

Company Registration No. 01876136 (England and Wales)

PEARSON ENGINEERING LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2022



PEARSON ENGINEERING LIMITED

COMPANY INFORMATION

Directors	Y A Aron R Gozali J M Hutton N Pope C Priday
Secretary	L Shechter Nakash
Company number	01876136
Registered office	Armstrong Works Scotswood Road Newcastle upon Tyne NE15 6UX
Auditor	RSM UK Audit LLP Chartered Accountants 1 St. James' Gate Newcastle upon Tyne United Kingdom NE1 4AD

PEARSON ENGINEERING LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present the strategic report for the year ended 31 December 2022.

Fair review of the business

Pearson Engineering Limited is a business operating in the defence sector that designs and manufactures a range of counter mine, counter IED and mine clearance equipment, as well as combat engineering equipment that increases the capability of armoured fighting and engineer vehicles. It also provides services for armoured vehicle manufacturing, assembly, integration and testing.

Pearson Engineering owns the two subsidiaries Pearson Engineering Inc and Responsive Engineering Limited. Pearson Engineering Inc. is based in the USA and provides services to the US defence market. Responsive Engineering Limited is based in the UK and provides manufacturing services including specialist welding, fabrication, assembly and testing, precision CNC machining and laser and waterjet cutting.

The group's strategy is to grow the business through organic growth, research and development, acquisition (where appropriate) and the development of its world class manufacturing and assembly facility.

On 16 December 2021, Pearson Engineering Limited acquired the entire share capital of Responsive Engineering Limited. Subsequently, on 23 September 2022, the group was acquired by Rafael Advanced Defense Systems Limited. These financial statements have been prepared using the merger accounting method, therefore the group is reported on for the past two years.

Key performance indicators

The group's key financial and other performance indicators during the year were as follows:

	2022	2021
	£000	£000
Turnover	38,275	45,425
Operating (loss)/profit	(1,886)	8,423
Turnover per employee	135	155
Number of employees	283	293

Pearson Engineering performed well during the year, securing a number of important contracts, both in the UK and internationally. Looking ahead, the company has a significant contract backlog and a strong pipeline of opportunities.

Responsive Engineering successfully executed a number of critical, high value contracts in the year. The company has a full order book and healthy sales pipeline. A new senior management team is in place and the company has a clear plan to achieve improved financial performance, to match its world class quality and manufacturing capabilities.

Both companies are actively recruiting to meet the forecast, high demand for products and services.

There were a number of one-off costs in the year, predominantly associated with acquisition activities.

There continues to be strong interest in our defence manufacturing and services business stream and we are supporting a number of important UK defence programmes. We remain well positioned to support a wide range of active and planned UK defence programmes.

The group ethos includes a commitment to invest in research and development with the objective of developing the best products in our sector and actively developing the market for those products. To this end the group continues to invest considerable sums in research and development ('R&D'). The R&D programme is active and growing and includes traditional business areas as well as emerging technologies. Some of these projects are long term developments which will take some time to bring into service.

The group continues to be a strong supporter of STEM Initiatives promoting engineering as a career, working with local primary and secondary schools.

PEARSON ENGINEERING LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Principal risks and uncertainties

The main risks associated with the company's financial assets and liabilities are set out below:

Credit risk

The majority of group debtors relate to amounts owed as set out in agreed legal contracts, and many of the debtors are owed from 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.

Liquidity risk

The group aims to mitigate liquidity risk by managing cash in the most effective manner. It is group policy to invoice amounts due on contracts as soon as possible; all amounts owed by debtors are collected promptly and all major capital expenditure must be approved by the directors.

Foreign currency risk

The group has significant trade in foreign currencies with its customers. To protect the business against the movement in exchange rate, between the date of order acceptance and payment of the debt, the group takes out forward exchange contracts.

Working capital

The group will seek to establish terms which minimise the working capital requirement. However, it is inevitable that under some contracts the group will be required to provide finance for the initial purchases before payments from the customer commence.

Bank risk

The group continuously monitors the position of all banks where it holds funds.

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.

Inflation/supply chain

The group carefully monitors inflationary pressures, the impact on purchase prices and the availability of parts/raw materials. Where we see potential risk, we look to mitigate as far as possible by widening our supply chain base and buying ahead of programme requirements. We also seek to limit the commercial risk to selling prices, caused by market volatility.

Future developments

The company has an active and growing investment and R&D programme. Significant capital expenditure has been approved, which will enhance capabilities in bending high strength materials. New and enhanced products are being developed for both manned and unmanned platforms, broadening the range of defence applications. The company has also invested significantly in the areas of threat detection and AI.

Section 172 statement

The board consider, both individually and collectively, that they have acted in a way they consider, in good faith, would be most likely to promote the success of the 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 31 December 2022.

Material decisions taken in the year include the restructuring of Board of Directors, the appointment of a new managing director for Responsive Engineering and the approval of significant capital expenditure.

