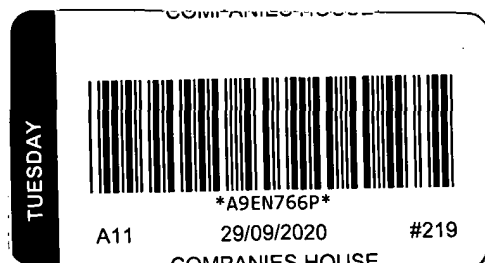


**REECE GROUP LIMITED**  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2019



# **Reece Group Limited**

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# Reece Group Limited

## Company Information

<b>Directors</b>	A D Reece J P Reece C A Johnstone R D Lamb C Priday A J Wilkinson
<b>Registered office</b>	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX
<b>Bankers</b>	HSBC Bank plc Floor 3 Central Square South Orchard Street Newcastle upon Tyne NE1 3AZ
<b>Auditor</b>	MHA Tait Walker Chartered Accountants & Statutory Auditor Bulman House Regent Centre Gosforth Newcastle upon Tyne NE3 3LS

# Reece Group Limited

## Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

The strategic report set out below reflects the directors view of the business in May 2020 - the full implications of COVID-19 are still unclear and any forward statements are made in that context. The group businesses all continued to operate through the period March to May 2020 and trading has been largely unaffected from an output perspective in our largest businesses, Pearson Engineering and Responsive Engineering. Given the strength of the Group balance sheet and robust underlying businesses, at this time, the directors believe that we are well positioned to weather the impact to the global economy from COVID-19.

### Introduction

Reece Group Limited is a privately-owned business and the holding company for a number of innovative engineering businesses, based in the North East, primarily operating in the defence markets.

The Group's strategy is the ownership of and developing a range of innovative engineering companies that operate globally, based firmly in engineering and operating from a world class manufacturing facility. In delivering this strategy, and growing the businesses, 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 for the group's portfolio of innovative and award winning engineering companies to work together and collaborate but also gives the group and its companies the capacity and scope for significant future growth in a climate conducive to innovation and creativity.

### Fair review of the business

The groups key financial and other performance indicators during the year were as follows:

	Unit	2019	2018
Turnover	£	64,587	43,494
Gross profit	£	27,251	14,419
EBITDA pre exceptional costs	£	8,117	(2,700)
Exceptional costs	£	(487)	(4,312)
EBITDA	£	7,630	(7,012)
Net assets	£	119,904	123,620
Number of employees	#	408	400

## **Reece Group Limited**

### **Strategic Report for the Year Ended 31 December 2019 (continued)**

The group's financial position remains strong with £120m of net assets including £38m of cash.

Pearson Engineering had a successful year, increasing turnover to £41m (2018: £20.9m) and profits to £10.5m (2018: £0.9m), driven by repeat orders and long-term projects reaching the series production phase. The company is engaged in contracts and opportunities globally and interest in its products remain very strong. The forward outlook is positive both for contracts under execution and further orders expected in 2020 and, to date, COVID-19 has had limited impact on the business prospects.

Responsive Engineering had a challenging year in 2019, sustaining a trading loss of £2.2m (2018: £4.2m). However, following a strategic review, the company has refocused on its core markets, primarily Defence. During the final quarter of 2019, the business completed a significant operational restructure, including the closure of its Port of Blyth manufacturing operation, consolidating manufacturing operations into Armstrong Works in Newcastle and the reduction of overheads by 30%.

The Group remains strongly committed to supporting Responsive in its strategy development and is confident in its ability to return to profitability, particularly as the Defence market outlook is very strong and the business continues to focus on further cost saving programs, including strategic capital investments in robotics and raw material sourcing initiatives. To date, COVID-19 has had limited impact on the business prospects.

Velocity saw significant growth in 2018 and maintained this level of operations through 2019, achieving its largest machine order to date which was manufactured at Armstrong Works. The prospects for the business are good, following government commitment to increase funds available for pot-hole repair announced in November 2019. Whilst the business has been impacted by COVID-19 in March and April 2020, demand has started to increase again entering into the Summer period.

Reece Innovation made progress in 2019 with both products and customers and continued its renewed focus on providing design engineering solutions and R&D services to a range of customers, as well as on the commercialisation of internally developed products. The group continues to review the strategic direction of the business.

The medium and long term future outlook for the Group remains strong with good growth prospects.

#### **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 in research and development. The R&D programme is active and growing and includes traditional business areas as well as emerging technologies. The total internal R&D expenditure charged in the consolidated income statement during the year was in excess of £1.6m (2018: £1.6m).

# Reece Group Limited

## Strategic Report for the Year Ended 31 December 2019 (continued)

### S172 Statement

The Board consider, both individually and collectively, that they have acted in a way that they consider, in good faith, would be most likely to promote the success of the company and Group for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s.172 (a-f) of the Companies Act 2006) in the decisions taken during the year ended 31st December 2019.

Material decisions taken in the year include approval of the subsidiary budgets and strategies, including but not limited to the 5 year Pearson strategy (including approval of key R&D programmes) and the turnaround strategy for Responsive Engineering (including closure of the Port of Blyth site and overhead restructure). In addition, the Board approved capital expenditure investment for both Responsive Engineering and Velocity and took the decision at the beginning of 2019 to no longer financially support Continuous Retorts which led to a sale of its trade and assets to a 3rd party, avoiding closure.

Collaboration with group companies has also been a priority, particularly for Pearson Engineering and Responsive Engineering who have focussed on continuing to develop relationships and combining to jointly bid for major defence manufacturing projects.

Our growth strategy is designed to have a long term beneficial impact on all of our stakeholders: it is customer focused and also provides security and development opportunities for our employees, effective management of our supply chain and enables us to deliver shareholder value whilst contributing and supporting our North East industry and communities.

In approving the decisions to close the Responsive Engineering Port of Blyth site (trading as Rapid Manufacturing Services) and the sale of the Continuous Retorts business, the Board recognised the potential impact of this decision on the business employees, customers and supply chain and took steps to mitigate the impact on those stakeholders.

### Engagement with employees

Our employees are our greatest asset and our success relies on the application of their knowledge and skills. We aim to be a responsible employer in our approach to pay and benefits, and the health, safety and well-being of our employees is always a primary consideration.

We communicate with employees through a variety of channels including meetings, emails and our regular group newsletter The Works.

The company is committed to the development of employee consultation and thereby to the greater involvement of employees in the company's operations and future strategy. Consultation is achieved on both a formal and an informal basis through work committees, briefing sessions and discussions with groups of employees.

