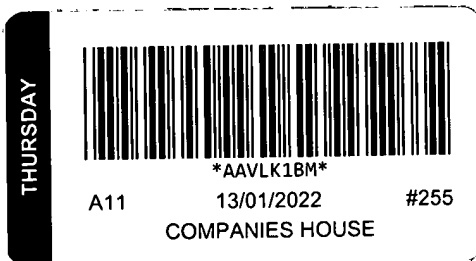


M.K. Test Systems Ltd

Annual Report and Financial Statements

For the year ended 31 May 2020

Registered number: 02706775



M.K. Test Systems Ltd

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Year Ended 31 May 2020

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M.K. Test Systems Ltd

Company Information

Directors	JC Evans CJ Bullock
Registered number	02706775
Registered office	ATE House Westpark 26 Chelston Wellington TA21 9AD
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR

M.K. Test Systems Ltd

Directors' Report

For the year ended 31 May 2020

The directors present their annual report and the audited financial statements of M.K. Test Systems Ltd ("the company") for the financial year ended 31 May 2020.

Directors

The directors who served during the entire year and up to the date of signing the financial statements, unless otherwise stated, were:

JC Evans
MP Threlfall (resigned 6 December 2021)
CJ Bullock

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Section 1A, 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 the 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 United Kingdom Accounting Standards, comprising FRS 102 Section 1A, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors 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.

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.

Directors' confirmation

In the case of each director in office at the date the Directors' Report is approved:

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

Independent auditors

The Board has approved the appointment of new auditors, Bishop Fleming LLP, to act as auditors for the Company commencing with the financial year ended 31 May 2021.

Small companies exemption

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006 and the Directors' Report has been prepared in accordance with the small companies regime.

Post balance sheet events

The Covid-19 outbreak has developed rapidly in 2020 with a significant number of infections. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in economic slowdown. Government and central banks have responded with monetary and fiscal interventions to stabilise the economic conditions.

Directors' Report continued

For the year ended 31 May 2020

Post balance sheet events (continued)

Having made a series of adjustments to its operating procedures to ensure the safety of its employees, the Company has continued to trade albeit at levels that were initially significantly lower than those levels experienced prior to the first lockdown. Subsequently, and during the second lockdown period, the activity levels of the Company have increased such that they are similar to pre-pandemic levels.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial statements for the year ended 31 May 2020 have not been adjusted to reflect their impact. The duration and impact of the Covid-19 pandemic has been extensive and difficult and is still very much in the throws at the time of signing (December 2021) with the recent wave of the Omicron variant but the Company has continued to trade safely and successfully, in line with the Government guidance, throughout the 2020/21 financial year and well in to the 2021/22 financial year.

Company restructure

In December 2021, following a period of negotiation, Synova Capital LLP bought out M P Threfall's loan notes held in its parent company, Jam Bidco Limited, as part of a planned company restructure. Under the restructure, Synova Capital LLP have taken on M P Threfall's 12% loan notes in their entirety and have extended the maturity date of the loan notes out to 31 December 2024. M Threfall resigned as director of the company on 6 December 2021.

Brexit

The company has evaluated, where possible, the impact of the new trading relationship with the EU following the UK withdrawing from the European Union (EU) on 31 January 2020.

Regulatory risks

The company will continue to follow EU regulations such as CE Marking (EU Directive 93/68/EEC) and make any necessary arrangements to adhere to new rules and regulations that arise.

Supply chain risks

The company's supply chain has very little exposure to suppliers from the EU and what exposure does exist has been evaluated and alternative suppliers, where possible, obtained. In the small number of cases where supply from an EU supplier is unavoidable the company accepts the risk that costs may increase due to tariff increases or import costs.

Export risks

The company relies on third party carriers to export its goods to the EU. The company is monitoring the impact Brexit could have upon its deliveries and exports and understands the potential for delayed shipments and additional costs.


Customer risks

Whilst EU customers provide a significant proportion of the company's revenues, the company's products are competitive due to their efficiency and ease of use. In addition, the company continually innovates in its market releasing new products with technical advantages and efficiencies. Furthermore the company is partnering with a number of distributor and strategic suppliers to protect its market share and reduce its direct presence in certain EU countries. The company is aware of the possible impact of a no-deal Brexit on its business such as additional cost or delays or making the company uncompetitive with its European rivals.