PEARSON ENGINEERING LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Section 172 statement (continued)

In making these material decisions, the board took conscious steps to identify and take account of the potential impact (both positively and negatively) on key stakeholder groups (such as shareholders, employees, suppliers, customers and society as a whole) and concluded that the decisions taken and the anticipated outcomes were aligned with promoting the success of the company for the benefit of its members. In particular, continued funding of our R&D programmes and collaboration with Responsive Engineering will increase shareholder value whilst also delivering increased positive social benefit through continuing to provide employment, as well as contributing to the economy through business activities. In addition, we continue to support our employees through a range of initiatives related to personal development and wellbeing, particularly in the current environment which has seen staff having to adapt to new ways of working.

On behalf of the board

C. Priday

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C Priday

Director

Date: 27/07/23
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PEARSON ENGINEERING LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their annual report and financial statements for the year ended 31 December 2022.

Principal activities

The principal activity of the company and group continued to be that of a business operating in the defence sector that designs and manufactures a range of counter mine, counter IED and mine clearance equipment as well as combat engineering equipment that increases the capability of armoured fighting and engineer vehicles. It also provides services for armoured vehicle manufacturing, assembly, maintenance, overhaul and repair.

Results and dividends

The results for the year are set out on page 12.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Y A Aron	(Appointed 7 October 2022)
R Gozali	(Appointed 7 October 2022)
J M Hutton	(Appointed 7 October 2022)
N Pope	(Appointed 7 October 2022)
C Priday	
R J Beatson	(Resigned 20 October 2022)
S P Gilroy	(Resigned 20 October 2022)
P M Langley	(Resigned 20 October 2022)
J A Riby	(Resigned 20 October 2022)
M T R Welstead	(Resigned 20 October 2022)

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 group's operating activities. The group also enters into derivative transactions, principally forward currency contracts. The purpose is to manage currency risks arising from the group's operations and its sources of finance.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the group continues and that the appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The group's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests.

Information about matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

Auditor

RSM UK Audit LLP were appointed on 1 December 2022 as auditor to the group and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

PEARSON ENGINEERING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Energy and carbon reporting

Introduction and site information

Pearson Engineering Limited is the holding company for two operations at their Armstrong Works site (Pearson Engineering Limited & Responsive Engineering Limited). Site activities are the design, production, and processing of a range of light and heavy manufacturing, as well as fabrication to serve the target market with other general administration, finance, and sales/marketing facilities.

To deliver and comply with environmental legislation and commitment to Net Zero, Pearson Engineering Limited, as a minimum, will seek to be compliant with all applicable environmental laws and regulatory permissions relevant to its operations.

Site data and activity

Area	Main Activity	Floor Area (m ²)	Floor Area (%)
Production Floor	Manufacturing	33,000	85
PEL Offices	Admin / Finance / R&D / Engineering	4,000	10
REL Offices	Admin / Finance / Engineering	720	2
Storage and Ancillary buildings	Storage	900	3
Total		38,620	100

Metric

To understand our environmental performance, the following intensity metric will be used for this report.

Company Level Metric	Metric Type	Number (GIFA-ft2)
Pearson Engineering Limited	kgCO ₂ e / ft ²	415,702

Energy Usage Data

Absolute energy consumption

Activity	Scope	Unit	2022	2021
Natural Gas	1	kWh	1,498,035	2,192,577
LPG	1	Kg or kWh	1,402 or 17,889	7,048 or 89,932
Grid supplied Electricity	2	kWh	3,430,129	3,374,361
Transportation	1 & 3	kWh	17,920	43,646
Total			5,700,516	4,963,973

Absolute Green House Gas emissions (GHG) tCO₂e.

Activity	Scope	Unit	2022	2021
Natural Gas	1	tCO ₂ e	273	401
LPG	1	tCO ₂ e	4	20
Grid supplied Electricity	2	tCO ₂ e	690	716
Transportation	1 & 3	tCO ₂ e	58	11.35
Total			1,025	1,148

Pearson Engineering Limited's energy intensity (year on year analysis)

Company Level Metric	Metric Type	Number (GIFA -ft2)	2022	2021
Pearson Engineering Limited	kgCO ₂ e / ft ²	415,702	2.4	2.76

PEARSON ENGINEERING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Streamlined energy and carbon reporting

From financial years beginning on or after 1 April 2019, the government issued a new policy known as the Streamlined Energy and Carbon Reporting (SECR) which requires companies to publicly report on their UK energy use and carbon emissions within the Directors' report. This new requirement has been implemented by the Department for Business, Energy, and Industrial Strategy (BEIS).

Scope 1

Consumption and emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations, such as company vehicle fleets.

Scope 2

Consumption and emissions relate to indirect emissions relating to the consumption of purchased electricity in day-to-day business operations.

Scope 3

Consumption and emissions relate to emissions resulting from sources not directly owned by the reporting company. For Pearson Engineering Limited, this is related to grey fleet (business travel undertaken in employee-owned vehicles) only.