### Engagement with suppliers, customers and other relationships

Meeting the needs of customers now and developing our offering so that we can continue to meet their needs into the future, requires a closeness to, and engagement with, customers. Customer requirements are always taken into consideration during new product development, with customer needs driving the design and development of products.

We expect our suppliers to operate ethically, taking due consideration for the safety and well-being of their workers while minimising their environmental impacts. By working closely with and setting high standards for our suppliers, we reduce operating and reputational risk and promote the long-term success of the group.

# **Reece Group Limited**

## **Strategic Report for the Year Ended 31 December 2019 (continued)**

### **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 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 £918k has been donated to good causes.

### **Principal risks and uncertainties**

The principal risks and uncertainties facing the company and how they might affect its performance, position or future prospects are set out below:

#### **COVID-19**

The safety of our staff is our key priority and we have adapted our working practices – a significant number of staff have been able to work from home and we have made considerable adjustments to meet social distancing guidelines where working from home is not possible. We have a regular and ongoing dialogue with our staff to support them through this unprecedented period. To date, trading in our largest subsidiaries has been largely unaffected by COVID-19 from an output perspective, other than some delays from our supply chain. The company continues to closely monitor developments and adapt its contingency plans. The company has a strong balance sheet and robust underlying business and, in the Board's view, is well positioned to weather the impact to the global economy from COVID-19.

#### **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 may seek to mitigate their default risk by requesting cash deposits as security. To manage this situation, group companies ring fence 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.

## Reece Group Limited

### Strategic Report for the Year Ended 31 December 2019 (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.

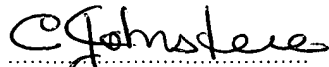
#### Interest rate risk

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 supply chain prices, delays in the supply chain and loss of existing free trade agreements.

Approved by the Board on 21/7/20 and signed on its behalf by:



C A Johnstone  
Director



# **Reece Group Limited**

## **Directors' Report for the Year Ended 31 December 2019**

The directors present their report and the consolidated financial statements for the year ended 31 December 2019.

### **Directors of the group**

The directors who held office during the year were as follows:

A D Reece  
J P Reece  
C A Johnstone (appointed 7 January 2019)  
R D Lamb  
C Priday  
A J Wilkinson  
G Cook (resigned 5 April 2019)

### **Financial instruments**

#### ***Objectives and policies***

The group finances its activities using its cash and short term deposits. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the groups operating activities. The group also enters into derivative transactions, principally forward currency contracts. The purpose is to manage currency risks arising from the groups operations and its sources of finance.

#### ***Price risk, credit risk, liquidity risk and cash flow risk***

See disclosures in the Strategic Report in respect of the financial risk management of the group.

### **Future developments**

See disclosures within the Strategic Report regarding future developments of the group.

As coronavirus continues to spread and more information comes to light about the nature of the virus and its impact, the board will adhere to government guidance and will review the needs of all of our stakeholders.

### **Research and development**

See disclosures within the Strategic Report regarding research and development of the group.

### **Going concern**

The group meets its day to day working capital requirements through cash generated from operations and return on investments.

The group's forecasts and projections for the next twelve months show that the group should be able to continue in operational existence for that period, taking into account possible changes in trading performance.

In the directors assessment of possible changes they have considered the impact of the COVID-19 virus on the business and have a business continuity plan in place should the global economic impact widen.

Having considered the current cash forecasts of the group the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing these financial statements. The group therefore continues to adopt the going concern basis in preparing its financial statements.

## Reece Group Limited

### Directors' Report for the Year Ended 31 December 2019 (continued)

#### Important non adjusting events after the financial period

Following a commercial negotiation process post year end, a gain of £1.6m on a property disposal has been realised in Reece Property Limited. The value at the year end represents the directors assessment of the market value as at 31 December 2019 based on a continuing use basis as valued by an external valuation on 1 March 2019.

Following the global impact of COVID-19, the equity and bond investments have suffered a material decrease to the value as at 31 December 2019. As at 30 April 2020, the carrying value of the investment portfolio was £34,908,000 this represents a net loss of £1,371,000 since the balance sheet date.

#### Disclosure of information to the auditor

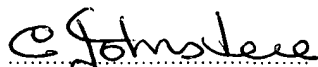
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

#### Reappointment of auditors

During the year MHA Tait Walker were appointed as auditors replacing UNW LLP.

The auditor MHA Tait Walker are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 21/7/20 and signed on its behalf by:



C A Johnstone  
Director

## **Reece Group Limited**

### **Statement of Directors' Responsibilities**

The directors acknowledge their responsibilities for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 parent company 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 apply them consistently;
- make judgements 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

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

# Reece Group Limited

## 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 (the 'group') for the year ended 31 December 2019, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Statement of Financial Position, Consolidated Statement of Changes in Equity, Statement of Changes in Equity, Consolidated Statement of Cash Flows, and Notes to the Financial Statements, 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 the parent company's affairs as at 31 December 2019 and of the group's profit 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 UK, including the FRC'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.

### 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.

## **Reece Group Limited**

### **Independent Auditor's Report to the Members of Reece Group Limited (continued)**

We have nothing to report in this regard.

#### **Opinion on other matter 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and 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 our 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 Strategic Report and the Directors' Report.*

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

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

#### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities [set out on page 9], 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Reece Group Limited

### Independent Auditor's Report to the Members of Reece Group Limited (continued)

#### 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.

*MHA Tait Walker*

Brian Laidlaw BA CA (Senior Statutory Auditor)  
For and on behalf of MHA Tait Walker  
Chartered Accountants  
Statutory Auditor  
Bulman House  
Regent Centre  
Gosforth  
Newcastle upon Tyne  
NE3 3LS

Date: *3rd July 2020*

MHA Tait Walker is a trading name of Tait Walker LLP.

## Reece Group Limited

### Consolidated Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Turnover	3	64,587	43,494
Cost of sales		<u>(37,336)</u>	<u>(29,075)</u>
Gross profit		27,251	14,419
Distribution costs		(1,850)	(1,775)
Administrative expenses		(20,283)	(19,251)
Exceptional expenses	5	(487)	(4,312)
Other operating income	4	<u>972</u>	<u>809</u>
Operating profit/(loss)	5	5,603	(10,110)
Change in fair value of current asset investments		3,396	(2,647)
Change in fair value of investment properties		-	(656)
Other interest receivable and similar income	6	1,088	1,094
Interest payable and similar expenses	7	<u>(17)</u>	<u>(20)</u>
Profit/(loss) before tax		10,070	(12,339)
Taxation	11	<u>(246)</u>	<u>917</u>
Profit/(loss) for the financial year		<u>9,824</u>	<u>(11,422)</u>
<b>Profit/(loss) attributable to:</b>			
Owners of the company		9,908	(11,369)
Non controlling interests		<u>(84)</u>	<u>(53)</u>
		<u>9,824</u>	<u>(11,422)</u>

The notes on pages 20 to 51 form an integral part of these financial statements.

