which was sufficient to cover 90% of the benefits accrued at that date.

During the year ended 31 December 2016, contributions of £1,440,000 (2015: £1,440,000) were made towards meeting the funding requirement. Contributions of £1,440,000 are expected to be made in 2017. The following information is based on the 6 April 2016 actuarial valuation rolled forward to 31 December 2016 by a qualified independent actuary.

The principal assumptions used by the actuary were:

Principal assumptions	**2016**	2015
Rate of increase in pay – uncapped members	**2.7%**	3.9%
Rate of increase in pay – capped members	**2.7%**	3.9%
Rate of increase in pension payment	**3.5%**	3.1%
Discount rate	**2.8%**	3.7%
Inflation	**3.7%**	3.1%
Commutation factor	**100%**	100%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. At 31 December 2016 the assumed life expectations on retirement, at age 65 for current pensioners, were 21.3 years for men (2015: 21.6 years) and 23.4 years for women (2015: 23.6 years).

Assets and expected rates of return

The expected return on assets is based on the long term future expected investment return of each asset class. The return on gilts is assumed to be the yield on the FTSE Actuaries 15 year gilt index and the return on corporate bonds is assumed to be the yield on the iBoxx Corporate AA 15+ index. The return on equities is assumed to be 3.5% p.a. margin above gilt yields. The overall expected rate of return for the year commencing 1 January 2017 is 2.8%.

Notes to the Consolidated Financial Statements (continued)

20 Retirement benefit obligations (continued)

	Bid value at 31 December 2016 £'000	Bid value at 31 December 2015 £'000
Equities	**44,585**	21,360
Bonds	**38,936**	55,058
Cash	**11,633**	1,013
Market value of assets	**95,154**	77,431
Present value of scheme liabilities (funded)	**(110,034)**	(87,324)
Scheme liability	**(14,880)**	(9,892)

There is no current service cost in either year.

Analysis of amount credited to Finance income/(charged to Finance costs):	**2016 £'000**	2015 £'000
Expected return on assets	**2,846**	2,480
Interest on liabilities	**(3,186)**	(2,999)
Other finance expense	**(340)**	(519)

Analysis of amounts recognised in Statement of Comprehensive Income:		
Actual return less expected return on assets	**15,905**	2,204
Experience adjustments arising on liabilities	**(21,993)**	2,796
Actuarial (loss) / gain in Statement of Comprehensive Income	**(6,088)**	5,000

Actual return on assets		
Expected return on assets	**2,846**	2,480
Actuarial gain / (loss) on assets	**15,905**	2,204
	18,751	4,684

Notes to the Consolidated Financial Statements (continued)

20 Retirement benefit obligations (continued)

Reconciliation of fair value of scheme assets	**2016 £'000**	2015 £'000
Assets at 1 January	**77,431**	73,071
Expected return on assets	**2,846**	2,480
Actuarial gain	**15,905**	2,204
Employer contributions	**1,440**	1,440
Benefits paid (net of transfers in)	**(2,468)**	(1,764)
Assets at 31 December	**95,154**	77,431

Reconciliation of present value of scheme liabilities		
Liabilities at 1 January	**(87,324)**	(88,885)
Interest cost	**(3,186)**	(2,999)
Actuarial gain	**(21,993)**	2,796
Benefits paid (net of transfers in)	**2,468**	1,764
Liabilities at 31 December	**(110,035)**	(87,324)

The scheme assets are stated at bid value. The weighted average duration of the liabilities valued at 31 December 2016 is 18.0 years (2015: 18.0 years).

The effect of changes to the principal actuarial assumptions on the value of the funded defined benefit obligations disclosed is summarised below:

Change to assumption	**Approximate effect of liabilities**
Discount rate increased by 1%	(£16,950,000)
Discount rate decreased by 1%	£22,027,000
RPI and associated assumptions increased by 1%	£16,138,000
RPI and associated assumptions decreased by 1%	(£12,446,000)

History of experience gains and losses	**2016 £'000**	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Defined benefit obligation	**(110,035)**	(87,323)	(88,885)	(75,550)	(69,909)
Plan assets	**95,154**	77,431	73,071	70,881	64,756
Deficit	**(14,880)**	(9,892)	(15,814)	(4,669)	(5,153)
Experience adjustments on plan liabilities	**-**	1,461	217	479	19
Experience adjustments on plan assets	**15,905**	2,204	(1,086)	3,856	3,646

Notes to the Consolidated Financial Statements (continued)

20 Retirement benefit obligations (continued)

Defined contribution schemes

The group also operates defined contribution pension schemes. Pension contributions in respect of these schemes were £764,000 (2015: £1,372,000). There were no contributions outstanding or prepaid at 31 December 2016 (2015: £nil).