Energy Savings Opportunity Scheme

The Energy Savings Opportunity Scheme (ESOS) is a mandatory energy assessment scheme for large organisations based in the UK. ESOS requires organisations that meet the qualification criteria and period to audit and report on at least 90% of their energy usage to the environment agency every four years.

The latest audit was completed in February 2023 and a summary of findings will be issued, along with recommendations that Pearson Engineering Limited will review and act upon accordingly.

Pearson Engineering Limited Energy and Environmental Reduction Commitment and Target Planning

Our longer-term goal is to become climate neutral at the latest by 2050 in line with government plans and reduce our emissions up to 50% by 2030 compared to 2020.

By using defined and tested methodology, industry techniques and energy performance indicators (EnPI) will help us to see a clear link between energy use and the activities that directly influence consumption and waste. This will enable us to determine how efficiently our organisation is using energy as it accounts for changes in the activity metric which will aid with visualisation towards our goals.

By implementing (REPOC) Resource, Efficiency, Process, Optimization & Cost reduction techniques will allow us to consider and explore energy efficiency savings when procuring new plant / equipment that is within any capital expenditure plan, as well as efficiency within our production processes.

The group aims to focus on the top three energy saving initiatives:

1. Compressed Air Leakage Management

- Perform a Compressed Air Leakage audit either with internal TPM or by appointed vendor.

2. Implement Shut down procedures for operations (daily / weekend)

- Group machine & equipment and apply stickers in green, yellow & red
- Employee Training Module (energy efficiency)
- Define and apply switch-off strategy for all machines, equipment and peripheral.

3. Introduce Energy Awareness Campaign

- Pearson Engineering Limited goes green.

PEARSON ENGINEERING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Strategic report

The company has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the company's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of future developments and financial risk management of the company.

The company has also chosen to include the required disclosures on stakeholder engagement as part of the s172 statement in the strategic report. This information is considered to have strategic importance and including only in the strategic report avoids duplication.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, each director has taken all the necessary steps that they ought to have taken as a director in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Going concern

The group meets its day to day working capital requirements through cash generated from operations.

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 a least twelve months from the date of signing these financial statements. The group therefore continues to adopt the going concern basis in preparing the financial statements.

On behalf of the board

C. Priday

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C Priday
Director

27/07/23
Date:

PEARSON ENGINEERING LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors are responsible for preparing the Strategic Report and 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 group and 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 then 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARSON ENGINEERING LIMITED

Opinion

We have audited the financial statements of Pearson Engineering Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise consolidated Statement of Comprehensive Income, consolidated and company Statement of Financial Position, consolidated and company Statement of Changes in Equity, consolidated Statement of Cashflow and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 and parent company 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARSON ENGINEERING LIMITED (CONTINUED)

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses, and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operates in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARSON ENGINEERING LIMITED (CONTINUED)

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102, the Companies Act 2006 and tax compliance regulations. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures, inspecting correspondence with local tax authorities and evaluating advice received from external tax advisors.

The group audit engagement team identified the risk of management override of controls and revenue recognition in respect of cut off as the areas where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business, challenging judgments and estimates applied in the financial statements. In terms of revenue recognition in respect of cut off we have tested transactions around the year end to supporting documentation to ensure appropriate cut off applied.

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

Use of our report

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

Steven Cleugh

Steven Cleugh FCCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
1 St. James' Gate
Newcastle upon Tyne
United Kingdom, NE1 4AD

28/07/23

PEARSON ENGINEERING LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	2021
	Notes	£000	(Pro-forma) £000
Turnover	3	38,275	45,425
Cost of sales		(17,620)	(21,034)
Gross profit		20,655	24,391
Distribution costs		(1,225)	(1,800)
Administrative expenses		(21,316)	(14,592)
Other operating income		-	274
Operating (loss)/profit	6	(1,886)	8,273
Interest receivable and similar income	8	2,155	3
Interest payable and similar expenses	9	(105)	(16)
Profit before taxation		164	8,260
Tax on profit	10	25	(222)
Profit for the financial year		189	8,038
Other comprehensive income net of taxation			
Currency translation differences		1	2
Cash flow hedges gain/(loss) arising in the year		-	(223)
Cash flow hedges loss reclassified to profit or loss		(32)	-
Total comprehensive (expense)/income for the year		158	7,817

Profit for the financial year is all attributable to the owners of the parent company.

Total comprehensive (expense)/income for the year is all attributable to the owners of the parent company.

