

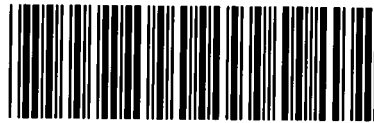
Registered number: 07630662

Reece Group Limited

Annual report

31 December 2017

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Reece Group Limited

Company Information

Directors
AD Reece
JP Reece
G Cook (appointed 10 April 2018)
RD Lamb (appointed 1 June 2018)
C Friday (appointed 10 April 2018)

Registered number 07630662

Registered office
Armstrong Works
Scotswood Road
Newcastle upon Tyne
Tyne & Wear
NE15 6UX

Independent auditor
UNW LLP
Chartered Accountants
Citygate
St. James' Boulevard
Newcastle upon Tyne
NE1 4JE

Bankers
HSBC
Floor 3, Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3AZ

Reece Group Limited

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Reece Group Limited

Group strategic report Year ended 31 December 2017

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 company'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:

	2017 £000		2016 £000
Turnover	47,787		42,075
Gross profit	18,047	38%	14,793 35%
Net loss after taxation	(433)		(3,953)
Turnover per employee	106		91
Net assets	136,158		137,776
Number of employees	449		462

Responsive Engineering had some success with its diversification strategy into new market sectors. Many of its new sectors have offered project opportunities that are well matched to the company's core capability. The company's exposure to the volatility of the Oil and Gas market has been diluted significantly during the year with some of the newer markets recovering much of the gap the collapsing Oil and Gas market had created. There was an exceptional impairment charge in 2017 in relation to plant and machinery assets acquired with the Armstrong Works property.

Pearson Engineering had another successful year, with a steady run of profitable work. Integration of its new mine clearance equipment division, MineWolf, is now complete. The first machine build contracts are under execution for international customers. There continues to be strong interest in its defence sub-contract services business stream and it is well positioned to support a range of active planned UK defence programmes.

Velocity closed its US subsidiary business during the year and is now pursuing a new business model with local partners in the US. Velocity has seen significant growth in 2018 in terms of revenue and profitability of its core UK road repair operations.

Reece Innovation has made significant progress to date with both products and customers. The company has had success with its change in strategy to that of a more streamlined organisation providing design engineering solutions and R&D services to a range of customers, as well as focusing on the commercialisation of internally developed products.

The medium and long term future outlook for the group remains strong with good growth prospects in both new and existing markets.

The group's financial position also remains strong with £136m of net assets.

Reece Group Limited

Group strategic report (continued) Year ended 31 December 2017

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 and includes traditional business areas as well as emerging technologies. The total expenditure charged in the consolidated profit and loss accounts during the year was in excess of £1m (2016: £1.5m).

STEM and charitable activities

The group is a strong supporter of STEM initiatives promoting engineering as a career. The Board of Directors is also proud to support the wider projects of Reece Foundation, a charitable Trust created in 2007 which aims to support the improvement of education in relation to STEM, as well as the promotion of 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 funded a number of local charity projects; to date over £778k 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 movements in exchange rates 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.

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 working capital requirements. 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.

Reece Group Limited

Group strategic report (continued) Year ended 31 December 2017

Principal risks and uncertainties (continued)

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.

Risks arising from "Brexit"

The group is monitoring developments in the Brexit process closely, although the lack of certainty makes contingency planning difficult. Tenders and new business contracts seek to protect the group from potential negative changes in trading legislation, for business both within and outside the EU. The main risks and uncertainties relate to impact of tariffs on competitiveness, increases in price and delays in supply chain and loss of existing free trade agreements

This report was approved by the board on 27 September 2018 and signed on its behalf by:



JP Reece
Director

Reece Group Limited

Directors' report Year ended 31 December 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Results and dividends

The loss for the year, after taxation and non-controlling interests, amounted to £277,000 (2016 - £3,888,000).