## Reece Group Limited

### Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019

	2019 £ 000	2018 £ 000
Profit/(loss) for the year	9,824	(11,422)
Unrealised gain/(loss) on cash flow hedges	744	(275)
Foreign currency translation gains/(losses)	(170)	159
	<u>574</u>	<u>(116)</u>
Total comprehensive income for the year	<u>10,398</u>	<u>(11,538)</u>
<b>Total comprehensive income attributable to:</b>		
Owners of the company	10,482	(11,485)
Non controlling interests	(84)	(53)
	<u>10,398</u>	<u>(11,538)</u>

The notes on pages 20 to 51 form an integral part of these financial statements.



# Reece Group Limited

(Registration number: 07630662)

## Consolidated Statement of Financial Position as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
<b>Fixed assets</b>			
Intangible assets	12	225	270
Tangible assets	13	15,043	17,633
Investment property	14	9,664	9,664
		<u>24,932</u>	<u>27,567</u>
<b>Current assets</b>			
Stocks	17	8,001	8,310
Debtors	18	15,426	14,788
Investments	19	41,404	37,554
Other financial assets	16	565	-
Cash at bank and in hand		<u>38,434</u>	<u>44,721</u>
		103,830	105,373
<b>Creditors: Amounts falling due within one year</b>	20	<u>(7,958)</u>	<u>(7,758)</u>
<b>Net current assets</b>		<u>95,872</u>	<u>97,615</u>
<b>Total assets less current liabilities</b>		120,804	125,182
<b>Creditors: Amounts falling due after more than one year</b>	20	(248)	(1,451)
<b>Provisions for liabilities</b>	22	<u>(652)</u>	<u>(111)</u>
<b>Net assets</b>		<u>119,904</u>	<u>123,620</u>
<b>Capital and reserves</b>			
Called up share capital	24	-	-
Fair value reserve - investment properties	25	612	598
Cash flow hedge reserve	25	469	(275)
Profit and loss account	25	<u>119,047</u>	<u>123,437</u>
Equity attributable to owners of the company		120,128	123,760
Non controlling interests		<u>(224)</u>	<u>(140)</u>
<b>Total equity</b>		<u>119,904</u>	<u>123,620</u>

Approved and authorised by the Board on 21/7/20 and signed on its behalf by:



R D Lamb  
Director

The notes on pages 20 to 51 form an integral part of these financial statements.

# Reece Group Limited

(Registration number: 07630662)

## Statement of Financial Position as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
<b>Fixed assets</b>			
Tangible assets	13	13	10
Investments	15	10,252	10,252
		<u>10,265</u>	<u>10,262</u>
<b>Current assets</b>			
Debtors	18	47,210	60,290
Cash at bank and in hand		3,911	7,991
		<u>51,121</u>	<u>68,281</u>
<b>Creditors: Amounts falling due within one year</b>	20	<u>(81)</u>	<u>(575)</u>
<b>Net current assets</b>		<u>51,040</u>	<u>67,706</u>
<b>Total assets less current liabilities</b>		61,305	77,968
<b>Creditors: Amounts falling due after more than one year</b>	20	<u>-</u>	<u>(1,363)</u>
<b>Net assets</b>		<u>61,305</u>	<u>76,605</u>
<b>Capital and reserves</b>			
Called up share capital		-	-
Profit and loss account		61,305	76,605
<b>Total equity</b>		<u>61,305</u>	<u>76,605</u>

The company made a loss after tax for the financial year of £1,183,532 (2018 - loss of £11,167,998).

Approved and authorised by the Board on 21/7/20 and signed on its behalf by:



R D Lamb  
Director

The notes on pages 20 to 51 form an integral part of these financial statements.

## Reece Group Limited

### Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019 Equity attributable to the parent company

	Share capital £ 000	Fair value reserve - investment properties £ 000	Cash flow hedge reserve £ 000	Profit and loss account £ 000	Total £ 000	Non- controlling interests £ 000	Total equity £ 000
At 1 January 2018	-	1,112	-	135,133	136,245	(87)	136,158
Loss for the year	-	-	-	(11,369)	(11,369)	(53)	(11,422)
Other comprehensive income	-	-	(275)	159	(116)	-	(116)
Total comprehensive income	-	-	(275)	(11,210)	(11,485)	(53)	(11,538)
Dividends	-	-	-	(1,000)	(1,000)	-	(1,000)
Transfers	-	(514)	-	514	-	-	-
At 31 December 2018	-	598	(275)	123,437	123,760	(140)	123,620

	Share capital £ 000	Fair value reserve - investment properties £ 000	Cash flow hedge reserve £ 000	Profit and loss account £ 000	Total £ 000	Non- controlling interests £ 000	Total equity £ 000
At 1 January 2019	-	598	(275)	123,437	123,760	(140)	123,620
Profit/(loss) for the year	-	-	-	9,908	9,908	(84)	9,824
Other comprehensive income	-	-	744	(170)	574	-	574
Total comprehensive income	-	-	744	9,738	10,482	(84)	10,398
Dividends	-	-	-	(14,116)	(14,116)	-	(14,116)
Transfers	-	14	-	(14)	-	-	-
At 31 December 2019	-	612	469	119,045	120,126	(224)	119,902

The notes on pages 20 to 51 form an integral part of these financial statements.

## Reece Group Limited

### Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2018	-	88,773	88,773
Loss for the year	-	(11,168)	(11,168)
Total comprehensive income	-	(11,168)	(11,168)
Dividends	-	(1,000)	(1,000)
At 31 December 2018	-	76,605	76,605

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2019	-	76,605	76,605
Loss for the year	-	(1,184)	(1,184)
Total comprehensive income	-	(1,184)	(1,184)
Dividends	-	(14,116)	(14,116)
At 31 December 2019	-	61,305	61,305

The notes on pages 20 to 51 form an integral part of these financial statements.