Currency risks

Consistent with the above customer risks, the company faces the risk of a weaker Pound impacting its sales and competitiveness. In the event of a stronger Pound the company's revenues and receivables could be eroded. The company will continue to review its pricing and competitiveness, and its hedging policies in order to mitigate where possible these risks.

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



CJ Bullock
Director

Date: 10 January 2022

Independent auditors' report to the members of M.K. Test Systems Ltd

Report on the audit of the financial statements

Opinion

In our opinion, M.K. Test Systems Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Section 1A, and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 May 2020; the Statement of Income and Retained Earnings for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

Independent auditors' report to the members of M.K. Test Systems Ltd continued

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 based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 May 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

Independent auditors' report to the members of M.K. Test Systems Ltd continued

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Stephen Patey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
11 January 2022

Statement of Income and Retained Earnings
for the year ended 31 May 2020

	Note	2020 £	2019 £
Turnover		3,784,915	3,319,286
Cost of sales		(695,922)	(1,070,518)
Gross profit		3,088,993	2,248,768
Administrative expenses		(2,483,738)	(2,906,608)
Operating profit/(loss)	3	605,255	(657,840)
Interest receivable and similar income		-	-
Interest payable and similar expenses		(20,805)	(19,887)
Profit/(loss) before taxation		584,450	(677,727)
Current tax on profit/(loss)		(19,297)	(9,446)
Deferred tax on profit/(loss)		(95,570)	130,849
Profit/(loss) for the financial year		469,583	(556,324)
Retained earnings			
Retained earnings at the beginning of the financial year		2,965,319	3,521,643
Profit/(loss) for the financial year		469,583	(556,324)
Retained earnings at the end of the financial year		3,434,902	2,965,319

The notes on pages 9 to 17 form part of these financial statements.

M.K. Test Systems Ltd
Registered Number: 02706775

Balance Sheet
as at 31 May 2020

	Note	2020 £	2019 £
Fixed assets			
Intangible assets	6	1,474,313	896,984
Tangible assets	7	405,181	468,513
		<u>1,879,494</u>	<u>1,365,497</u>
Current assets			
Stocks	8	854,524	762,845
Debtors	9	2,544,973	2,547,145
Cash at hand and in bank		278,745	5,403
		<u>3,678,242</u>	<u>3,315,393</u>
Creditors: amounts falling due within one year	10	<u>(2,006,019)</u>	<u>(1,533,528)</u>
Net current assets		<u>1,672,223</u>	<u>1,781,865</u>
Total assets less current liabilities		<u>3,551,717</u>	<u>3,147,362</u>
Creditors: amounts falling due after more than one year	11	(31,936)	(182,039)
Provisions for liabilities			
Deferred taxation	12	(84,875)	-
Net assets		<u>3,434,906</u>	<u>2,965,323</u>
Capital and reserves			
Called up share capital		4	4
Retained earnings		3,434,902	2,965,319
Total shareholder's funds		<u>3,434,906</u>	<u>2,965,323</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A – small entities.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



CJ Bullock
Director

Date: 10 January 2022

The notes on pages 9 to 17 form part of these financial statements.

M.K. Test Systems Ltd

Notes to the Financial Statements

For the Year Ended 31 May 2020

1. General information

M.K. Test Systems Ltd ("the company") is a private company limited by shares and is incorporated in England. The address of its registered office is ATE House, Westpark 26, Chelston, Wellington, TA21 9AD.

2. Accounting policies

2.1 Basis of preparation of financial statements

As noted in the directors' report, the Company has continued to trade but at levels that were initially significantly lower than those levels experienced prior to the first lockdown. Subsequently, and during the second and third lockdown periods, the activity levels of the Company have increased such that they are similar to pre-pandemic levels.

During the first lockdown period, the Company utilised the Government Job Retention Scheme by furloughing several members of staff during May to July 2020. The Company also applied for, and was accepted for, the Coronavirus Business Interruption Loan Scheme ('CBILS') in June 2020 to support working capital during this period and the Company also utilised the HMRC Pay-As-You-Earn ('PAYE') deferral during March to August 2020. The Company has a repayment schedule agreed with HMRC for this balance and has been paying PAYE in full since September 2020.