Details of interim dividends paid in the year are given in note 27 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)
AD Reece
JP Reece
SJ Gulliford (appointed 9 January 2017, resigned 10 April 2018)
G Cook (appointed 10 April 2018)
RD Lamb (appointed 1 June 2018)
C Priday (appointed 10 April 2018)

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 2017

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 27 September 2018 and signed on its behalf by:



JP Reece
Director

Reece Group Limited

Directors' responsibilities statement Year ended 31 December 2017

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 or the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, disclose with reasonable accuracy at any time the financial position of the company and the group, and to 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

Opinion

We have audited the financial statements' of Reece Group Limited ('the parent company') and its subsidiaries (together, 'the group') for the year ended 31 December 2017, which comprise the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated statement of cash flows, the consolidated and company statements of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements':

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements' in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements' is not appropriate; or
- the directors have not disclosed in the financial statements' any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements' are authorised for issue.



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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements' and our auditor's report thereon. Our opinion on the financial statements' does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements', our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements' or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements' or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 the financial statements'; and
- the group strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and 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.

We have nothing to report in respect of the following matters in relation to which 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.



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

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements' that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements', the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements' as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements'.

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

Use of our report

This report is made solely to the 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.

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

27 September 2018

Reece Group Limited

Consolidated profit and loss account Year ended 31 December 2017

	Note	2017 £000	2016 £000
Turnover	5	47,787	42,075
Cost of sales		(29,740)	(27,282)
Gross profit		18,047	14,793
Distribution costs		(2,034)	(2,028)
Administrative expenses		(20,087)	(21,789)
Exceptional administrative expenses	7	(1,231)	-
Other operating income	6	680	559
Operating loss	7	(4,625)	(8,465)
Income from current asset investments	23	674	560
Change in fair value of current asset investments	23	1,970	3,161
Change in fair value of investment properties	15	1,268	-
Interest receivable and similar income		351	397
Interest payable and similar charges	11	(25)	(20)
Loss on ordinary activities before taxation		(387)	(4,367)
Tax on loss on ordinary activities	12	(46)	414
Loss for the financial year		(433)	(3,953)
Loss for the year attributable to:			
Non-controlling interests		(156)	(65)
Owners of the parent company		(277)	(3,888)
		(433)	(3,953)

The notes on pages 18 to 44 form part of these financial statements.

Reece Group Limited

Consolidated statement of comprehensive income Year ended 31 December 2017

	2017 £000	2016 £000
Loss for the financial year	(433)	(3,953)
Other comprehensive income		
Currency translation differences	(185)	357
Other comprehensive income for the year	(185)	357
Total comprehensive income for the year	(618)	(3,596)
Total comprehensive income attributable to:		
Non-controlling interests	(156)	(65)
Owners of the parent company	(462)	(3,531)
	(618)	(3,596)

The notes on pages 18 to 44 form part of these financial statements.

Reece Group Limited

Consolidated balance sheet At 31 December 2017

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	13	5,238	6,237
Tangible assets	14	20,373	25,183
Investment property	15	8,264	4,894
		<u>33,875</u>	<u>36,314</u>
Current assets			
Stocks	17	5,855	5,809
Debtors	18	12,629	14,267
Current asset investments	19	39,719	57,443
Cash at bank and in hand		53,545	34,841
		<u>111,748</u>	<u>112,360</u>
Creditors: amounts falling due within one year	20	(7,545)	(7,966)
Net current assets		<u>104,203</u>	<u>104,394</u>
Total assets less current liabilities		<u>138,078</u>	<u>140,708</u>
Creditors: amounts falling due after more than one year	21	(1,667)	(1,997)
Provisions for liabilities	25	(253)	(935)
Net assets		<u><u>136,158</u></u>	<u><u>137,776</u></u>
Capital and reserves			
Called up share capital	26	-	-
Fair value reserve - investment property	26	1,112	-
Profit and loss account	26	135,133	137,707
Equity attributable to owners of the parent company		<u>136,245</u>	<u>137,707</u>
Non-controlling interests		(87)	69
Total equity		<u><u>136,158</u></u>	<u><u>137,776</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 September 2018.