PEARSON ENGINEERING LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2022**

		2022		2021 (Pro-forma)	
	Notes	£000	£000	£000	£000
Fixed assets					
Intangible assets	12		90		140
Tangible assets	13		2,747		3,021
			<u>2,837</u>		<u>3,161</u>
Current assets					
Stocks	16	8,382		7,482	
Debtors	17	18,788		14,640	
Cash at bank and in hand		5,955		18,262	
		<u>33,125</u>		<u>40,384</u>	
Creditors: amounts falling due within one year	18	<u>(15,193)</u>		<u>(6,104)</u>	
Net current assets			<u>17,932</u>		<u>34,280</u>
Total assets less current liabilities			<u>20,769</u>		<u>37,441</u>
Provisions for liabilities	20		<u>(383)</u>		<u>(485)</u>
Net assets			<u>20,386</u>		<u>36,956</u>
Capital and reserves					
Called up share capital	23		-		-
Hedging reserve	24		-		32
Merger reserve	24		(1,082)		(1,082)
Profit and loss reserves	24		21,468		38,006
Total equity			<u>20,386</u>		<u>36,956</u>

The financial statements were approved by the board of directors and authorised for issue on 27/07/23 and are signed on its behalf by:

C. Priday

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C Priday
Director

PEARSON ENGINEERING LIMITED**COMPANY STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2022**

	Notes	2022 £000	£000	2021 £000	£000
Fixed assets					
Intangible assets	12		90		140
Tangible assets	13		239		317
Investments	14		1,252		1,252
			<u>1,581</u>		<u>1,709</u>
Current assets					
Stocks	16	6,423		5,533	
Debtors	17	21,555		18,297	
Cash at bank and in hand		5,535		17,289	
		<u>33,513</u>		<u>41,119</u>	
Creditors: amounts falling due within one year	18	<u>(14,457)</u>		<u>(5,795)</u>	
Net current assets			<u>19,056</u>		<u>35,324</u>
Total assets less current liabilities			<u>20,637</u>		<u>37,033</u>
Provisions for liabilities	20		<u>(383)</u>		<u>(439)</u>
Net assets			<u>20,254</u>		<u>36,594</u>
Capital and reserves					
Called up share capital	23		-		-
Hedging reserve	24		-		32
Profit and loss reserves	24		20,254		36,562
Total equity			<u>20,254</u>		<u>36,594</u>

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes as it prepares group accounts. The company's profit for the year was £420,000 (2021 - £9,063,000).

The financial statements were approved by the board of directors and authorised for issue on 27/07/23 and are signed on its behalf by:

C. Priday

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C Priday
Director

PEARSON ENGINEERING LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Notes	Share capital £000	Hedging reserve £000	Merger reserve £000	Profit and loss reserves £000	Total £000
Balance at 1 January 2021 (pro-forma)		-	255	(1,082)	51,026	50,199
Year ended 31 December 2021 (pro-forma):						
Profit for the year		-	-	-	8,038	8,038
Other comprehensive expense net of taxation:						
Currency translation differences		-	-	-	2	2
Cash flow hedges losses arising in the year		-	(223)	-	-	(223)
Total comprehensive income for the year		-	(223)	-	8,040	7,817
Dividends	11	-	-	-	(21,060)	(21,060)
Balance at 31 December 2021 (pro-forma)		-	32	(1,082)	38,006	36,956
Year ended 31 December 2022:						
Profit for the year		-	-	-	189	189
Other comprehensive expense net of taxation:						
Currency translation differences		-	-	-	1	1
Cash flow hedges gains reclassified to profit or loss		-	(32)	-	-	(32)
Total comprehensive income for the year		-	(32)	-	190	158
Dividends	11	-	-	-	(16,728)	(16,728)
Balance at 31 December 2022		-	-	(1,082)	21,468	20,386

PEARSON ENGINEERING LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share capital £000	Hedging reserve £000	Profit and loss reserves £000	Total £000
Balance at 1 January 2021		-	255	48,559	48,814
Year ended 31 December 2021:					
Profit for the year		-	-	9,063	9,063
Other comprehensive expense net of taxation:					
Cash flow hedges losses arising in the year		-	(223)	-	(223)
Total comprehensive income for the year		-	(223)	9,063	8,840
Dividends	11	-	-	(21,060)	(21,060)
Balance at 31 December 2021		-	32	36,562	36,594
Year ended 31 December 2022:					
Profit for the year		-	-	420	420
Other comprehensive income net of taxation:					
Cash flow hedges gains reclassified to profit or loss		-	(32)	-	(32)
Total comprehensive income for the year		-	(32)	420	388
Dividends	11	-	-	(16,728)	(16,728)
Balance at 31 December 2022		-	-	20,254	20,254

PEARSON ENGINEERING LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

		2022		2021 (Pro-forma)	
	Notes	£000	£000	£000	£000
Cash flows from operating activities					
Cash generated from operations	25		5,350		19,899
Interest paid			(105)		(16)
Income taxes paid			(225)		(210)
Net cash inflow from operating activities			<u>5,020</u>		<u>19,673</u>
Investing activities					
Purchase of intangible assets		-		(50)	
Purchase of tangible fixed assets		(639)		(754)	
Proceeds on disposal of tangible fixed assets		37		107	
Interest received		2		3	
Net cash used in investing activities			<u>(600)</u>		<u>(694)</u>
Financing activities					
Proceeds of derivatives		-		49	
Dividends paid to equity shareholders		(16,728)		(21,060)	
Net cash used in financing activities			<u>(16,728)</u>		<u>(21,011)</u>
Net decrease in cash and cash equivalents			<u>(12,308)</u>		<u>(2,032)</u>
Cash and cash equivalents at beginning of year			18,262		20,292
Effect of foreign exchange rates			1		2
Cash and cash equivalents at end of year			<u><u>5,955</u></u>		<u><u>18,262</u></u>

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

Company information

Pearson Engineering Limited ("the company") is a private company limited by shares and is registered and incorporated in England and Wales. The registered office is Armstrong Works, Scotswood Road, Newcastle upon Tyne, NE15 6UX.

