

Hewland Engineering Limited

Report and Financial Statements

Year Ended

30 November 2012

Company Number 00584792

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Hewland Engineering Limited

Report and financial statements for the year ended 30 November 2012

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Directors

W Hewland
S R Deane
M Rooker

Secretary and registered office

S R Deane, Waltham Road, White Waltham, Maidenhead, Berkshire, SL6 3LR

Company number

00584792

Auditors

BDO LLP, Kings Wharf, 20-30 Kings Road, Reading, Berkshire, RG1 3EX

Hewland Engineering Limited

Report of the directors for the year ended 30 November 2012

The directors present their report together with the audited financial statements for the year ended 30 November 2012

Principal activity

The principal activity of the company in the year under review was that of engineering, in particular the manufacture and marketing of gearboxes and their component parts to the motor racing and rallying industry

Review of the business

2012 an overview

2012 marked a year of fundamental change at Hewland. A new start The company is re-invigorated from the challenges of the economic downturn which impacted the motorsport industry over 2009 and 2010, its learnings taken on board New approaches to continuous improvement methodologies New ways of delivering the bespoke solutions we are renowned for But everything built on the heritage that underpins the quality that the late Michael Hewland pioneered from our beginnings in 1957

We have changed our auditors for the first time since 1964. Our entire procurement process is undergoing a fundamental review. We have brought in fresh talent to drive operational change throughout the business. We have restructured the Company to put clients at the heart of everything we do. A renewed commitment to quality. A renewed commitment to our clients, new and old.

The changes have necessitated some hard decisions around our methodologies, our finances and our structure The consequences of these decisions are reflected in our results for the year Crucially, the headline results do not reflect our underlying excellent performance nor have they a cash impact They are merely the consequence of us up-rating and upgrading our approach to managing ourselves on a more commercial and more modern basis They reflect our deliberate decision to invest in leading edge technology to deliver improved, bespoke, high quality solutions for our clients The results are discussed in further detail below

2012 The financials

The company's Sales for the year were £13,052,973, a healthy increase of over 19% on 2011's Sales of £10,963,956

However the company's Cost of Sales was £10,916,680 (2011 - £7,852,649 as restated) giving a Gross Margin of 16.4% (2011 - 28.4%) Cost of Sales and thus Gross Margin have been impacted in 2012 by a number of factors

Firstly, as set out more fully in Note 2 to the Financial Statements, the constituent elements comprising Cost of Sales have been fundamentally revised in 2012 as part of the company's approach to ensuring a more accurate allocation of costs between cost of sales and operating overheads These are reclassification only with no impact on Profit Before Tax or cash but do permit the company's management to better understand the costs properly incurred in the company's production output

Secondly, a more rigorous approach to inventory management and stock-holding has resulted in the charge, for the first time, of provisions for slow and non-moving stock, which reduce the reported result but do not have a cash impact

Thirdly, the company has made a major investment in research & development projects during the year, particularly in relation to its Formula 1 portfolio of products and solutions This has had a major impact on costs, short-term profitability and cash but is a necessary investment to ensure the company remains at the forefront of technological innovation within motorsport

Hewland Engineering Limited

Report of the directors for the year ended 30 November 2012 (*continued*)

Review of the business

2012 The financials (continued)

Finally, the company made a conscious decision to increase its carried stock levels at the year-end in order to meet both the increased order book as well as having the spares and parts needed by clients in the build-up to the start of the motor racing season. This has meant the continued purchase of raw materials, bought in parts and consumables, as well as the incidence of overtime, during the traditionally quiet months of late summer & early Autumn with a consequent impact on Gross Margin, profits and cash balances.

Profit Before Tax fell to a pre-tax loss of £646,076 (2011 - profit £141,609, as restated), although this was entirely due to both the new prudent provisioning approach now adopted by the company and a significant and conscious investment in Research & Development to maintain the company's premier technological position. Underlying Profit Before Tax was £43,175 (2011 - £431,142).

The company's preferred measure of true underlying profitability - normalised EBITDA - was £506,405 (2011 - £969,814 as restated). The drop in underlying EBITDA is the consequence of investment by the company in new talent, technologies and processes as a means of maintaining and enhancing its market-leading brand.

The company also overhauled its internal finance and reporting functions to provide a greater focus on debtor management, robust cash forecasting procedures and profitable sales. As a consequence, the company made major improvements in the year in its underlying financial performance against key metrics. Debtor days outstanding improved by 15% reducing to 43.7 (2011 - 51.4) and its liquidity ratio improved to 1.1 (2011 - 0.3). Creditor days outstanding reduced from almost 150 in 2011 to 87 at the end of 2012, in line with the Company's new approach of securing long-term supplier relationships.

As part of its financial restructuring, the company entered into a sale and leaseback of its land and buildings during the year. This provided an immediate boost to working capital and enabled the investment outlined in this report to be undertaken. As a consequence of the transaction and the other initiatives discussed elsewhere in this report, the company ended the year with a net cash position of £573,112 versus a net debt position of £2,353,369 at the end of 2011.