The forecasts prepared by the directors indicate that the Company will be able to achieve a positive EBITDA for the remainder of the year ended 31 May 2021 and for the 12 months from the date of signing. On this basis, the directors have concluded that it is appropriate that the financial statements be prepared on the going concern basis.

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The following principal accounting policies have been applied consistently throughout the year:

2.2 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Sale of goods

Turnover from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Services

Revenue from support or maintenance contracts is recognised by reference to the stage of completion of the contract determined by the value of the services provided at the balance sheet date as a proportion of the total value of the service agreement.

2.3 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.4 Tangible assets

Tangible assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

M.K. Test Systems Ltd

Notes to the Financial Statements

For the Year Ended 31 May 2020

2. Accounting policies (continued)

2.4 Tangible assets (continued)

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, on a reducing balance basis.

Depreciation is provided on the following basis:

- Leasehold improvements - 10% reducing balance
- Plant and machinery - 15% reducing balance
- Motor vehicles - 25% reducing balance
- Office equipment - 10% reducing balance
- Computer equipment - 33.3% straight-line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Income and Retained Earnings.

2.5 Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.8 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Earnings.

M.K. Test Systems Ltd

Notes to the Financial Statements

For the Year Ended 31 May 2020

2. Accounting policies (continued)

2.8 Financial instruments (continued)

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Financial assets and liabilities are offset and the net amount is reported in the Balance Sheet when there is an 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.

2.9 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.10 Foreign currency translation

Functional and presentational currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Income and Retained Earnings except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Income and Retained Earnings within 'interest receivable and similar income' or 'interest payable and similar expenses'. All other foreign exchange gains and losses are presented in the Statement of Income and Retained Earnings within 'administrative expenses'.

2.11 Operating leases

Rentals paid under operating leases are charged to the Statement of Income and Retained Earnings on a straight-line basis over the lease term.

2.12 Leased assets

Assets obtained under hire purchase contracts are capitalised as tangible fixed assets. Assets acquired by hire purchase are depreciated over their useful lives.

2.13 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the company in independently administered funds.

M.K. Test Systems Ltd

Notes to the Financial Statements

For the Year Ended 31 May 2020

2. Accounting policies (continued)

2.14 Provisions for liabilities

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

Provisions are charged as an expense to the Statement of Income and Retained Earnings in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Income and Retained Earnings, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Critical accounting estimates and assumptions

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

Intangible assets

The company invests labour cost and materials into developing new products for the market. The Research and Development ('R&D') cost is capitalised during the year and amortised over a four year period. The company capitalises R&D expenditures when management deem that the cost relates specifically to the design and construction of new products during their development cycle and prior to their commercial introduction.

Stock provisions

The company provides for slow moving stock with specific provisions. If stock items have not been utilised for a period greater than one year the company makes a 25% - 50% provision against its cost.

Bad debt provisions

The company provides for specific bad and doubtful debts when it becomes clear, following a period of negotiation and discussion with the customer, that the debt is at risk of being collected. Management provides fully for any doubtful debts during the year.

M.K. Test Systems Ltd

Notes to the Financial Statements
For the Year Ended 31 May 2020

3. Auditors' remuneration

	2020	2019
	£	£
Fees payable to the company's auditors for the audit of the company's annual financial statements	<u>24,122</u>	<u>17,868</u>
Fees payable to the company's auditors in respect of:		
Taxation compliance services	<u>3,200</u>	<u>2,955</u>

4. Employees

The average monthly number of employees, including directors, during the year was 38 (2019: 37).

5. Items charged to the Statement of Income and Retained Earnings

	2020	2019
	£	£
Leasing charges	61,658	49,000
Research & Development expensed	490,143	241,000
Amortisation	471,509	418,000
Depreciation	<u>54,731</u>	<u>51,000</u>

6. Intangible assets

	Research & Development £
Cost	
At 1 June 2019	1,986,661
Additions	1,048,838
Disposals	(692,988)
At 31 May 2020	<u>2,342,511</u>
Accumulated amortisation	
At 1 June 2019	1,089,677
Charge for the year	471,509
Disposals	(692,988)
At 31 May 2020	<u>868,198</u>
Net book value	
At 31 May 2020	<u>1,474,313</u>
At 31 May 2019	<u>896,984</u>

M.K. Test Systems Ltd

Notes to the Financial Statements
For the Year Ended 31 May 2020

6. Intangible assets (continued)

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred research and development costs previously recognised as an expense are not recognised as an asset in a subsequent year.