# Reece Group Limited

## Consolidated Statement of Cash Flows for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
<b>Cash flows from operating activities</b>			
Profit/(loss) for the year		9,824	(11,422)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	5	2,025	3,098
Impairments of intangible assets		-	3,950
Impairments of tangible assets		34	-
Changes in fair value of current asset investments		(3,396)	2,647
Changes in fair value of investment property	14	-	656
Profit on disposal of tangible assets		(748)	(45)
Finance income	6	(1,088)	(438)
Finance costs	7	17	20
Income tax expense	11	246	(917)
		<u>6,914</u>	<u>(2,451)</u>
Working capital adjustments			
Decrease/(increase) in stocks	17	309	(2,455)
Increase in debtors	18	(1,523)	(1,257)
Increase/(decrease) in creditors	20	423	(30)
Increase/(decrease) in provisions	22	320	(142)
Cash generated from operations		<u>6,443</u>	<u>(6,335)</u>
Income taxes received	11	<u>781</u>	<u>71</u>
Net cash flow from operating activities		<u>7,224</u>	<u>(6,264)</u>
<b>Cash flows from investing activities</b>			
Interest received		382	(205)
Acquisitions of tangible assets		(933)	(1,209)
Proceeds from sale of tangible assets		2,444	114
Acquisition of intangible assets	12	(9)	(40)
Dividend income		661	643
Acquisition of short term listed investments	15	(12,602)	(9,927)
Proceeds from disposal of short term listed investments		12,194	9,483
Fixed term cash deposits		<u>(48)</u>	<u>(38)</u>
Net cash flows from investing activities		<u>2,089</u>	<u>(1,179)</u>
<b>Cash flows from financing activities</b>			
Interest paid	7	(17)	(20)
Repayment of bank borrowing		-	(50)
Repayment of other borrowing		(1,363)	(270)
Payments to finance lease creditors		(80)	(41)
Dividends paid		<u>(14,116)</u>	<u>(1,000)</u>
Net cash flows from financing activities		<u>(15,576)</u>	<u>(1,381)</u>
Net decrease in cash and cash equivalents		<u>(6,263)</u>	<u>(8,824)</u>
Cash and cash equivalents at 1 January		44,721	53,545
Effect of exchange rate fluctuations on cash held		<u>(24)</u>	<u>-</u>
Cash and cash equivalents at 31 December		<u>38,434</u>	<u>44,721</u>

The notes on pages 20 to 51 form an integral part of these financial statements.

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019

### 1 General information

The company is a private company limited by share capital, incorporated in England & Wales.

The address of its registered office is Armstrong Works, Scotswood Road, Newcastle upon Tyne, NE15 6UX.

### 2 Accounting policies

#### Summary of significant accounting policies and key accounting estimates

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 years presented, unless otherwise stated.

#### Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

#### Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

These financial statements are prepared in sterling which is the functional currency of the entity, and rounded to the nearest £000.

#### Summary of disclosure exemptions

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102:

- (a) No cash flow statement has been presented for the company.
- (b) Disclosures in respect of financial instruments have not been presented.
- (c) No disclosure has been given for the aggregate remuneration of key management personnel.

The parent company has applied the exemption contained in section 408 of the Companies Act 2006 and has not included its individual statement of comprehensive income.

The Company has taken advantage of the exemption available under paragraph 33.1A of FRS 102 and does not disclose related party transactions with members of the same group that are wholly owned.

#### Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2019.

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination.

#### **Non-controlling interests**

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

The proportions of profit or loss and changes in equity allocated to the owners of the parent and to the minority interests are determined on the basis of existing ownership interests and do not reflect the possible exercise or conversion of options or convertible instruments.

# **Reece Group Limited**

## **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

### **2 Accounting policies (continued)**

#### **Going concern**

The group meets its day to day working capital requirements through cash generated from operations and return on investments.

The group's forecasts and projections for the next twelve months show that the group should be able to continue in operational existence for that period, taking into account possible changes in trading performance.

In the directors assessment of possible changes they have considered the impact of the COVID-19 virus on the business and have a business continuity plan in place should the global economic impact widen.

Having considered the current cash forecasts of the group the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing these financial statements. The group therefore continues to adopt the going concern basis in preparing its financial statements.

#### **Judgements**

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

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 nature and duration of a contract and its significance to the activities of the company as a whole.

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.



## Reece Group Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 2 Accounting policies (continued)

##### Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

**Impairment of goodwill** - The directors must consider whether the carrying value of goodwill can be supported. 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. The carrying amount is £Nil (2018 - £3,950,000).

**Useful economic lives of tangible assets** - The annual depreciation charge is sensitive to changes in the estimated useful lives of the assets. The useful economic lives are re-assessed annually. They are amended when necessary to reflect current estimates, future investments and economic utilisation. The carrying amount is £15,042,000 (2018 - £17,633,000).

**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. The carrying amount is £34,000 (2018 - £Nil).

**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. The carrying amount is £431,000 (2018 - £111,000).

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

#### Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the group's activities. Turnover is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the company.

#### 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. Payments received and amounts invoiced to customers in advance of goods being delivered are included in creditors as deferred income, and revenue recognised in advance of invoicing is shown as accrued income, within debtors.

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.

#### 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.

#### Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rate on the date when the fair value is re-measured.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

#### Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable income.

Deferred tax is recognised in respect of all timing differences between taxable profits and profits reported in the consolidated financial statements. Unrelieved tax losses and other deferred tax assets are recognised when 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 reporting date and that are expected to apply to the reversal of the timing difference.

#### Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

#### Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Freehold property	50 years straight line
Long leaseholder property	40 to 50 years straight line
Leasehold improvements	Lease term
Plant and machinery	5 to 10 years straight line
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

#### Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

For impairment testing of goodwill, the goodwill acquired in a business combination is, from the acquisition date, allocated to each cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the company are assigned to those units.

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

#### Investment property

Investment property is carried at fair value, derived from the current market prices for comparable real estate determined annually by external valuers. The valuers use observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. Changes in fair value are recognised in profit or loss.

#### Business combinations

Business combinations are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values at acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquired, plus any costs directly attributable to the business combination. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the group includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

#### Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date. Goodwill is amortised over its useful life, which shall not exceed ten years if a reliable estimate of the useful life cannot be made.

#### Intangible assets

Separately acquired trademarks and licences are shown at historical cost.

Trademarks, licences (including software) and customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Trademarks, licences and customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

#### Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Goodwill	10% straight line
Patents	10% - 20% straight line
Computer software	33% straight line

#### Investments

Investments in equity shares which are publicly traded or where the fair value can be measured reliably are initially measured at fair value, with changes in fair value recognised in profit or loss. Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment. Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

# **Reece Group Limited**

## **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

### **2 Accounting policies (continued)**

#### **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 change in value.

#### **Debtors**

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

#### **Inventories**

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.