2012 Our Clients

Key client activity in the year included the company supplying transmission and chassis components to several Formula 1 teams, this is in addition to various development and prototype programmes. The success of continued supply contracts for the DTM touring car, GP3 and GP2 series are coupled with a strong performance in GT and LPM series.

Given the quality of its workmanship and the specialised nature of its capabilities, the company now enjoys an enviable brand presence. The directors believe this places the company in an excellent position to develop further relationships with key clients and race series across the world which in turn will lead to additional diversification opportunities resulting in further improvement in sales and EBITDA.

The company's transmissions and components can be found in nearly every category of motorsport on a truly global stage. This includes supporting activities in countries that are in the early stages of developing their motorsport programmes. This breadth of experience means the company can rapidly develop a solution for any installation that is not only highly competitive in terms of its performance but also its cost. To date, the company has designed more than 200 bespoke transmissions for its clients and is the only company in the world to supply a "system approach" to both the transmission and semi-automatic shift integration.

The company also manufactures a range of standard gearboxes, designed to suit most modern motorsport applications for front and rear wheel drive, plus a range of classic gearboxes.

Hewland Engineering Limited

Report of the directors for the year ended 30 November 2012 (*continued*)

Review of the business (*continued*)

2012 Our Clients (*continued*)

Outside motorsport, the company continues the expansion of its high precision engineered bespoke solutions, with assignments to support scientific research and prototype development for leading OEM companies as well as contracts to supply both aviation and marine sub-assemblies

Further details can be found at the company's website www.hewland.com

Dividends

The total distribution of dividends for the year ended 30 November 2012 was £31,512 payable on 'A' ordinary shares, £70,195 payable on 'B' ordinary shares and £29,694 payable on 'C' ordinary shares. No dividends were paid on the preference shares, which were redeemed during the year

Fixed assets

Details of any changes in tangible fixed assets are set out in the notes to the financial statements

Research and development

At Hewland, we have a dedicated team of nearly 20 designers and production engineers. Each of our engineers is a specialist in the design of motorsport transmissions and they understand what our clients' chassis or powertrain engineers need from the gearbox.

Our R&D-led team regularly get commissioned to consult upon the design elements of innovative and ground-breaking methods and procedures outside the motorsport industry. The Company is then able to offer clients the unique capability of seeing the prototypes manufactured onsite within our specialist facilities to enable a fully operational test model, with designers, production engineers and highly skilled production technicians working as a team to produce a seamless bespoke solution.

Our commitment to environmental sustainability remains an important part of our R&D activities. We remain committed to working with a number of clients, suppliers and research partners, both in the UK and internationally, on a number of innovative R&D projects to further develop green technologies. It is hoped that the results of these projects will leave a lasting impact and assist the evolution of new technologies for motorsport, OEM and special vehicle applications.

Directors

The directors of the company during the year were

M P Hewland	(resigned 18 August 2012)
W Hewland	
S R Deane	
M Rooker	(appointed 25 October 2012)

Political and charitable contributions

During the year under review the company made charitable donations to one local enterprise and to the British Heart Foundation. These donations totalled £100.

Hewland Engineering Limited

Report of the directors for the year ended 30 November 2012 (*continued*)

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

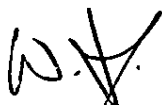
Disclosure of information to auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant information of which the auditors are unaware.

Auditors

BDO LLP were appointed as auditors in the year and have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting in accordance with section 485 of the Companies Act 2006.

On behalf of the Board



W Hewland
Director

Date 14 March 2013

Hewland Engineering Limited

Independent auditor's report

TO THE MEMBERS OF HEWLAND ENGINEERING LIMITED

We have audited the financial statements of Hewland Engineering Limited for the year ended 30 November 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profits and losses, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 November 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Hewland Engineering Limited

Independent auditor's report

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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



*Simon Brooker (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
United Kingdom*

Date *14 March 2013*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Hewland Engineering Limited

Profit and loss account for the year ended 30 November 2012

	Note	2012 £	2011 As restated £
Turnover	3	13,052,973	10,963,956
Cost of sales		(10,916,680)	(7,852,649)
Gross profit		2,136,293	3,111,307
Administrative expenses		(2,562,264)	(2,947,045)
Operating (loss)/profit	7	(425,971)	164,262
Exceptional item			
Net loss on disposal of tangible fixed assets		(132,969)	-
(Loss)/profit on ordinary activities before interest		(558,940)	164,262
Interest receivable and similar income		251	20
Interest payable and similar charges	8	(52,387)	(76,673)
Other finance income	17	-	54,000
Other finance costs	17	(35,000)	-
(Loss)/profit on ordinary activities before taxation		(646,076)	141,609
Tax on (loss)/profit on ordinary activities	9	(382,942)	151,548
(Loss)/profit for the financial year		(1,029,018)	293,157

All amounts relate to continuing activities

The notes on pages 11 to 29 form part of these financial statements

Hewland Engineering Limited

Statement of total recognised gains and losses and note of historical cost profits and losses for the year ended 30 November 2012