JP Reece
Director

Reece Group Limited

Company balance sheet At 31 December 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	14	12	101
Investments	16	17,460	17,460
		<u>17,472</u>	<u>17,561</u>
Current assets			
Debtors	18	72,942	75,044
Cash at bank and in hand		83	137
		<u>73,025</u>	<u>75,181</u>
Creditors: amounts falling due within one year	20	(91)	(126)
Net current assets		<u>72,934</u>	<u>75,055</u>
Creditors: amounts falling due after more than one year	21	(1,633)	(1,933)
Net assets		<u><u>88,773</u></u>	<u><u>90,683</u></u>
Capital and reserves			
Called up share capital	26	-	-
Profit and loss account	26	88,773	90,683
Total equity		<u><u>88,773</u></u>	<u><u>90,683</u></u>

The company has taken advantage of the exemption allowed under section 408 of the Companies Act and has not presented its own statement of comprehensive income in these financial statements. The loss after tax and total comprehensive income of the parent company in the year was £910,000 (2016 - profit and total comprehensive income of £14,359,000).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 September 2018.



JP Reece
Director

Company registered number: 07630662

The notes on pages 18 to 44 form part of these financial statements.

Reece Group Limited

Consolidated statement of changes in equity Year ended 31 December 2017

	Called up share capital £000	Investment property revaluation reserve £000	Profit and loss account £000	Equity attributable to owners of parent company £000	Non- controlling interests £000	Total equity £000
At 1 January 2016	-	-	144,238	144,238	-	144,238
Loss for the year	-	-	(3,888)	(3,888)	(65)	(3,953)
Currency translation differences	-	-	357	357	-	357
Dividends	-	-	(3,000)	(3,000)	-	(3,000)
Non-controlling interest arising on acquisition of subsidiary	-	-	-	-	134	134
At 1 January 2017	-	-	137,707	137,707	69	137,776
Loss for the year	-	-	(277)	(277)	(156)	(433)
Currency translation differences	-	-	(185)	(185)	-	(185)
Dividends	-	-	(1,000)	(1,000)	-	(1,000)
Transfer between reserves	-	1,112	(1,112)	-	-	-
At 31 December 2017	-	1,112	135,133	136,245	(87)	136,158

The notes on pages 18 to 44 form part of these financial statements.

Reece Group Limited

Company statement of changes in equity Year ended 31 December 2017

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2016	-	79,324	79,324
Profit for the year	-	14,359	14,359
Dividends	-	(3,000)	(3,000)
	<hr/>	<hr/>	<hr/>
At 1 January 2017	-	90,683	90,683
Loss for the year	-	(910)	(910)
Dividends	-	(1,000)	(1,000)
	<hr/>	<hr/>	<hr/>
At 31 December 2017	-	88,773	88,773

The notes on pages 18 to 44 form part of these financial statements.

Reece Group Limited

Consolidated statement of cash flows Year ended 31 December 2017

	2017 £000	2016 £000
Cash flows from operating activities		
Loss for the financial year	(433)	(3,953)
Adjustments for:		
Credit for taxation	46	(414)
Interest payable	25	20
Interest and dividends receivable	(1,025)	(957)
Fair value movements	(3,238)	(3,161)
Depreciation, amortisation and impairments	4,460	4,454
Profit on disposal of tangible assets	(72)	(9)
Foreign exchange movements	-	12
(Increase)/decrease in stocks	(46)	1,346
Decrease in debtors	1,592	325
Decrease in creditors	(557)	(880)
Decrease in provisions	(682)	(653)
Corporation tax repaid	220	875
Net cash generated from operating activities	290	(2,995)
Cash flows from investing activities		
Purchase of intangible fixed assets	(49)	(300)
Purchase of tangible fixed assets	(1,054)	(908)
Sale of tangible fixed assets	231	126
Purchase of investment properties	-	(4,894)
Purchase of short term listed investments	(9,830)	(14,166)
Sale of short term listed investments	9,561	6,206
Fixed term cash deposits	19,963	(25,000)
Acquisition of subsidiary undertaking, net of cash acquired with subsidiary	-	(27)
Interest and dividends received	1,025	957
Net cash from investing activities	19,847	(38,006)
Cash flows from financing activities		
New secured loans	50	-
Repayment of other loans	(300)	(750)
Repayment of finance leases	(158)	(316)
Dividends paid	(1,000)	(3,000)
Interest paid	(25)	(20)
Net cash used in financing activities	(1,433)	(4,086)