#### **Creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the group does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

#### **Provisions**

Provisions are recognised when the group has an obligation at the reporting date as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

# **Reece Group Limited**

## **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

### **2 Accounting policies (continued)**

#### **Leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised at the lower of their fair value at inception of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance costs in the Income Statement and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

#### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

#### **Dividends**

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

#### **Defined contribution pension obligation**

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the group has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

#### **Research and development**

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

#### **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 group.

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

#### Derivative financial instruments and hedging

##### **Derivatives**

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 unless they are part of a hedging arrangement.

##### **Hedging**

The company applies hedge accounting for transactions entered into to manage the cash flow exposure of sales contracts denominated in foreign currencies. Forward currency contracts are held to manage the foreign exchange exposures and are designated as cash flow hedges of highly probable forecast sales transactions.

Changes in the fair values of derivatives designated as cash flow hedges are recognised in other comprehensive income as either a gain or a loss. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since the inception of the hedge over the cumulative change in fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

The gain or loss recognised in other comprehensive income is reclassified to the profit and loss account when the hedge relationship ends. Hedge accounting is discontinued on expiry or termination of the hedging instrument, the hedging instrument no longer meets the hedging criteria or the forecast transaction is no longer highly probable.

### 3 Revenue

The analysis of the group's revenue for the year from continuing operations is as follows:

	2019 £ 000	2018 £ 000
Sale of goods	53,703	31,960
Rendering of services	10,884	11,534
	<u>64,587</u>	<u>43,494</u>

The analysis of the group's turnover for the year by market is as follows:

	2019 £ 000	2018 £ 000
UK	25,076	23,021
Europe	904	1,493
Rest of world	38,607	18,980
	<u>64,587</u>	<u>43,494</u>

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 4 Other operating income

The analysis of the group's other operating income for the year is as follows:

	2019 £ 000	2018 £ 000
Grants	60	-
Miscellaneous other operating income	87	32
Rental income	825	777
	<u>972</u>	<u>809</u>

### 5 Operating profit/(loss)

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Depreciation expense	1,971	2,040
Amortisation expense	54	1,058
Impairment loss	34	-
Research and development cost	1,695	1,634
Foreign exchange (gains)/losses	(187)	207
Operating lease expenses	513	126
Profit on disposal of property, plant and equipment	(748)	(45)
Exceptional expenses	<u>487</u>	<u>4,312</u>

During the year the group incurred exceptional expenses comprising redundancy costs of £466,000 and other one-off net expenses of £21,000.

In 2018 the exceptional expenses comprised of redundancy costs of £362,000 and impairment of goodwill of £3,950,000.

### 6 Other interest receivable and similar income

	2019 £ 000	2018 £ 000
Interest income on investments	16	3
Interest income on bank deposits	316	390
Dividend income	706	643
Other finance income	50	58
	<u>1,088</u>	<u>1,094</u>



# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 7 Interest payable and similar expenses

	2019 £ 000	2018 £ 000
Interest on bank overdrafts and borrowings	5	14
Interest on obligations under finance leases and hire purchase contracts	12	4
Interest expense on other finance liabilities	-	2
	<u>17</u>	<u>20</u>

### 8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	20,180	15,894
Social security costs	2,057	1,648
Pension costs, defined contribution scheme	627	559
	<u>22,864</u>	<u>18,101</u>

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Production	263	209
Administration and support	113	163
Management	13	15
Apprentices	19	13
	<u>408</u>	<u>400</u>

### 9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2019 £ 000	2018 £ 000
Remuneration	729	469
Contributions paid to money purchase schemes	9	24
	<u>738</u>	<u>493</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2019 No.	2018 No.
Accruing benefits under money purchase pension scheme	<u>2</u>	<u>3</u>

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 9 Directors' remuneration (continued)

In respect of the highest paid director:

	2019 £ 000	2018 £ 000
Remuneration	371	172
Company contributions to money purchase pension schemes	-	10

### 10 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of these financial statements	8	11
Audit of the financial statements of subsidiaries of the company pursuant to legislation	68	64
	<u>76</u>	<u>75</u>

#### Other fees to auditors

Taxation compliance services	-	34
All other assurance services	-	17
All other services relating to corporate finance transactions on behalf of the company or any associates	-	9
	<u>-</u>	<u>60</u>

### 11 Taxation

Tax charged/(credited) in the income statement

	2019 £ 000	2018 £ 000
<b>Current taxation</b>		
UK corporation tax	119	(865)
UK corporation tax adjustment to prior periods	(227)	72
	<u>(108)</u>	<u>(793)</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of timing differences	289	(92)
Arising from changes in tax rates and laws	65	(32)
Total deferred taxation	<u>354</u>	<u>(124)</u>
Tax expense/(receipt) in the income statement	<u>246</u>	<u>(917)</u>

## Reece Group Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 11 Taxation (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit/(loss) before tax	10,070	(12,339)
Corporation tax at standard rate	1,914	(2,344)
Decrease from effect of different UK tax rates on some earnings	(63)	(34)
Effect of revenues exempt from taxation	(216)	(107)
Effect of expense not deductible in determining taxable profit (tax loss)	94	991
Effect of tax losses	(516)	-
Deferred tax expense/(credit) relating to changes in tax rates or laws	29	(32)
Deferred tax (credit)/expense from unrecognised tax loss or credit	(817)	1,920
Decrease in UK and foreign current tax from adjustment for prior periods	(163)	(793)
Tax decrease from effect of adjustment in research and development tax credit	-	(489)
Tax increase/(decrease) from effect of indexation allowance on capital gains	13	(29)
Other tax effects for reconciliation between accounting profit and tax expense (income)	(29)	-
Total tax charge/(credit)	246	(917)

At the balance sheet date, the group had unutilised tax losses of approximately £18,598,000,000 (2018 - £27,050,000) available to carry forward against future taxable profits.

There exists an unrecognised deferred tax asset of approximately £2,726,000 (2018 - £4,320,000) in respect of these losses, which the directors have not recognised until such time as their recovery can be expected with reasonable certainty. The unrecognised deferred tax asset has been based on tax rates substantively enacted by the balance sheet date, being 17% (2018 - 17%), that are expected to apply when the asset is recovered.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would not have been material on recognised year end balances. The unrecognised deferred tax asset would have been £3,046,000 if calculated at 19%.