	Note	2012 £	2011 As restated £
Statement of total recognised gains and losses			
(Loss)/profit for the financial year		(1,029,018)	293,157
Actuarial loss on defined benefit pension scheme		(480,000)	(1,214,000)
Deferred tax on pension scheme liability			
- origination and reversal of timing differences		(580,000)	-
Total recognised gains and losses for the financial year		(2,089,018)	(920,843)
Prior year adjustments			
Fixed asset adjustment	11	(226,246)	
Net impact of stock adjustments	12	282,953	
Unrecorded PPF liability		(202,528)	
		(145,821)	
Total gains and losses recognised since last financial statements		(2,234,839)	
Note of historical cost profits and losses			
		2012 £	2011 As restated £
Reported (loss)/profit on ordinary activities before taxation		(646,076)	141,609
Realisation of property revaluation gains of previous years		1,086,440	-
Historical cost profit on ordinary activities before taxation		440,364	141,609
Historical cost (loss)/profit for the year retained after taxation and dividends		(73,979)	258,057

The notes on pages 11 to 29 form part of these financial statements

Hewland Engineering Limited

Balance sheet at 30 November 2012

Company number 00584792	Note	2012 £	2012 £	2011 As restated £	2011 As restated £
Fixed assets					
Tangible assets	11		1,527,091		5,722,410
Current assets					
Stocks	12	6,852,998		7,726,789	
Debtors - due within one year	13	2,028,540		1,682,754	
Debtors - due after more than one year	13	-		587,105	
Cash at bank and in hand		573,112		1,004	
		<u>9,454,650</u>		<u>9,997,652</u>	
Creditors: amounts falling due within one year	14	(2,365,140)		(5,384,529)	
Net current assets			7,089,510		4,613,123
Total assets less current liabilities			<u>8,616,601</u>		<u>10,335,533</u>
Creditors: amounts falling due after more than one year	15		-		(500,000)
Provision for liabilities and charges	16		(67,487)		-
Net assets excluding pension liability			<u>8,549,114</u>		<u>9,835,533</u>
Pension liability	17		(3,253,000)		(2,319,000)
Net assets including pension liability			<u>5,296,114</u>		<u>7,516,533</u>
Capital and reserves					
Called up share capital	18		10,100		10,100
Capital redemption reserve	19		500,000		-
Revaluation reserve	19		-		1,086,440
Profit and loss reserve	19		4,786,014		6,419,993
Shareholders' funds	20		<u>5,296,114</u>		<u>7,516,533</u>

The accounts were approved by the Board of Directors and authorised for issue on 14 March 2013

W Hewland
Director

The notes on pages 11 to 29 form part of these financial statements

Hewland Engineering Limited

Cash flow statement for the year ended 30 November 2012

	Note	2012 £	2011 £
Net cash outflow from operating activities	25	148,348	(44,823)
Returns on investments and servicing of financing	26	(52,136)	(76,653)
Taxation	26	(4)	-
Capital expenditure	26	3,660,496	(516,153)
Equity dividends paid		(131,401)	(35,100)
		<u>3,625,303</u>	<u>(672,729)</u>
Financing	26	(698,822)	52,677
		<u>2,926,481</u>	<u>(620,052)</u>
Increase/(decrease) in cash in the period	27,28		

The notes on pages 11 to 29 form part of these financial statements

Hewland Engineering Limited

Notes forming part of the financial statements for the year ended 30 November 2012

1 Accounting policies

The accounts have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and are in accordance with applicable accounting standards

The following principal accounting policies have been applied

Turnover

Turnover represents the amount invoiced in respect of ordinary activities and is stated after trade discounts and net of value added tax

Turnover is recognised when the risks and rewards of owning the goods has passed to the customer which is generally on delivery

Tangible fixed assets

Assets other than land and buildings are measured at depreciated historical cost. Land and buildings are carried in the balance sheet on the basis of existing use value. They are subject to a full valuation every five years with an interim valuation carried out in the third year of this cycle

The aggregate surplus or deficit arising on revaluation is transferred to the revaluation reserve except where a deficit is deemed to represent a permanent diminution in value, in which case it is charged to the profit and loss account

The profit or loss on disposal of revalued properties is calculated by reference to the net book value and any realised revaluation surplus is transferred to the profit and loss account through reserves

Depreciation

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life allowing for its estimated residual value

Freehold land	-	not provided
Buildings	-	1% on cost
Plant and machinery	-	10 - 20% on cost
Fixtures and fittings	-	10% on cost
Motor vehicles	-	20% on reducing balance
Office equipment	-	20% on cost

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised only to the extent that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured on a non-discounted basis at the tax rates that would apply when the timing differences reverse based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date

Research and development

Expenditure on research and development is written off in the year in which it is incurred

Hewland Engineering Limited

Notes forming part of the financial statement for the year ended 30 November 2012 (*continued*)

1 Accounting policies (*continued*)

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs and other post-retirement benefits

The company operates a defined benefit pension scheme for eligible employees which was closed to future accrual on 31 May 2011. The assets are held separately from those of the company. The pension scheme surplus or deficit is recognised in full, the movement being split between finance items and the statement of total recognised gains and losses. From 1 June 2011 contributions to the scheme are paid according to a deficit reduction plan agreed with the Trustees. The overall expected rate of return of the plan assets has been based on the average expected return of each asset class, weighted by the amount of assets in each class. The scheme holds quoted securities which are valued at current bid price.