21 Called up share capital

Group and company	2016 £'000	2015 £'000
Authorised, allotted, issued and fully paid		
3,000,000 / (2015: 3,000,000) A ordinary shares of £0.01 each	**30**	30
1,000,000 / (2015: 1,000,000) B ordinary shares of £0.01 each	**10**	10
At 31 December	**40**	40

The value of the shares allotted on the acquisition of The Renwick Group plc was £4.0m, reflecting a premium of £0.99 per share. Lloyds Bank has a charge over 150,000 of the B ordinary shares relating to loan agreements entered into during 2008.

22 Reserves

Group	Share premium account £'000	Retained earnings / (acc'd losses) £'000	Total £'000
1 January 2015	4,105	2,963	7,068
Loss for the year	-	(23,862)	(23,862)
Actuarial gain on pension scheme	-	5,000	5,000
1 January 2016	**4,105**	**(15,899)**	**(11,794)**
Loss for the year	-	(18,437)	(18,437)
Actuarial gain on pension scheme (net of tax)	-	(5,053)	(5,053)
31 December 2016	**4,105**	**(39,389)**	**(35,284)**

Company	Share premium account £'000	Retained earnings £'000	Total £'000
1 January 2016	4,105	(49,198)	(45,093)
Loss for the year	-	(9,827)	(9,827)
Excess payment for group relief	-	258	258
31 December 2016	**4,105**	**(58,767)**	**(54,662)**

Notes to the Consolidated Financial Statements (continued)

23 Cash generated from operations - Group

Group	2016 £'000	2015 £'000
Loss before income tax	**(19,819)**	(26,311)
Fair value movement on investments	**(33)**	(20)
Depreciation of property, plant and equipment	**2,578**	2,640
Amortisation of development costs	**6,105**	6,302
Grant amortisation	**(51)**	(51)
Movement on warranty provision	**(1,979)**	(252)
Interest receivable	**(27)**	(1)
Interest payable	**9,823**	5,333
Profit on disposal of property, plant and equipment	-	(38)
Decrease in inventory	**10,528**	34,262
Decrease / (Increase) in trade and other receivables	**2,952**	(5,957)
(Decrease) / Increase in trade payables	**(11,521)**	4,164
Increase / (Decrease) in other payables	**31,863**	(3,563)
Pension contributions	**(1,440)**	(1,440)
Net cash generated from operating activities	**28,979**	15,068

24 Reconciliation of movement in net debt - Group

	Net debt at 1 January 2016 £'000	Cash flow £'000	Non-cash flow £'000	Net debt at 31 December 2016 £'000
Cash	2,287	28,762	-	**31,049**
Bank overdraft	(1,883)	1,883	-	-
Net cash movement	404	30,645	-	**31,049**
Bank loan	(30,078)	-	(1,329)	**(31,407)**
Shareholders' advances and other loans	(62,880)	(8,961)	(1,915)	**(73,756)**
Preference shares	(94,256)	-	(5,403)	**(99,659)**
Borrowing	(187,214)	(8,961)	(8,647)	**(204,822)**
Net debt	(186,810)	21,684	(8,647)	**(173,773)**

Non-cash flow includes (£325,000) (2015: £136,000) amortised loan costs, £3,569,000 (2015: (£413,000)) other loan interest and £5,403,000 (2015: £5,097,000) accrued dividend on the preference shares.

Notes to the Consolidated Financial Statements (continued)

25 Cash generated from operations - Company

Group	**2016 £'000**	2015 £'000
Loss before income tax	**(9,999)**	(2,148)
Interest payable	**9,823**	5,333
Increase / (Decrease) in other payables	**(8,433)**	3,039
Net cash generated from operating activities	**(8,609)**	6,224

26 Reconciliation of movement in net debt - Company

	Net debt at 1 January 2016 £'000	**Cash flow £'000**	**Non-cash flow £'000**	**Net debt at 31 December 2016 £'000**
Cash	100	(81)	-	**19**
Bank loan	(30,078)	-	(1,329)	**(31,407)**
Shareholders' advances and other loans	(62,880)	(8,961)	(1,915)	**(73,756)**
Preference shares	(94,256)	-	(5,403)	**(99,659)**
Borrowing	(187,214)	(8,961)	(8,647)	**(204,822)**
Net debt	(187,114)	(9,042)	(8,647)	**(204,803)**

27 Operating lease commitments

The group had lease commitments in respect of non-cancellable operating leases on plant and machinery. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 £'000	2015 £'000
Within one year	**10**	18
In more than five years	**17**	16
	27	34

Notes to the Consolidated Financial Statements (continued)

28 Related party transactions

The company had the following transactions with related parties in 2016 and 2015:

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. There were no transactions with related parties that are not members of the group during the year. During the year the company made no loans to key management personnel.

As detailed in note 16, 62,100,000 cumulative preference shares of £0.01 each are held by RNO Group S.C.A.. During the year, accrued dividends of £5,404,000 (2015: £5,097,000) were added to the carrying value of the preference shares. In addition £2,637,000 (2015: £1,116,000) of interest, on advances of £73,756,000 made by RNO Group S.C.A. was charged to the income statement in the year.

29 Ultimate controlling party

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

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