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 11 Taxation (continued)

#### Deferred tax

#### Group

Deferred tax assets and liabilities

	Liability £ 000
<b>2019</b>	
Fixed assets timing differences	157
Short-term timing differences	501
Tax losses carried forward	(436)
	<u>222</u>
	<u>222</u>
	<b>Asset £ 000</b>
<b>2018</b>	
Fixed assets timing differences	30
Short-term timing differences	38
Tax losses carried forward	216
	<u>284</u>
	<u>284</u>
<b>Tax relating to items recognised in other comprehensive income or equity - group</b>	
	<b>2019                      2018</b>
	<b>£ 000                      £ 000</b>
Deferred tax related to items recognised as items of other comprehensive income	<u>(152)                      56</u>

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 12 Intangible assets

#### Group

	Goodwill £ 000	Trademarks, patents and licenses £ 000	Computer software £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 January 2019	20,108	314	89	20,511
Additions acquired separately	-	9	-	9
Disposals	-	(6)	-	(6)
At 31 December 2019	<u>20,108</u>	<u>317</u>	<u>89</u>	<u>20,514</u>
<b>Amortisation</b>				
At 1 January 2019	20,108	103	30	20,241
Amortisation charge	-	32	22	54
Amortisation eliminated on disposals	-	(6)	-	(6)
At 31 December 2019	<u>20,108</u>	<u>129</u>	<u>52</u>	<u>20,289</u>
<b>Carrying amount</b>				
At 31 December 2019	<u>-</u>	<u>188</u>	<u>37</u>	<u>225</u>
At 31 December 2018	<u>-</u>	<u>211</u>	<u>59</u>	<u>270</u>

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 13 Tangible assets

#### Group

	Freehold land and buildings £ 000	Long leasehold land and buildings £ 000	Fixtures and fittings £ 000	Plant and machinery £ 000	Motor vehicles £ 000	Total £ 000
<b>Cost or valuation</b>						
At 1 January 2019	2,083	11,422	3,501	13,968	259	31,233
Additions	-	-	151	962	48	1,161
Disposals	(2,027)	-	(310)	(164)	(59)	(2,560)
Foreign exchange movements	(56)	-	(4)	(13)	-	(73)
At 31 December 2019	-	11,422	3,338	14,753	248	29,761
<b>Depreciation</b>						
At 1 January 2019	369	1,490	2,877	8,763	101	13,600
Charge for the year	-	226	366	1,331	48	1,971
Eliminated on disposal	(359)	-	(310)	(164)	(31)	(864)
Impairment	-	-	33	-	-	33
Foreign exchange movements	(10)	-	(4)	(8)	-	(22)
At 31 December 2019	-	1,716	2,962	9,922	118	14,718
<b>Carrying amount</b>						
At 31 December 2019	-	9,706	376	4,831	130	15,043
At 31 December 2018	1,714	9,932	624	5,205	158	17,633

#### Assets held under finance leases and hire purchase contracts

The net carrying amount of tangible assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2019 £ 000	2018 £ 000
Plant and machinery	424	156

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 13 Tangible assets (continued)

#### Company

	Fixtures and fittings £ 000	Plant and machinery £ 000	Office equipment £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 January 2019	9	12	44	65
Additions	-	-	11	11
At 31 December 2019	9	12	55	76
<b>Depreciation</b>				
At 1 January 2019	8	7	40	55
Charge for the year	1	3	4	8
At 31 December 2019	9	10	44	63
<b>Carrying amount</b>				
At 31 December 2019	-	2	11	13
At 31 December 2018	1	5	4	10

### 14 Investment properties

#### Group

	<b>2019</b>
	<b>£ 000</b>
At 1 January 2019 and 31 December 2019	<u>9,664</u>

The investment properties comprise of £4,894,000 of freehold property and £4,770,000 long leasehold properties.

The directors do not consider there to have been any significant change in the fair value over the year.

In the prior year results an external valuation was obtained in relation to one of the properties. The valuation was made by BNP Paribas, on an open market for existing use basis. This resulted in a fair value decrease of £656,000. This property has subsequently been sold in April 2020.

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 15 Investments

#### Company

	2019 £ 000	2018 £ 000
Investments in subsidiaries	<u>10,252</u>	<u>10,252</u>

<b>Subsidiaries</b>	<b>£ 000</b>
<b>Cost or valuation</b>	
At 1 January 2019	<u>49,432</u>
At 31 December 2019	<u>49,432</u>
<b>Provision</b>	
At 1 January 2019	<u>39,180</u>
At 31 December 2019	<u>39,180</u>
<b>Carrying amount</b>	
At 31 December 2019	<u>10,252</u>
At 31 December 2018	<u>10,252</u>

#### Details of undertakings

Details of the investments (including principal place of business of unincorporated entities) in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			2019	2018
<b>Subsidiary undertakings</b>				
Pearson Engineering Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Pearson Engineering Inc	87 Amlajack Way Newnan GA 30265 USA		100%	100%
Pearson Engineering Estates LLP	87 Amlajack Way Newnan GA 30265 USA		100%	100%



## Reece Group Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 15 Investments (continued)

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			100%	100%
Responsive Engineering (Holdings) Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary		
Responsive Engineering Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Rapid Manufacturing Services Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Velocity Works Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Velocity UK Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Velocity Road Solutions Inc	87 Amlajack Way Newnan GA 30265 USA		100%	100%
Velocity Patching Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Velocity Transport Solutions Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Pipe Coil Technology Limited	4th Floor Cathedral Buildings Dean Street Newcastle Upon Tyne NE1 1PG England & Wales	Ordinary	100%	100%

## Reece Group Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 15 Investments (continued)

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			100%	100%
Reece Treasury Management Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary		
Reece Property Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Reece Innovation Centre Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Jayauto Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Exact Machining (Holdings) Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Exact Machining UK Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Pressex UK Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Continuous Retorts Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	75%	75%

## Reece Group Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 15 Investments (continued)

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
Omnium Sensing Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%
Tellus Utilities Limited	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX England & Wales	Ordinary	100%	100%

#### Subsidiary undertakings

- Pearson Engineering Limited - Combat engineering equipment
- Pearson Engineering Inc - Combat engineering equipment
- Pearson Real Estates LLP - Property
- Responsive Engineering (Holdings) Limited - Intermediate holding company
- Responsive Engineering Limited - Sub-contract manufacturing services
- Rapid Manufacturing Services Limited - Sub-contract manufacturing services
- Velocity Works Limited - Intermediate holding company
- Velocity UK Limited - Road repair services
- Velocity Road Solutions Inc - Road repair services
- Velocity Patching Limited - Dormant
- Velocity Transport Solutions Limited - Vehicle and driver hire services
- Pipe Coil Technology Limited - Non-trading
- Reece Treasury Management Limited - Group treasury function
- Reece Property Limited - Group property function
- Reece Innovation Centre Limited - Research and development
- Jayauto Limited - Dormant
- Exact Machining (Holdings) - Dormant
- Exact Machining UK Limited - Dormant
- Pressex UK Limited - Dormant
- Continuous Retorts Limited - Dormant
- Omnium Sensing Limited - Dormant
- Tellus Utilities Limited - Dormant