The company contributes to money purchase pension schemes on behalf of eligible employees including, from 1 June 2011, contributions previously made to the defined benefit scheme. Additional retirement benefits are provided for nominated employees through a money purchase executive benefit scheme. These schemes are administered independently and the assets held separately from the company. The premiums are charged to the profit and loss account.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

2 Prior year adjustments

As part of its fundamental review of its policies and procedures following the change of auditors, the Company has re-assessed the way it reported Cost of Sales in previous years and identified that certain direct costs had not been included in Cost of Sales which, upon review, should have been. Consequently, amounts in respect of such direct costs have been reclassified from Administrative Expenses to Cost of Sales. This process has also led to a reassessment of the approach to stock valuation, which has necessitated a consequential restatement of the prior years' comparative numbers.

Similarly, the Company undertook a review of slow and non-moving stock during the year, in line with the Company's accounting policy - a policy, though, which had not previously been fully adopted or reflected in the audited statutory accounts. As a result of detailed review of stock on a line by line basis, provisions have been booked for the first time in 2012, with a corresponding adjustment to prior years to restate the comparatives on a like-for-like basis.

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (continued)

2 Prior year adjustments (continued)

Further details of the prior year adjustments relating to stock revaluation and stock provisioning are detailed in Note 12

In addition, it was identified that certain historic tangible fixed assets had not been fully written down in prior periods, in line with the accounting estimates disclosed within the Company's Depreciation accounting policy. Details of the resulting prior year adjustment are included in Note 11

Finally, it was identified that the company's liability to the Pension Protection Fund via the annual PPF levy had not been recorded by the company over a period dating back to 2007, and as such cumulative PPF levies amounting to £202,528 have been adjusted to prior years in these financial statements

The scope and scale of the prior year adjustments that have become necessary are shown in Note 19. All comparatives have been restated

3 Turnover

Turnover is attributable to the principal activity of the company. An analysis of turnover by geographical market is given below

	2012 £	2011 £
UK sales	3,925,924	3,792,369
EU sales	6,392,251	1,970,222
RoW sales	2,734,798	5,201,365
	<u>13,052,973</u>	<u>10,963,956</u>

4 Cost of sales

Cost of sales has been stated after charging/(crediting),

	2012 £	2011 As restated £
Reclassification of premises and utilities expenses related to manufacturing activities from Administrative Expenses to Cost of Sales	664,309	464,236
Revaluation of stock (2011 - see Note 12)	-	(78,479)
Stock provision for slow and non-moving stock (2011 - see Note 12)	(487,081)	(343,533)

As explained in more detail in Note 2, following a complete review of the Company's accounting policies and procedures in the light of the appointment of new auditors, the Company booked stock provisions in the current and prior years. These provisions will be reviewed regularly by the Company but the Directors believe that the new, more rigorous approach to the Company's manufacturing methodologies should mean these provisions are one time charges

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (continued)

5 Employees

Staff costs (including directors) consist of

	2012 £	2011 £
Wages and salaries	4,635,536	4,343,318
Social security costs	514,227	439,596
Other pension costs	700,284	413,183
	<u>5,850,047</u>	<u>5,196,097</u>

The average number of employees (including directors) during the year was as follows

	2012 Number	2011 Number
Production	84	79
Design, and Research & Development	8	8
Administration	28	28
	<u>120</u>	<u>115</u>

6 Directors' remuneration

	2012 £	2011 £
Aggregate emoluments	173,419	166,506
Company contributions to money purchase pensions schemes	25,665	30,396
	<u></u>	<u></u>

There were 2 directors in the company's defined benefit pension scheme (2011 - 2) and 2 directors in the company's defined contribution pension scheme (2011 - 2) during the year

7 Operating (loss)/profit

	2012 £	2011 As restated £
This has been arrived at after charging		
Hire of plant and machinery - operating leases	6,302	16,988
Depreciation - owned assets	401,854	462,018
Loss on disposal of fixed assets	132,969	5,344
Auditors' remuneration		
- fees payable for audit services	20,000	17,600
- tax services	6,250	-
- other services	3,350	14,000
PPF levy	150,053	64,086
	<u></u>	<u></u>

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

8 Interest payable and similar charges

	2012 £	2011 £
Bank loans and overdraft	52,387	76,673

9 Taxation on (loss)/profit from ordinary activities

	2012 £	2011 £
<i>Current tax</i>		
UK corporation tax credit/(charge) on (loss)/profit of the year	-	(4)
Adjustment in respect of previous periods	142,605	-
	142,605	(4)
<i>Deferred tax</i>		
Origination and reversal of timing differences	(525,547)	151,552
	(382,942)	151,548

The tax assessed for the year is calculated at a composite rate that is different from the standard rate of corporation tax in the UK. The differences are explained below