Reece Group Limited

Consolidated statement of cash flows (continued) Year ended 31 December 2017

	2017 £000	2016 £000
Net increase / (decrease) in cash and cash equivalents	18,704	(45,087)
Cash and cash equivalents at beginning of year	34,841	79,928
Cash and cash equivalents at the end of year	53,545	34,841
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	53,545	34,841

The notes on pages 18 to 44 form part of these financial statements.

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

1. General information

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

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

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 key management personnel remuneration disclosures, certain financial instruments disclosures, and the presentation of a cash-flow statement. The equivalent disclosures, on a consolidated basis, are included in the consolidated (group) financial statements.

Reece Group Limited

Notes to the financial statements **Year ended 31 December 2017**

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 2017

3. Accounting policies (continued)

3.3 Revenue

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 2017

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
Computer software	-	33% 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 less estimated residual value of fixed assets 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.

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

3. Accounting policies (continued)

3.6 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

3.7 Investment property

Investment property is carried at fair value determined annually based either on a professional valuation of the property, or 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 charged on investment property. Changes in fair value are recognised in the profit and loss account.

3.8 Fixed asset investments

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

3.9 Stocks

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

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

3.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments which bear insignificant risk of change in value and have original maturities of three months or less, and bank overdrafts. 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.

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

3. Accounting policies (continued)

3.11 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.

3.12 Leasing

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

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

3. Accounting policies (continued)

3.13 Provisions for liabilities

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

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

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

3.14 Employee benefits

Short-term benefits

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

Defined contribution pension plan

The group makes contributions to defined benefit pension plans for its employees. Contributions are recognised as an expense when they fall due. Amounts due but not yet paid are included within creditors on the balance sheet. The assets of the plans are held separately from the group in independently administered funds.

3.15 Research and development

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

3.16 Foreign currency translation

The company's functional currency is the pound sterling.

Transactions and balances

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

Translation

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

3.17 Exceptional items

Certain one-off charges or credits that have a material impact on the financial results are classified as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the entity.

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

3. Accounting policies (continued)

3.18 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.

3.19 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 2017

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

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 16 and 19 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 16 for the carrying amount of investments in subsidiaries and note 18 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 details of movements and the carrying amount in respect 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 17 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 18 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 25 for details of provisions held by the group.

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

5. Turnover

Analysis of turnover by type:

	2017 £000	2016 £000
Sale of goods	39,978	35,845
Provision of services	7,809	6,230
	<u>47,787</u>	<u>42,075</u>

Analysis of turnover by geography:

	2017 £000	2016 £000
United Kingdom	27,283	22,313
Rest of Europe	1,947	1,330
Rest of the world	18,557	18,432
	<u>47,787</u>	<u>42,075</u>

6. Other operating income

	2017 £000	2016 £000
Rental income	680	510
Government grant income	-	49
	<u>680</u>	<u>559</u>

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

7. Operating loss

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

	2017 £000	2016 £000
Research and development charged as an expense	1,088	1,784
Depreciation of tangible fixed assets	2,352	2,294
Amortisation of intangible assets	1,048	1,039
Impairment of goodwill (included in administrative expenses)	-	1,121
Stock charged as an expense	22,329	23,117
Operating lease charges	517	678
Exchange differences	(112)	82

Exceptional administrative expenses of £1,230,927 in 2018 comprise impairments to tangible fixed assets of £1,060,391 (see note 14) and redundancy costs of £170,536.

8. Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the company's auditor for the audit of these financial statements	12	12
Fees payable to the company's auditor in respect of:		
- The audit of the company's subsidiaries	59	59
- Tax compliance services	36	49
- Corporate finance services	4	-
	99	108

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

9. Staff costs

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

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Wages and salaries	16,121	16,123	287	513
Social security costs	1,740	1,701	60	66
Employer contributions to defined contribution pension schemes	474	384	16	28
	18,335	18,208	363	607

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

	2017 No.	2016 No.
Production staff	217	258
Administrative staff	182	151
Management staff	17	17
Apprentices	33	36
	449	462

The average number of employees in the company, including the directors, during the year was 7 (2016 - 8).