The group consists of Pearson Engineering Limited and all of its subsidiaries.

The company's and the group's principal activities and nature of its operations are disclosed in the Directors' Report.

On 16 December 2021, Pearson Engineering Limited acquired the entire share capital of Responsive Engineering Limited. Subsequently, on 23 September 2022, the group was acquired by Rafael Advanced Defense Systems Limited. The acquisition of Responsive Engineering Limited has been accounted for using the merger method of accounting as set out in the basis of consolidation paragraph below.

Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

Reduced disclosures

The company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements for parent company information presented within the consolidated financial statements:

- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12' Other Financial Instrument Issues';
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

Basis of consolidation

The consolidated financial statements incorporate those of Pearson Engineering Limited and all of its subsidiaries (i.e. entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits).

The group financial statements have been prepared using the merger method of accounting.

The merger method of accounting is applied to group reconstructions as if the entities had always been combined. The total comprehensive income, assets and liabilities of the entities are amended, where necessary, to align the accounting policies. The carrying values of the entities assets and liabilities are not adjusted to fair value.

Any difference between the nominal value of shares issued plus the fair value of other consideration and the nominal value of shares received taken to other reserves in equity, Any existing balances on the share premium accounts or capital redemption reserve of the legal subsidiary are shown as movement on other reserves.

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

All financial statements are made up to 31 December 2022. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

Going concern

The group meets its day to day working capital requirements through cash generated from operations.

The directors have considered the group's financial performance for the period to December 2024. The group has obtained group financial support for a period of at least 12 months from the date of the approval of the financial statements. As such the financial statements have been prepared on a going concern basis.

Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually when the goods are physically delivered to the customer or when the customer is notified that the goods are ready for collection, depending on the agreed terms of the sale), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grant will be received.

Government grants relating to turnover are recognised as income over the periods when the related costs are incurred.

Government grants included within other operating income includes the UK Government assistance provided through Coronavirus Job Retention Scheme during the Covid- 19 pandemic.

Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred.

Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	4 years straight line
Patents and licences	10 years straight line

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Plant and equipment	5-13 years straight line
Fixtures and fittings	2-5 years straight line
Computers	3 years straight line
Motor vehicles	4 years straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

Fixed asset investments

In the separate accounts of the company, interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

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

Impairment of fixed assets

At each reporting period end date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are basic financial instruments and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less.

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors, cash and bank balances and amounts owed by group undertakings, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, and amounts owed to group undertakings, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the group's contractual obligations are discharged, cancelled, or they expire.

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Equity instruments

Equity instruments issued by the group are recorded at the fair value of proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial asset e.g. stock, the accumulated hedging gain or loss at that date is transferred from the cash flow hedging reserve and included directly in the initial cost or other carrying amount of the asset as a basis adjustment.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but, the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the cash flow hedging reserve and the basis adjustment subsequently takes place when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in the cash flow hedging reserve is recognised in profit or loss immediately.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on income and expenses from subsidiaries that will be assessed to or allow for tax in a future period except where the group is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

Provisions

Provisions are recognised when the group has a legal or constructive present obligation 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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

Retirement benefits

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign exchange

Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

2 Judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Product warranties

Product warranties - The provision is made for rectification costs under warranty. This provision requires management's best estimate of the costs that will be required, based on contractual requirements and historical experience. The carrying amount of product warranties is £383,000 (2021 - £485,000).

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 of tangible assets is £2,747,000 (2021 - £3,021,000).

3 Turnover and other revenue

	2022	2021 (Pro-forma)
	£000	£000
Turnover analysed by class of business		
Sales of goods	38,275	45,425
	<u>38,275</u>	<u>45,425</u>
	2022	2021 (Pro-forma)
	£000	£000
Turnover analysed by geographical market		
UK	9,322	10,466
Europe	3,029	1,448
Rest of the world	25,924	33,511
	<u>38,275</u>	<u>45,425</u>

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

4 Employees

The average monthly number of persons (including directors) employed during the year was:

	Group 2022	2021 (Pro-forma)	Company 2022	2021
	Number	Number	Number	Number
Production	151	159	9	-
Administrative	123	125	70	77
Apprentices	9	9	-	-
Total	<u>283</u>	<u>293</u>	<u>79</u>	<u>77</u>

Their aggregate remuneration comprised:

	Group 2022	2021 (Pro-forma)	Company 2022	2021
	£000	£000	£000	£000
Wages and salaries	15,355	12,825	5,767	5,915
Social security costs	1,841	1,351	658	653
Pension costs	484	460	245	228
Total	<u>17,680</u>	<u>14,636</u>	<u>6,670</u>	<u>6,796</u>

5 Directors' remuneration

	2022	2021 (Pro-forma)
	£000	£000
Remuneration for qualifying services	1,789	1,634
Company pension contributions to defined contribution schemes	33	29
Total	<u>1,822</u>	<u>1,663</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 4 (2021 - 4).