	2012 £	2011 As restated £
(Loss)/profit on ordinary activities before tax	(646,076)	141,609
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 24.67% (2011 - 20%)	(159,512)	28,322
Effects of		
Income not taxable for tax purposes	(31,080)	-
Depreciation for year in excess of capital allowances	57,194	(4,235)
Unrelieved tax losses	126,300	52,517
Research and development enhanced deduction	-	(47,800)
Other permanent differences	-	(28,800)
Adjustments in respect of previous periods	(142,605)	-
Other short term timing differences	7,098	-
	(142,605)	4

Unrecognised deferred tax asset

The company has unutilised tax losses of approximately £2.3m (2011 - £1.9m) available for offset against future taxable profit. A deferred tax asset amounting to £460,000 has not been recognised on the basis that its future economic benefit is uncertain. In the prior year, a deferred tax asset of £574,773 was recognised in respect of prior year unutilised losses, as part of the prior year net deferred tax asset position of £458,060 disclosed in Note 13.

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

9 Taxation on (loss)/profit from ordinary activities (*continued*)

Research and development tax credit

As part of the complete overhaul of its internal procedures following the appointment of a new external accountant, during the year the Company undertook a re-assessment of its Research & Development activities. This resulted in a claim for R&D tax credits for the year to 30 November 2010 of £142,605 being submitted to HMRC before the year end. This amount is included as the corporation tax credit for the year and was repaid to the Company by HMRC upon review of the claim in January 2013. Further claims are being prepared in respect of the years to 30 November 2011 and 2012.

10 Dividends

	2012 £	2011 £
'A' ordinary shares of £1 each - interim paid	31,512	-
'B' ordinary shares of £1 each - interim paid	70,195	-
'C' ordinary shares of £1 each - interim paid	29,694	-
'B' ordinary shares of £0.01 each - interim paid	-	35,100
	131,401	35,100

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

11 Tangible fixed assets	Freehold land £	Buildings £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Office equipment £	Total £
<i>Cost or valuation</i>							
At 1 December 2011	2,322,197	1,777,803	9,001,593	1,085,545	48,230	880,063	15,115,431
Additions	-	-	11,548	3,499	-	24,457	39,504
Disposals	(2,322,197)	(1,777,803)	-	-	-	-	(4,100,000)
At 30 November 2012	-	-	9,013,141	1,089,044	48,230	904,520	11,054,935
<i>Depreciation</i>							
At 1 December 2011 as previously stated	-	258,142	7,029,053	994,320	19,812	865,448	9,166,775
Prior year adjustment	-	-	214,599	7,232	-	4,415	226,246
At 1 December 2011 as restated	-	258,142	7,243,652	1,001,552	19,812	869,863	9,393,021
Provided for the year	-	8,889	359,886	21,511	5,684	5,884	401,854
Disposals	-	(267,031)	-	-	-	-	(267,031)
At 30 November 2012	-	-	7,603,538	1,023,063	25,496	875,747	9,527,844
<i>Net book value</i>							
At 30 November 2012	-	-	1,409,603	65,981	22,734	28,773	1,527,091
At 30 November 2011 as restated	2,322,197	1,519,661	1,757,941	83,993	28,418	10,200	5,722,410

Freehold land and buildings located at White Waltham, Maidenhead, Berkshire, were disposed of during the year. Disposal proceeds amounted to £3.7m, realising a loss on disposal of £132,969. On disposal, the revaluation reserve of £1,086,440 was transferred to the profit and loss reserve.

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (continued)

12 Stocks

	2012 £	2011 As restated £
Raw materials	141,691	387,488
Work in progress	1,736,013	2,099,555
Finished goods	4,975,294	5,239,746
	<u>6,852,998</u>	<u>7,726,789</u>

There is no material difference between the replacement cost of stocks and the amounts stated above

Prior year adjustments

Following the decision to change auditors, the directors undertook a thorough review of all aspects of accounting policies and procedures. As a result of this review, the directors have concluded that the stock valuations in prior year accounts were misstated.

The restatement of prior years is represented as follows

	2011 as previously stated £	Stock revaluation - 2011 £	Stock revaluation - 2010 and earlier £	Stock provision - 2011 £	Stock provision - 2010 and earlier £	2011 as restated £
Raw material	189,323	88,531	109,634	-	-	387,488
Work in progress	3,740,721	(506,736)	(1,134,430)	-	-	2,099,555
Finished goods	3,513,792	339,726	2,651,487	(343,533)	(921,726)	5,239,746
	<u>7,443,836</u>	<u>(78,479)</u>	<u>1,626,691</u>	<u>(343,533)</u>	<u>(921,726)</u>	<u>7,726,789</u>

The net movement of all stock adjustments is £282,953

The amounts for "Stock revaluation - 2011" and "Stock provision - 2011" are included within the restated 2011 Profit and Loss Account shown on page 7. Stock revaluation and stock provision in relation to 2010 and earlier are included within the brought forward restated reserves at 1 December 2010 shown in Note 19.

Stock revaluation adjustments are a result of a review of the discount and margin adjustments used to adjust the retail value of finished goods and work in progress. Changes in the stated value of raw materials are a result only of a change in classification of a category of stock previously included within work in progress.

Stock provision adjustments are a result of an exercise to review the policy for the provision of slow moving and obsolete stock.