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

10. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	164	410
Employer contributions to defined contribution pension schemes	3	10
Amounts paid to third parties in respect of directors' services	10	-
Compensation for loss of office	298	-
	<u>475</u>	<u>420</u>

During the year retirement benefits were accruing to 1 director (2016 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £197,000 (2016 - £181,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £nil (2016 - £10,000).

11. Interest payable and similar charges

	2017 £000	2016 £000
Bank interest payable	17	4
Finance leases and hire purchase contracts	6	16
Other interest payable	2	-
	<u>25</u>	<u>20</u>

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

12. Taxation

	2017 £000	2016 £000
Current tax		
Adjustments in respect of previous periods	(71)	(338)
Total current tax	<u>(71)</u>	<u>(338)</u>
Deferred tax		
Origination and reversal of timing differences	66	38
Adjustment in respect of previous periods	(6)	(125)
Changes to tax rates	57	11
Total deferred tax	<u>117</u>	<u>(76)</u>
Tax on loss on ordinary activities	<u>46</u>	<u>(414)</u>

Reconciliation of tax charge

The tax assessed for the year is higher than (2016 - higher than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £000	2016 £000
Loss on ordinary activities before taxation	<u>(387)</u>	<u>(4,367)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	(74)	(873)
Effects of:		
Expenses not deductible for tax purposes	221	610
Income not taxable	(96)	(86)
Benefit of R&D and Patent Box enhanced deduction	(225)	(125)
Property valuation gain not taxable	(68)	-
Adjustments in respect of prior periods - current tax	(71)	(338)
Adjustments in respect of prior periods - deferred tax	(6)	(125)
Changes in tax rates	57	11
Movements in unrecognised deferred tax	332	519
Benefit of indexation	(24)	(7)
Total tax charge for the year	<u>46</u>	<u>(414)</u>

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

12. Taxation (continued)

Factors that may affect future current and total tax charges

At the balance sheet date, the group had unutilised trading losses of approximately £17,279,000 (2016 - £15,017,000) available to carry forward against future taxable profits. There exists an unrecognised deferred tax asset of approximately £2,833,000 (2016 - £1,914,000) 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% (2016 - 17%), that are expected to apply when the asset is recovered.

13. Intangible assets

Group

	Intellectual property £000	Computer software £000	Goodwill £000	Total £000
Cost				
At 1 January 2017	314	-	20,108	20,422
Additions	-	49	-	49
At 31 December 2017	314	49	20,108	20,471
Amortisation				
At 1 January 2017	43	-	14,142	14,185
Charge for the year	30	10	1,008	1,048
At 31 December 2017	73	10	15,150	15,233
Net book value				
At 31 December 2017	241	39	4,958	5,238
At 31 December 2016	271	-	5,966	6,237

Company

The company had no intangible assets at the balance sheet date (2016 - none).

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

14. Tangible fixed assets

Group

	Freehold property £000	Leasehold property £000	Plant and machinery £000	Motor vehicles £000	Other £000	Total £000
Cost						
At 1 January 2017	2,155	16,431	12,962	385	4,439	36,372
Additions	-	4	685	231	134	1,054
Disposals	-	-	(347)	(318)	(1,174)	(1,839)
Transfer to investment property	-	(2,236)	-	-	-	(2,236)
Translation adjustments	(187)	-	(48)	-	(14)	(249)
At 31 December 2017	1,968	14,199	13,252	298	3,385	33,102
Depreciation						
At 1 January 2017	276	1,715	5,919	184	3,095	11,189
Charge for the year	49	338	1,359	93	513	2,352
Disposals	-	-	(324)	(183)	(1,173)	(1,680)
Transfer to investment property	-	(134)	-	-	-	(134)
Impairment charge	-	-	1,060	-	-	1,060
Translation adjustments	(26)	-	(19)	-	(13)	(58)
At 31 December 2017	299	1,919	7,995	94	2,422	12,729
Net book value						
At 31 December 2017	1,669	12,280	5,257	204	963	20,373
At 31 December 2016	1,879	14,716	7,043	201	1,344	25,183

The valuation of certain assets was reviewed during the year, having regard for anticipated future utilisation levels. As a consequence an impairment charge of £1,060,391 has been recognised against plant and machinery to reduce the carrying value of the specific assets down to their estimated value in use.