Remuneration disclosed above includes the following amounts paid to the highest paid director:

	2022	2021 (Pro-forma)
	£000	£000
Remuneration for qualifying services	<u>598</u>	<u>403</u>

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

6	Operating (loss)/profit	2022	2021
		£000	(Pro-forma) £000
	Operating (loss)/profit for the year is stated after charging/(crediting):		
	Exchange differences apart from those arising on financial instruments measured at fair value through profit or loss	(357)	(113)
	Research and development costs	626	2,650
	Depreciation of owned tangible fixed assets	897	1,025
	Profit on disposal of tangible fixed assets	(21)	(85)
	Amortisation of intangible assets	50	74
	Operating lease charges	65	36
		<u> </u>	<u> </u>
7	Auditor's remuneration	2022	2021
		£000	(Pro-forma) £000
	Fees payable to the company's auditor and associates:		
	For audit services		
	Audit of the financial statements of the group and company	45	14
	Audit of the financial statements of the company's subsidiaries	35	18
		<u> </u>	<u> </u>
		80	32
		<u> </u>	<u> </u>
	For other services		
	All other non-audit services	26	2
		<u> </u>	<u> </u>
8	Interest receivable and similar income	2022	2021
		£000	(Pro-forma) £000
	Other interest income	2	3
	Other income from investments		
	Gains on financial instruments measured at fair value through profit or loss	2,153	-
		<u> </u>	<u> </u>
	Total income	2,155	3
		<u> </u>	<u> </u>
	Investment income includes the following:		
	Interest on financial assets measured at fair value through profit or loss	2,153	-
		<u> </u>	<u> </u>

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

9 Interest payable and similar expenses

2022	2021 (Pro-forma)
£000	£000
Interest payable to group undertakings	
105	16
<u>105</u>	<u>16</u>

10 Taxation

2022	2021 (Pro-forma)
£000	£000
Current tax	
UK corporation tax on profits for the current period	272
Adjustments in respect of prior periods	(29)
<u>290</u>	<u>243</u>
Deferred tax	
Origination and reversal of timing differences	22
Changes in tax rates	(43)
Adjustment in respect of prior periods	-
Tax losses carried forward	-
<u>(315)</u>	<u>(21)</u>
Total tax (credit)/charge	222
<u>(25)</u>	<u>222</u>

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

10 Taxation (Continued)

The total tax (credit)/charge for the year included in the income statement can be reconciled to the profit before tax multiplied by the standard rate of tax as follows:

	2022	2021
	£000	(Pro-forma) £000
Profit before taxation	164	8,260
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	31	1,569
Tax effect of expenses that are not deductible in determining taxable profit	225	32
Tax effect of income not taxable in determining taxable profit	(411)	(80)
Change in unrecognised deferred tax assets	-	(430)
Adjustments in respect of prior years	333	243
Effect of change in corporation tax rate	-	(43)
Research and development tax credit	-	(701)
Other non-reversing timing differences	-	(365)
Deferred tax adjustments in respect of prior years	158	-
Foreign tax credits	(24)	-
Capital allowances	(145)	-
Tax losses	(192)	-
Decrease from effect of tax incentives	-	(3)
Taxation (credit)/charge	(25)	222

In the March 2021 Budget it was announced that the standard rate of corporation tax would remain at 19%, increasing to 25% from 1 April 2023.

At the balance sheet date, the group has unutilised trading losses of £9,876,525 (2021 - £8,093,678) available to carry forward against future taxable profits. The deferred tax in respect of some of these losses has been recognised as a deferred tax asset of £472,874.

The remaining unrecognised deferred tax asset of approximately £1,996,258 (2021 - £2,023,420) exists in respect of these losses, which the directors have not recognised until such time as their recovery can be assessed with reasonable certainty. The unrecognised deferred tax asset has been based on tax rates substantively enacted by the balance sheet date, being 25% (2021 - 25%).

11 Dividends

	2022	2021	2022	2021
Recognised as distributions to equity holders:	Per share	Per share	Total	Total
	£000	£000	£000	£000
Ordinary shares				
Final paid	167.28	210.60	16,728	21,060

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

12 Intangible fixed assets

Group	Software Patents and licences		Total £000
	£000	£000	
Cost			
At 1 January 2022 and 31 December 2022 (pro-forma)	88	348	436
Amortisation and impairment			
At 1 January 2022 (pro-forma)	88	208	296
Amortisation charged for the year	-	50	50
At 31 December 2022	88	258	346
Carrying amount			
At 31 December 2022	-	90	90
At 31 December 2021 (pro-forma)	-	140	140
Company			Patents and licences £000
Cost			
At 1 January 2022 and 31 December 2022			348
Amortisation and impairment			
At 1 January 2022			208
Amortisation charged for the year			50
At 31 December 2022			258
Carrying amount			
At 31 December 2022			90
At 31 December 2021			140