In respect of both stock revaluation and stock provision adjustments, the table above presents the impact on the prior year, as well as earlier years, had the same basis of valuation been used in all prior periods.

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (continued)

13 Debtors

	2012 £	2011 £
<i>Amounts falling due within one year</i>		
Trade debtors	1,563,255	1,416,217
Corporation tax debtor	142,605	-
VAT debtor	78,322	115,149
Other debtors	16,883	-
Prepayments and accrued income	227,475	151,388
	<u>2,028,540</u>	<u>1,682,754</u>
<i>Amounts falling due after more than one year</i>		
Trade debtors	-	129,045
Deferred tax asset	-	458,060
	<u>-</u>	<u>587,105</u>

14 Creditors: amounts falling due within one year

	2012 £	2011 As restated £
Bank loans and overdraft	-	2,354,373
Trade creditors	1,345,072	1,899,116
Corporation tax	-	4
Other taxation and social security	133,896	198,994
Other creditors	371,961	406,622
Accruals	159,803	519,184
Deferred income	354,408	6,236
	<u>2,365,140</u>	<u>5,384,529</u>

Secured debts

The following secured debts are included within creditors

	2012 £	2011 £
Bank overdrafts	<u>-</u>	<u>2,354,373</u>

The company's bank provides the following facilities which are due for review in February 2013 and are repayable on demand

- Engagements facility £500,
- Foreign bills of negotiation facility £33,000

During the year, the bank overdraft was repaid in full, and securities released

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

15 Creditors: amounts falling due after more than one year

	2012 £	2011 £
Preference shares	-	500,000
<i>Matunty of preference shares</i>		
	2012 £	2011 £
<i>Amounts falling due in more than five years</i>		
Preference shares	-	500,000
Details of preference shares shown as liabilities are as follows,		
	2012 £	2011 £
<i>Allotted, issued and fully paid</i>		
500,000 preference shares of £1 each	-	500,000

Preference shares were redeemed during the year. Prior to their redemption, preference shares held no voting rights and ranked before ordinary shares in the event of the winding-up of the company. Dividends in respect of preference shares were determined solely at the discretion of the board and none had in fact ever been paid prior to their redemption.

16 Provision for liabilities and charges

Deferred taxation

	2012 £	2011 £
Accelerated capital allowances	(67,487)	(116,713)
Tax losses carried forward and other deductions	-	574,773
Deferred tax (liability)/asset	(67,487)	458,060

The movement in the deferred tax balance during the year is as follows

	Deferred taxation £
At 1 December 2011 (asset - Note 13)	458,060
Charged to profit and loss account	(525,547)
At 30 November 2012 (liability)	(67,487)

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

17 Employee benefit obligations

The company operates a defined benefit pension scheme in the UK funded by employer's contributions with assets held in a separate trustee administered fund. A full actuarial valuation was carried out at 1 May 2009 and updated to 30 November 2012 by a qualified actuary, independent of the scheme's sponsoring employer. The scheme was closed on 31 May 2011 and the employer continues to make deficit funding contributions to the scheme.

	2012 £	2011 £
<i>Defined benefit pension plan</i>		
Present value of funded obligations	(11,940,000)	(10,736,000)
Fair value of plan assets	8,687,000	7,837,000
Present value of unfunded obligations	(3,253,000)	(2,899,000)
Plan deficit	(3,253,000)	(2,899,000)
Related deferred tax asset	-	580,000
Net liability	(3,253,000)	(2,319,000)

None of the fair values of the scheme's assets includes any of the company's own financial instruments or any property occupied by, or other assets used by, the company.

The amounts recognised in profit or loss are as follows

	2012 £	2011 £
<i>Defined benefit pension plan</i>		
Current service cost	-	109,000
Interest cost	536,000	533,000
Expected return	(501,000)	(587,000)
	35,000	55,000
Actual return on plan assets	35,000	(35,000)
<i>Shown as 'Other finance costs' in the profit and loss account</i>		
Expected return on pension scheme assets	(501,000)	(587,000)
Interest on pension scheme liabilities	536,000	533,000
	35,000	(54,000)

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

17 Employee benefit obligations (*continued*)

Changes in the present value of the defined benefit obligation are as follows

	2012 £	2011 £
<i>Defined benefit pension plan</i>		
Opening defined benefit obligation	10,736,000	9,449,000
Current service cost	-	109,000
Contributions by scheme participants	-	126,000
Interest cost	536,000	533,000
Actuarial losses	769,000	592,000
Benefits paid	(101,000)	(73,000)
	<u>11,940,000</u>	<u>10,736,000</u>

Changes in the fair value of scheme assets are as follows

	2012 £	2011 £
<i>Defined benefit pension plan</i>		
Opening fair value of scheme assets	7,837,000	7,620,000
Contributions by employer	161,000	199,000
Contributions by scheme participants	-	126,000
Expected return	501,000	587,000
Actuarial gains/(losses)	289,000	(622,000)
Benefits paid	(101,000)	(73,000)
	<u>8,687,000</u>	<u>7,837,000</u>

The company expects to contribute £126,320 (2011 - £234,400) to its defined benefit pension scheme during the period ending 31 August 2013