All subsidiaries are held directly, except for Pearson Engineering Inc and Pearson Real Estates LLP which are the subsidiaries of Pearson Engineering Limited. Responsive Engineering Limited which is the subsidiary of Responsive Engineering (Holdings) Limited. Rapid Manufacturing Services Limited, Exact Machining (Holdings) Limited and Pressex UK Ltd which are the subsidiaries of Responsive Engineering Limited. Exact Machining UK Limited which is the subsidiary of Exact Machining (Holdings) Limited. Velocity UK Limited which is the subsidiary of Velocity Works Limited. Velocity Patching Limited, Velocity Road Solutions Inc and Velocity Transport Solutions which are the subsidiaries of Velocity UK Limited.

Pearson Real Estate LLP, Jayauto Limited, Exact Machining (Holdings) Limited, Exact Machining UK Limited and Pressex UK Limited have all been dissolved since the year end.

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 16 Other financial assets

#### Group

	Unlisted investments £ 000
<b>Non-current financial assets</b>	
<b>Cost or valuation</b>	
At 1 January 2019	10
At 31 December 2019	10
<b>Impairment</b>	
At 1 January 2019	10
At 31 December 2019	10
<b>Carrying amount</b>	
At 31 December 2019	-
At 31 December 2018	-

The group has an indirect investment in a 50% Joint Venture, Velocity Global Limited. Velocity Global Limited is incorporated in the UK. The group also has an indirect 20% in Green Patcher Colombia SAS. This company is incorporated in Colombia.

Both of these investments are considered to be immaterial and not significant to the group and therefore have not been equity accounted in line with FRS 102.

	Derivatives used for hedging £ 000
<b>Current financial assets</b>	
<b>Cost or valuation</b>	
Fair value adjustments	565
At 31 December 2019	565
<b>Impairment</b>	
<b>Carrying amount</b>	
At 31 December 2019	565

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 16 Other financial assets (continued)

#### Company

	Financial assets at cost less impairment £ 000
<b>Non-current financial assets</b>	
<b>Cost or valuation</b>	
At 1 January 2019	10
At 31 December 2019	10
<b>Impairment</b>	
At 1 January 2019	10
At 31 December 2019	10
<b>Carrying amount</b>	
At 31 December 2019	-
At 31 December 2018	-

### 17 Stocks

	2019 £ 000	Group 2018 £ 000	2019 £ 000	Company 2018 £ 000
Raw materials and consumables	1,748	1,095	-	-
Work in progress	6,239	7,215	-	-
Finished goods and goods for resale	14	-	-	-
	<u>8,001</u>	<u>8,310</u>	<u>-</u>	<u>-</u>

#### Group

#### Impairment of inventories

The amount of impairment loss included in profit or loss is £37,000 (2018 - £64,000).

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 18 Debtors

		2019	Group	2019	Company
	Note	£ 000	2018	£ 000	2018
			£ 000		£ 000
Trade debtors		12,357	9,411	-	-
Amounts owed by related parties	30	90	93	46,990	60,233
Other debtors		570	680	11	23
Prepayments		967	648	26	34
Accrued income		1,200	2,879	-	-
Deferred tax assets	11	-	284	183	-
Corporation tax asset	11	240	793	-	-
		<u>15,424</u>	<u>14,788</u>	<u>47,210</u>	<u>60,290</u>
Less non-current portion		<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,459)</u>
		<u>15,424</u>	<u>14,788</u>	<u>47,210</u>	<u>57,831</u>

### Details of non-current trade and other debtors

#### Company

£Nil (2018 - £2,458,596) of Amounts owed by related parties is classified as non current.

### 19 Current asset investments

	2019	Group	2019	Company
	£ 000	2018	£ 000	2018
		£ 000		£ 000
Listed investments	36,279	32,478	-	-
Fixed term cash deposits	5,125	5,076	-	-
	<u>41,404</u>	<u>37,554</u>	<u>-</u>	<u>-</u>

See note 32 for post balance sheet events relating to the market value of investments post year end.

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 20 Creditors

	Note	2019 £ 000	Group 2018 £ 000	2019 £ 000	Company 2018 £ 000
<b>Due within one year</b>					
Loans and borrowings	21	85	97	-	-
Trade creditors		2,368	4,168	19	60
Amounts due to related parties	30	-	-	8	411
Social security and other taxes		1,254	679	31	7
Other creditors		39	67	3	8
Accruals		3,820	2,052	20	89
Corporation tax liability	11	120	-	-	-
Other current financial liabilities		-	331	-	-
Gross amount due to customers for contract work		272	364	-	-
		<u>7,958</u>	<u>7,758</u>	<u>81</u>	<u>575</u>
<b>Due after one year</b>					
Loans and borrowings	21	<u>248</u>	<u>1,451</u>	<u>-</u>	<u>1,363</u>

### 21 Loans and borrowings

	2019 £ 000	Group 2018 £ 000	2019 £ 000	Company 2018 £ 000
<b>Current loans and borrowings</b>				
Hire Purchase and finance lease liabilities	<u>85</u>	<u>97</u>	<u>-</u>	<u>-</u>
<b>Non-current loans and borrowings</b>				
Hire purchase contracts	248	88	-	-
Other borrowings	<u>-</u>	<u>1,363</u>	<u>-</u>	<u>1,363</u>
	<u>248</u>	<u>1,451</u>	<u>-</u>	<u>1,363</u>

Hire purchase contract liabilities are secured against the assets to which they relate.

## Reece Group Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 22 Provisions for liabilities

##### Group

	Warranties £ 000	Onerous contracts £ 000	Deferred tax £ 000	Total £ 000
At 1 January 2019	111	-	-	111
Additional provisions	-	200	221	421
Increase (decrease) in existing provisions	120	-	-	120
At 31 December 2019	<u>231</u>	<u>200</u>	<u>221</u>	<u>652</u>

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.

The onerous contract provision reflects the remaining value of a lease entered into less any guaranteed income to be received on the property.

#### 23 Pension and other schemes

##### Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £627,536 (2018 - £557,324).