The amortisation charge for the year is recognised within administrative expenses

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

13 Tangible fixed assets

Group	Assets under construction £000	Plant and equipment £000	Fixtures and fittings £000	Computers £000	Motor vehicles £000	Total £000
Cost						
At 1 January 2022 (pro- forma)	-	13,477	891	1,172	542	16,082
Additions	235	348	42	14	-	639
Disposals	-	(47)	(32)	-	-	(79)
At 31 December 2022	<u>235</u>	<u>13,778</u>	<u>901</u>	<u>1,186</u>	<u>542</u>	<u>16,642</u>
Depreciation and impairment						
At 1 January 2022 (pro- forma)	-	10,889	817	1,109	246	13,061
Depreciation charged in the year	-	718	36	37	106	897
Eliminated in respect of disposals	-	(31)	(32)	-	-	(63)
At 31 December 2022	<u>-</u>	<u>11,576</u>	<u>821</u>	<u>1,146</u>	<u>352</u>	<u>13,895</u>
Carrying amount						
At 31 December 2022	<u>235</u>	<u>2,202</u>	<u>80</u>	<u>40</u>	<u>190</u>	<u>2,747</u>
At 31 December 2021 (pro- forma)	<u>-</u>	<u>2,588</u>	<u>74</u>	<u>63</u>	<u>296</u>	<u>3,021</u>

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

13 Tangible fixed assets (Continued)

Company	Fixtures and fittings £000	Computers £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2022	425	438	410	1,273
Additions	42	4	-	46
Disposals	(32)	-	-	(32)
At 31 December 2022	435	442	410	1,287
Depreciation and impairment				
At 1 January 2022	425	410	121	956
Depreciation charged in the year	7	15	102	124
Eliminated in respect of disposals	(32)	-	-	(32)
At 31 December 2022	400	425	223	1,048
Carrying amount				
At 31 December 2022	35	17	187	239
At 31 December 2021	-	28	289	317

14 Fixed asset investments

	Notes	Group 2022 £000	2021 (Pro-forma) £000	Company 2022 £000	2021 £000
Investments in subsidiaries	15	-	-	1,252	1,252

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

14 Fixed asset investments (Continued)

Movements in fixed asset investments

Company	Shares in group undertakings £000
Cost or valuation	
At 1 January 2022	1,252
Additions	5,545
	<hr/>
At 31 December 2022	6,797
	<hr/>
Impairment	
At 1 January 2022	-
Impairment losses	5,545
	<hr/>
At 31 December 2022	5,545
	<hr/>
Carrying amount	
At 31 December 2022	1,252
	<hr/>
At 31 December 2021	1,252
	<hr/>

During the year an inter-company debtor of £5,545,000 due from Responsive Engineering Limited, a 100% subsidiary, was capitalised as a long term investment. Subsequent to this an impairment review of the investment was performed, resulting in an impairment charge of £5,545,000 to the profit and loss account.

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

15 Subsidiaries

Details of the company's subsidiaries at 31 December 2022 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct
Pearson Engineering Inc	87 Amlajack Way, Newnan, GA 30265, USA	Servicing and testing of engineering equipment	Ordinary	100.00
Responsive Engineering Limited	Armstrong Works, Scotswood Road, Newcastle upon Tyne, NE15 6UX	Manufacturing services	Ordinary	100.00
Pearson Engineering Singapore PTE Ltd	297 South Bridge Road, Singapore 058839	Business development	Ordinary	100.00

16 Stocks

	Group 2022 £000	2021 (Pro-forma) £000	Company 2022 £000	2021 £000
Raw materials and consumables	1,515	1,534	706	860
Work in progress	6,867	5,948	5,717	4,673
	<u>8,382</u>	<u>7,482</u>	<u>6,423</u>	<u>5,533</u>

17 Debtors

	Group 2022 £000	2021 (Pro-forma) £000	Company 2022 £000	2021 £000
Amounts falling due within one year:	£000	£000	£000	£000
Trade debtors	15,002	12,254	14,315	10,974
Corporation tax recoverable	-	55	-	42
Amounts owed by group undertakings	-	2	4,381	5,552
Derivative financial instruments	2,153	43	2,153	43
Other debtors	204	484	38	483
Prepayments and accrued income	956	1,634	668	1,035
	<u>18,315</u>	<u>14,472</u>	<u>21,555</u>	<u>18,129</u>
Deferred tax asset (note 21)	473	168	-	168
	<u>18,788</u>	<u>14,640</u>	<u>21,555</u>	<u>18,297</u>

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

18 Creditors: amounts falling due within one year

	Group 2022	2021 (Pro-forma)	Company 2022	2021
	£000	£000	£000	£000
Trade creditors	2,404	1,364	1,464	799
Amounts owed to group undertakings	8,105	575	9,969	1,902
Other taxation and social security	597	741	433	564
Other creditors	551	424	-	-
Accruals and deferred income	3,536	3,000	2,591	2,530
	<u>15,193</u>	<u>6,104</u>	<u>14,457</u>	<u>5,795</u>