The amounts recognised in the statement of recognised gains and losses are as follows

	2012 £	2011 £
<i>Defined benefit pension plan</i>		
Net actuarial losses	480,000	1,214,000
	<u>480,000</u>	<u>1,214,000</u>
Cumulative amount of actuarial losses	2,057,000	1,577,000
	<u>2,057,000</u>	<u>1,577,000</u>

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

17 Employee benefit obligations (*continued*)

The major categories of scheme assets as a percentage of total scheme assets are as follows

	2012 £	2011 £
Diversified growth	76%	78%
Bonds	20%	19%
Net current assets	4%	3%
	100%	100%

Expected long term rates of return

The long-term expected rate of return on net current assets is determined by reference to bank base rates at the balance sheet date. On bonds it is by reference to UK long dated government and corporate bond yields at the balance sheet date. For diversified growth assets the return is based on the rate of return on bonds with an allowance for out-performance. The overall rate of return on the scheme assets has been based on the average expected return for each asset class, weighted by the amount of assets in each class.

The expected long term rates of return for each period are as follows

	2012	2011
Diversified growth	6.90%	8.10%
Bonds	5.00%	5.60%
Net current assets	0.50%	0.50%
Overall for scheme	6.35%	7.62%

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are

	2012	2011
Discount rate	4.70%	5.00%
Expected return on scheme assets	6.35%	7.62%
Increase in salaries	2.00%	2.00%
Pension in payment increase of RPI or 5 per cent p a if less	2.80%	3.00%
Pension in payment increase of RPI or 2.5 per cent p a if less	2.50%	2.50%
Inflation (RPI)	2.80%	3.00%
Inflation (CPI)	2.00%	2.00%
Revaluation of deferred pensions of CPI or 5 per cent p a if less	2.00%	2.00%

Allowance for commutation of pension for cash at retirement 100% of post a day

Mortality assumptions adopted at 30 November 2012 imply the following life expectancies

Male retiring at age 65 in 2012	22.2
Female retiring at age 65 in 2012	24.3
Male retiring at age 65 in 2032	24.0
Female retiring at age 65 in 2032	26.2

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (continued)

17 Employee benefit obligations (continued)

Amounts for the current and previous four periods are as follows

	2012 £	2011 £	2010 £	2009 £	2008 £
Defined benefit pension plans					
Defined benefit obligation	(11,940,000)	(10,736,000)	(9,449,000)	(9,579,000)	(7,589,000)
Fair value of scheme assets	8,687,000	7,837,000	7,620,000	6,743,000	5,735,000
Deficit	(3,253,000)	(2,899,000)	(1,829,000)	(2,836,000)	(1,854,000)
Experience adjustments on scheme liabilities	(338,000)	(363,000)	(482,000)	(39,000)	(508,000)
Experience adjustments on scheme assets	289,000	(622,000)	278,000	978,000	(2,088,000)

Sensitivity analysis

A decrease in the discount rate of 0.1% would have the impact of increasing the present value of the pension scheme obligation by approximately £240,000. An increase in the discount rate of 0.1% would decrease the present value of the pension scheme obligation by a similar amount.

18 Called up share capital

	2012 £	2011 £
<i>Allotted, issued and fully paid</i>		
8,080 'A' ordinary shares of £1 each	8,080	-
505 'B' ordinary shares of £1 each	505	-
1,515 'C' ordinary shares of £1 each	1,515	-
10,000 ordinary shares of £1 each	-	10,000
10,000 'B' ordinary shares of £0.01 each	-	100
	10,100	10,100

In accordance with FRS 25, the 500,000 £1 preference shares are presented as a liability in the company balance sheet (see Note 15).

	2012 £	2011 £
500,000 preference shares of £1 each	-	500,000

During the year the company amalgamated the 10,000 £0.01 'B' ordinary shares into 100 £1 ordinary shares.

The resulting 10,100 ordinary shares of £1 each were then redesignated into 8,080 'A' ordinary shares, 505 'B' ordinary shares and 1,515 'C' ordinary shares, each with a nominal value of £1.

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

19 Reserves

	Capital redemption reserve £	Revaluation reserve £	Profit and loss reserve £
At 1 December 2011 as previously stated	-	1,086,440	6,565,814
Prior year adjustments	-	-	(145,821)
At 1 December 2011 as restated	-	1,086,440	6,419,993
Loss for the year	-	-	(1,029,018)
Dividends	-	-	(131,401)
Other net recognised gains and losses for the year	-	-	(1,060,000)
Redemption of preference shares	500,000	-	(500,000)
Transfer to profit and loss reserve on sale of property	-	(1,086,440)	1,086,440
At 30 November 2012	500,000	-	4,786,014

The capital redemption reserve arose on the redemption of 500,000 £1 preference shares during the year