Contributions totalling £6,555 (2018 - £5,422) were payable to the scheme at the end of the year and are included in creditors.



## Reece Group Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 24 Share capital

##### Allotted, called up and fully paid shares

	No.	2019 £	No.	2018 £
Ordinary A shares of £0.10 each	80	8	80	8
Ordinary B shares of £0.10 each	80	8	80	8
Ordinary C shares of £0.10 each	80	8	80	8
Ordinary D shares of £0.10 each	80	8	80	8
Ordinary E shares of £0.10 each	80	8	80	8
Ordinary F shares of £0.10 each	80	8	80	8
Ordinary G shares of £0.10 each	80	8	80	8
Ordinary H shares of £0.10 each	147	15	147	15
Ordinary I shares of £0.10 each	147	15	147	15
Ordinary J shares of £0.10 each	146	15	146	15
	<u>1,000</u>	<u>100</u>	<u>1,000</u>	<u>100</u>

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

Dividends paid on one class of share may differ from those paid on another class of share as the directors decide.

#### 25 Reserves

##### Group

##### Called up share capital

This represents the nominal value of shares that have been issued.

##### Revaluation reserve

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 reserves, as the gains not distributable until they are realised on disposal of the property.

##### Profit and loss account

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 reserves, as the gains not distributable until they are realised on disposal of the property.

##### Cash flow hedge reserve

This reserve records gains and losses arising from the company's hedging arrangements.

## Reece Group Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 26 Obligations under leases and hire purchase contracts

##### Group

##### Finance leases

The total of future minimum lease payments is as follows:

	2019 £ 000	2018 £ 000
Not later than one year	85	97
Later than one year and not later than five years	248	88
	<u>333</u>	<u>185</u>

##### Operating leases

The total of future minimum lease payments is as follows:

	2019 £ 000	2018 £ 000
Not later than one year	177	259
Later than one year and not later than five years	324	415
Later than five years	-	91
	<u>501</u>	<u>765</u>

##### Operating leases - lessor

The total of future minimum lease payments is as follows:

	2019 £ 000	2018 £ 000
Not later than one year	735	578
Later than one year and not later than five years	2,940	2,940
Later than five years	1,414	2,149
	<u>5,089</u>	<u>5,667</u>

#### 27 Dividends

	2019 £ 000	2018 £ 000
Interim dividend of £141,165 (2018 - £10,000) per ordinary share	<u>14,117</u>	<u>1,000</u>

# Reece Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 28 Contingent liabilities

#### Group

From time to time, the group provides bank guarantees to its customers. At the balance sheet date, guarantees were in place amounting to £2,361,000 (2018 - £3,322,000).

### 29 Analysis of changes in net debt

#### Group

	At 1 January 2019 £ 000	Cash flows £ 000	New finance leases £ 000	Foreign exchange movements £ 000	Other non-cash changes £ 000	At 31 December 2019 £ 000
Cash at bank and in hand	44,721	(6,263)	-	(24,000)	-	14,458
Debt due within one year	(97)	-	-	-	12	(85)
Debt due after one year	(1,451)	1,443	(228)	-	(12)	(248)
	<u>43,173</u>	<u>(4,820)</u>	<u>(228)</u>	<u>(24,000)</u>	<u>-</u>	<u>14,125</u>

### 30 Related party transactions

#### Group

#### Key management compensation

	2019 £ 000	2018 £ 000
Salaries and other short term employee benefits	<u>1,008</u>	<u>744</u>

During the year, Pearson Engineering Limited recharged staff costs to Continuous Retorts Limited, a 75% subsidiary of the group, of £23,100 (2018 - £Nil).

During the year, Reece Property Limited charged rent to Benbecula Group, a company which J P Reece is a director and shareholder, of £61,534 (2018 - £12,616) and recharged utility costs of £23,223 (2018 - £Nil). At the balance sheet date the amount due from Benbecula Group was £116,848 (2018 - £15,140).

During the year, Velocity UK Limited made sales to Velocity Global Limited, a company which R D Lamb is a director, of £32,394 (2018 - £Nil). At the balance sheet date the amount due from Velocity Global Limited was £90,458 (2018 - £92,757).

#### Company

Intercompany debtors include amounts owed by Continuous Retorts, a 75% subsidiary of the company, of £250,543 (2018 - £58,689), after a provision of £890,099.

## Reece Group Limited

### Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

#### 31 Financial instruments

##### Group

##### Categorisation of financial instruments

	2019 £ 000	2018 £ 000
Financial assets measured at fair value through profit or loss	36,279	32,478
Financial assets that are debt instruments measured at amortised cost	13,732	10,977
Cash and fixed term deposits	43,559	49,797
Derivative financial instruments measured at fair value through other comprehensive income	565	-
	<u>94,135</u>	<u>93,252</u>
Financial liabilities measured at amortised cost	(5,748)	(6,102)
Loan commitments measured at cost less impairment	(333)	(1,548)
Derivative financial instruments measured at fair value through other comprehensive income	-	(331)
	<u>(6,081)</u>	<u>(7,981)</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 £722,000 (2018 - £646,000) and the net gain from changes in fair value was £3,396,000 (2018 - net loss £2,647,000).

Financial assets measured at amortised cost comprise trade and other debtors, including amounts owed by joint ventures.

Fixed term cash deposits of £5,125,000 (2018 - £5,076,000) are included in current asset investments. They had a maturity at inception of 4 to 6 months (2018 - 4 to 6 months).

Financial liabilities measured at amortised cost comprise bank loans, trade creditors, other creditors and accruals.

Derivative financial instruments measured at fair value through other comprehensive income comprise of forward currency contracts designated as cash flow hedges against future foreign currency receipts. Their fair value at the balance sheet date was determined by obtaining a quoted market price for comparable contracts. A gain of £744,000 (2018 - £331,000 loss) arising from fair value changes has been recognised in other comprehensive income in the year.

#### 32 Parent and ultimate parent undertaking

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

## **Reece Group Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)**

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#### **33 Non adjusting events after the financial period**

Following a commercial negotiation process post year end, a gain of £1.6m on a property disposal has been realised in Reece Property Limited. The value at the year end represents the directors assessment of the market value as at 31 December 2019 based on a continuing use basis as valued by an external valuation on 1 March 2019.

Following the global impact of COVID-19, the equity and bond investments have suffered a material decrease to the value as at 31 December 2019. As at 30 April 2020, the carrying value of the investment portfolio was £34,908,000 this represents a net loss of £1,371,000 since the balance sheet date.