19 Financial instruments

	Group 2022	2021 (Pro-forma)	Company 2022	2021
	£000	£000	£000	£000
Instruments measured at fair value through profit or loss	2,153	43	2,153	43

20 Provisions for liabilities

	Group 2022	2021 (Pro-forma)	Company 2022	2021
	£000	£000	£000	£000
Warranty provision	383	439	383	439
Onerous contracts	-	46	-	-
	<u>383</u>	<u>485</u>	<u>383</u>	<u>439</u>

Movements on provisions:

Group	Warranty provision £000	Onerous contracts £000	Total £000
At 1 January 2022	439	46	485
Additional provisions in the year	357	-	357
Reversal of provision	(374)	-	(374)
Utilisation of provision	(39)	(46)	(85)
At 31 December 2022	<u>383</u>	<u>-</u>	<u>383</u>

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

20 Provisions for liabilities (Continued)

Company	Warranty provision £000	Onerous contracts £000	Total £000
At 1 January 2022	439	-	439
Additional provisions in the year	357	-	357
Reversal of provision	(374)	-	(374)
Utilisation of provision	(39)	-	(39)
At 31 December 2022	<u>383</u>	<u>-</u>	<u>383</u>

21 Deferred taxation

The major deferred tax liabilities and assets recognised by the group and company are:

Group	Assets 2022 £000	Assets 2021 (Pro-forma) £000
Accelerated capital allowances	-	147
Tax losses	473	(11)
Short term timing differences	-	32
	<u>473</u>	<u>168</u>

Company	Assets 2022 £000	Assets 2021 £000
Accelerated capital allowances	-	147
Tax losses	-	(11)
Short term timing differences	-	32
	<u>-</u>	<u>168</u>

Movements in the year:	Group 2022 £000	Company 2022 £000
Asset at 1 January 2022	(168)	(168)
(Credit)/charge to profit or loss	(315)	158
Other	10	10
Asset at 31 December 2022	<u>(473)</u>	<u>-</u>

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

21 Deferred taxation (Continued)

The deferred tax asset set out above is expected to reverse within 12 months and relates to the utilisation of tax losses against future expected profits of the same period, in exchange for consideration to its subsidiary, Responsive Engineering Limited.

22 Retirement benefit schemes

	2022	2021
		(Pro-forma)
Defined contribution schemes	£000	£000
Charge to profit or loss in respect of defined contribution schemes	484	460
	<u>484</u>	<u>460</u>

A defined contribution pension scheme is operated for all qualifying employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

23 Share capital

	Group and Company			
	2022	2021	2022	2021
		(Pro-forma)		(Pro-forma)
			£	£
Ordinary shares of 10p each	1,000	1,000	100	100
	<u>1,000</u>	<u>1,000</u>	<u>100</u>	<u>100</u>

The ordinary shares carry the right to vote at general meetings.

24 Reserves

Hedging reserve

Gains and losses arising on derivatives designated as cash flow hedges for accounting purposes.

Merger reserve

The difference between the nominal value of shares issued plus the fair value of other consideration and the nominal value of shares received for group reconstructions accounted for using the merger method of accounting.

Profit and loss reserves

Cumulative profit and loss net of distributions to owners.

PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

25 Cash generated from group operations

	2022	2021 (Pro-forma)
	£000	£000
Profit for the year after tax	189	8,038
Adjustments for:		
Taxation (credited)/charged	(25)	222
Finance costs	105	16
Investment income	(2,155)	(3)
Gain on disposal of tangible fixed assets	(21)	(85)
Amortisation and impairment of intangible assets	50	74
Depreciation and impairment of tangible fixed assets	897	1,025
(Decrease)/increase in provisions	(102)	485
Movements in working capital:		
(Increase)/decrease in stocks	(900)	492
(Increase)/decrease in debtors	(1,788)	10,978
Increase/(decrease) in creditors	9,100	(726)
Cash generated from operations	<u>5,350</u>	<u>20,516</u>

26 Analysis of changes in net funds - group

	1 January 2022 (Pro-forma) £000	Cash flows £000	Exchange rate movements £000	31 December 2022 £000
Cash at bank and in hand	18,262	(12,308)	1	5,955

27 Operating lease commitments

Lessee

At the reporting end date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2022 £000	2021 (Pro-forma) £000	Company 2022 £000	2021 £000
Within one year	59	70	-	-
Between one and five years	183	38	-	-
In over five years	14	-	-	-
	<u>256</u>	<u>108</u>	<u>-</u>	<u>-</u>



PEARSON ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

28 Financial commitments, guarantees and contingent liabilities

Santander UK plc has fixed and floating charges over the undertaking and all assets owned by the group.

29 Controlling party

The ultimate controlling party is Rafael Advanced Defense Systems Limited, a company incorporated in Israel.