Leasehold property includes long leasehold property with a net book value of £12,092,000 (2016 - £14,520,000) and improvements to properties rented under operating leases with a net book value of £188,000 (2016 - £196,000).

The net book value of plant and machinery held under finance leases or hire purchase contracts, included above, is £201,000 (2016 - £937,000).

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

14. Tangible fixed assets (continued)

Company

	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost					
At 1 January 2017	12	144	9	39	204
Additions	-	-	-	1	1
Disposals	-	(144)	-	-	(144)
At 31 December 2017	12	-	9	40	61
Depreciation					
At 1 January 2017	3	64	4	32	103
Charge for the year on owned assets	2	11	2	6	21
Disposals	-	(75)	-	-	(75)
At 31 December 2017	5	-	6	38	49
Net book value					
At 31 December 2017	7	-	3	2	12
At 31 December 2016	9	80	5	7	101

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

15. Investment property

Group

	Freehold investment property £000	Long term leasehold investment property £000	Total £000
Valuation			
At 1 January 2017	4,894	-	4,894
Fair value changes	-	1,268	1,268
Transfer from tangible fixed assets	-	2,102	2,102
At 31 December 2017	4,894	3,370	8,264

The leasehold investment property was transferred from fixed assets during the year and subsequently revalued. Freehold investment property held by the company was acquired during the prior year and the directors do not consider there to have been any significant changes in its fair value to the balance sheet date. The 2017 leasehold valuation was made by BNP Paribas, on an open market value for existing use basis.

16. Fixed asset investments

Group

	Unlisted investments £000
Cost	
At 1 January 2017 and 31 December 2017	10
Impairment	
At 1 January 2017 and 31 December 2017	10
At 31 December 2017	-
At 31 December 2016	-

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

16. Fixed asset investments (continued)

Company

	Investments in subsidiary companies £000	Unlisted investments £000	Total £000
Cost			
At 1 January 2017 and 31 December 2017	37,552	10	37,562
Impairment			
At 1 January 2017 and 31 December 2017	20,092	10	20,102
Net book value			
At 31 December 2017	17,460	-	17,460
At 31 December 2016	17,460	-	17,460

A full list of the company's subsidiary undertakings, all of whose results and position are included within the consolidated financial statements, is given in note 32.

17. Stocks

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Raw materials	1,388	1,503	-	-
Work in progress	4,467	4,306	-	-
	5,855	5,809	-	-

The group stock balances are stated after provisions for impairment of £108,000 (2016 - £92,000).

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

18. Debtors

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Due after more than one year				
Amounts owed by group undertakings	-	-	11,503	10,182
Due within one year				
Trade debtors	10,684	10,490	1	8
Amounts owed by group undertakings	-	-	61,357	64,785
Amounts owed by joint ventures and associated undertakings	93	-	-	-
Other debtors	413	1,960	21	17
Prepayments and accrued income	1,335	1,596	37	29
Deferred tax asset (note 24)	104	221	23	23
	12,629	14,267	72,942	75,044

Group trade debtors are stated after provisions for impairment of £38,000 (2016 - £85,000).

19. Current asset investments

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Listed investments (note 23)	34,682	32,443	-	-
Fixed term cash deposits (note 23)	5,037	25,000	-	-
	39,719	57,443	-	-

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

20. Creditors: amounts falling due within one year

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Bank loans	50	-	-	-
Payments received on account	1,184	761	-	-
Trade creditors	2,837	3,376	45	55
Amounts owed to group undertakings	-	-	16	11
Other taxation and social security	1,165	941	5	16
Net obligations under finance lease and hire purchase contracts (note 22)	87	215	-	-
Other creditors	80	259	21	3
Accruals and deferred income	2,142	2,414	4	41
	7,545	7,966	91	126

Secured Loan

The bank loan is secured by fixed and floating charges over the assets of a subsidiary company.