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

20 Reconciliation of movements in shareholders' funds

	£	£
Opening shareholder funds at 1 December 2010 as previously stated		8,132,199
Adjustments to opening 2010 shareholder funds		
Stock revaluation	1,626,691	
Stock provision	(921,726)	
Under depreciation	(226,246)	
Unrecorded PPF liability	(138,442)	
		340,277
Opening shareholder funds at 1 December 2010 as restated		8,472,476
Profit for the financial year to 30 November 2011 as previously stated	779,255	
Dividends	(35,100)	
Other net recognised gains and losses for the year	(1,214,000)	
		(469,845)
Opening shareholders funds at 1 December 2011 as previously stated (<i>was £7,662,354 before prior period adjustment of £340,277</i>)		8,002,631
Prior year adjustments to 2011 previously stated results		
Stock revaluation	(78,479)	
Stock provision	(343,533)	
Unrecorded PPF liability	(64,086)	
		(486,098)
Opening shareholder funds at 1 December 2011 as restated		7,516,533
Loss for the financial year to 30 November 2012	(1,029,018)	
Dividends	(131,401)	
Other net recognised gains and losses for the year	(1,060,000)	
		(2,220,419)
Closing shareholder funds at 30 November 2012		5,296,114

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (continued)

21 Operating leases

	Land and buildings 2012 £	Other 2012 £	Land and buildings 2011 £	Other 2011 £
Within one year	-	-	-	-
In two to five years	-	17,604	-	7,415
Over five years	425,000	-	-	-
	<u>425,000</u>	<u>17,604</u>	<u>-</u>	<u>7,415</u>

22 Contingent liabilities

H M Customs and Excise Duty Deferment Bond of £500

23 Related party disclosures

During the year dividends totalling £99,889 (2011 - £35,100) were paid to close relatives of W Hewland, a director

As disclosed in Note 15 the company is the sponsoring employer for the Hewland Engineering Limited 1972 Pension and Life Assurance Scheme which was set up to provide retirement pensions for eligible employees. The scheme was closed on 3 May 2011. The company contributed a total of £153,600 to the scheme during the year, all of which related to deficit funding payments. The company also pays all administrative costs relating to the scheme which during the year totalled £128,303.

During the year under review W Hewland, a director, advanced £90,000 to the company. The amount due from the company to W Hewland as at 30 November 2012 was £4,677 (2011 - £204,094).

On 22 June 2012, the Company sold the land and buildings from which it operates to William Hewland, a director and controlling shareholder, for cash consideration of £3.7m. The Company subsequently leased back the land and buildings from William Hewland at a rent of £425,000 per annum, on a full tenant's repairing lease. Messrs Savills, a leading UK surveyor and property consultant, were engaged to advise upon an appropriate arms' length market value for the sale and third party rental value. Their report and values were accepted in full and without amendment. The cash generated from the sale was used to pay down the Company's borrowings and release funds for working capital purposes. William Hewland met the costs of the transaction.

SFD Consulting Limited, a company in which Malcolm Rooker, a director, has an interest, provides consulting services to the company under a contract for services which pre-dates his appointment to the Board on 25 October 2012. Total fees, excluding VAT, invoiced by SFD Consulting Limited since the date of his appointment as a director, were £8,601. £16,401 was included within creditors' amounts falling due within one year at the balance sheet date.

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

24 Ultimate controlling party

W Hewland is the ultimate controlling party by virtue of his majority holding of the company's 'A' ordinary shares

25 Reconciliation of operating profit to net cash outflow from operating activities

	2012 £	2011 As restated £
Operating (loss)/profit	(425,971)	164,262
Depreciation charges	401,854	462,018
Loss on disposal of fixed assets	-	5,344
Decrease/(increase) in stocks	873,791	(1,083,939)
Increase in debtors	(74,136)	(506,031)
(Decrease)/increase in creditors	(466,190)	1,003,523
Difference between pension charge and cash contributions	(161,000)	(90,000)
Net cash inflow/(outflow) from operating activities	148,348	(44,823)

26 Analysis of cash flows for headings netted in the cash flow statement

	2012 £	2011 £
Returns on investments and servicing of finance		
Interest received	251	20
Interest paid	(52,387)	(76,673)
Net cash outflow for returns on investments and servicing of finance	(52,136)	(76,653)
Taxation		
Corporation tax paid	(4)	-
Capital expenditure		
Purchase of tangible fixed assets	(39,504)	(524,653)
Sale of tangible fixed assets	3,700,000	8,500
Net cash inflow/(outflow) for capital expenditure	3,660,496	(516,153)
Financing		
Amount advanced by directors	90,000	150,000
Net amount withdrawn by directors	(288,822)	(97,323)
Redemption of preference shares	(500,000)	-
Net cash (outflow)/inflow from financing	(698,822)	52,677

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 30 November 2012 (*continued*)

27 Reconciliation of net cash flow to movement in net debt

	2012 £	2011 £
Increase/(decrease) in cash in the period	2,926,481	(620,052)
Net debt at 1 December 2011	(2,353,369)	(1,733,317)
Net cash/(debt) at 30 November 2012	573,112	(2,353,369)

28 Analysis of changes in net debt

	At 31 December 2011 £	Cash flow £	At 31 December 2012 £
Net cash			
Cash at bank and in hand	1,004	572,108	573,112
Bank overdraft	(2,354,373)	2,354,373	-
Total	(2,353,369)	2,926,481	573,112