21. Creditors: amounts falling due after more than one year

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Other loans	1,633	1,933	1,633	1,933
Net obligations under finance leases and hire purchase contracts (note 22)	34	64	-	-
	1,667	1,997	1,633	1,933

22. Finance leases and hire purchase contracts

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

	Group 2017 £000	Group 2016 £000
Payments due:		
Within one year	96	237
After one year and before five years	37	68
Less: finance charges allocated to future periods	(12)	(26)
Carrying amount of liability	121	279

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

23. Financial instruments

The group has the following financial instruments:

	Group 2017 £000	Group 2016 £000
Financial assets		
Financial assets measured at fair value through profit or loss	34,682	32,443
Financial assets that are debt instruments measured at amortised cost	11,190	12,450
Cash and fixed-term deposits	58,582	59,841
	<u>104,454</u>	<u>104,734</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>6,742</u>	<u>7,982</u>

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 £674,000 (2016 - £560,000) and the net gain from changes in fair value was £1,970,000 (2016 - £3,161,000).

Financial assets measured at amortised cost comprise trade and other debtors, including amounts owed by joint ventures (see note 18).

Fixed term cash deposits of £5,037,000 (2016 - £25,000,000) are included in current asset investments (see note 19). They had a maturity at inception of 4 to 6 months (2016 - 4 to 12 months) and a weighted average interest rate of 0.7% (2016 - 1.04%).

Financial liabilities measured at amortised cost comprise bank loans, trade creditors, other creditors and accruals (see notes 20 and 21).

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

24. Deferred taxation

Group

	2017 £000	2016 £000
At beginning of year	221	145
(Charge)/credit to the profit and loss account in the year	(117)	76
At end of year	104	221

Company

	2017 £000	2016 £000
At beginning of year	23	-
Credit to the profit and loss account in the year	-	23
At end of year	23	23

The deferred tax asset is made up as follows:

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Fixed assets timing differences	(134)	(150)	-	24
Losses carried forward	782	714	23	-
Short term timing differences	(544)	(343)	-	(1)
	104	221	23	23

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

25. Provisions

Group

	Warranties £000	Onerous leases £000	Total £000
At 1 January 2017	157	777	934
Charged to profit or loss	45	-	45
Released unused	(104)	-	(104)
Utilised in year	(15)	(607)	(622)
At 31 December 2017	83	170	253

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 releases of provisions are dealt with in the profit and loss account.

Company

There were no provisions in the company (2016 - none).

26. Share capital and reserves

	2017 £	2016 £
Shares classified as equity		
Allotted, called up and fully paid		
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
	100	100

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

26. Share capital and reserves (continued)

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.

Fair value gains on investment property recognised in the profit and loss account, together with any associated deferred tax, are transferred from the profit and loss reserve to an investment property fair value reserve, as the gains are not distributable until they are realised on disposal of the property.

27. Dividends

	2017 £000	2016 £000
Dividends paid on equity share capital	1,000	3,000

28. 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 £3,047,000 (2016 - £886,000).

29. Commitments under operating leases

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

	Group 2017 £000	Group 2016 £000
Payments due:		
Within one year	137	517
After one and before five years	241	162
After five years	134	172
Total	512	851

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

Reece Group Limited

Notes to the financial statements Year ended 31 December 2017

30. Related party transactions

Group

The cost to the group for remuneration of key management personnel during the year was £770,625 (2016 - £890,000). This includes the directors' remuneration disclosed at note 10.

Company

Intercompany debtors include a loan due from Continuous Retorts Limited, a 75% subsidiary, of £347,000 (2016 - £257,000).

Other than the transactions disclosed above and in note 10, the company's other related party transactions were with wholly owned subsidiaries and so have not been disclosed.

31. 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 2017

32. 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.