7. Tangible assets

	Leasehold improvements £	Plant & machinery £	Motor vehicles £	Office equipment £	Computer equipment £	Total £
Cost						
At 1 June 2019	448,777	14,913	39,096	17,087	32,073	551,946
Additions	-	-	-	1,031	1,537	2,568
Disposals	-	(2,888)	(19,968)	(5,870)	(7,324)	(36,050)
At 31 May 2020	448,777	12,025	19,128	12,248	26,286	518,464
Accumulated Depreciation						
At 1 June 2019	32,600	6,090	25,801	3,996	14,946	83,433
Charge for the year	41,618	1,201	2,024	1,115	8,773	54,731
Disposals	-	(1,572)	(14,425)	(2,147)	(6,737)	(24,881)
At 31 May 2020	74,218	5,719	13,400	2,964	16,982	113,283
Net book value						
At 31 May 2020	374,559	6,306	5,728	9,284	9,304	405,181
At 31 May 2019	416,177	8,823	13,295	13,091	17,127	468,513

8. Stocks

	2020 £	2019 £
Raw materials and consumables	681,743	599,310
Work in progress	172,781	163,535
	<u>854,524</u>	<u>762,845</u>

M.K. Test Systems Ltd

Notes to the Financial Statements
For the Year Ended 31 May 2020

9. Debtors

	2020	2019
	£	£
Trade debtors	533,311	543,729
Amounts owed by group undertakings	1,717,435	1,791,183
Other debtors	85,324	83,539
Prepayments and accrued income	86,363	41,183
Tax recoverable	122,540	76,816
Deferred tax asset	-	10,695
	<u>2,544,973</u>	<u>2,547,145</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

10. Creditors: amounts falling due within one year

	2020	2019
	£	£
Overdrafts	-	142,185
Trade creditors	537,220	443,736
Amounts owed to group undertakings	814,964	345,873
Other taxation and social security	246,473	59,980
Obligations under hire purchase contracts	156,365	158,740
Other creditors	127,985	192,538
Accruals and deferred income	123,012	190,476
	<u>2,006,019</u>	<u>1,533,528</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

Included within other creditors are amounts totalling £38,186 (2019: £62,073) relating to warranty provisions.

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

	2020	2019
	£	£
Obligations under hire purchase contracts between two and five years	<u>31,936</u>	<u>182,039</u>

M.K. Test Systems Ltd

Notes to the Financial Statements

For the Year Ended 31 May 2020

12. Deferred taxation

	2020 £
At beginning of year	(10,695)
Deferred tax charged to Statement of Income and Retained Earnings for the year	95,570
At end of year	<u>84,875</u>

The provision/(asset) for deferred taxation is made up as follows:

	2020 £	2019 £
Original and reversal of timing differences	33,710	34,560
Short term timing differences	277,775	149,692
Losses	(207,325)	(185,501)
R&D expenditure credit	(19,285)	(9,446)
	<u>84,875</u>	<u>(10,695)</u>

13. Commitments under operating leases

At 31 May the company had future minimum lease payments under non-cancellable operating leases as follows:

	2020 £	2019 £
Not later than 1 year	61,966	60,928
Later than 1 year and not later than 5 years	234,956	238,644
Later than 5 years	466,224	524,502
	<u>763,146</u>	<u>824,074</u>

14. Related party transactions

The pension scheme, of which MP Threlfall, director, is a trustee, owned the premises from which the company operated until 1 November 2018. During the year £nil (2019: £12,917) was paid to the pension scheme in respect of rent for the year. From 1 November 2018, the company moved to new premises which were not owned by MP Threlfall.

During the year the company paid £nil (2019: £141,726) to Synova Capital on behalf of its subsidiary, Synova Capital General Partner 4 Limited, for administrative support activities. Synova Capital General Partner 4 Limited, is a significant investor in the company's ultimate parent Jam Topco Limited.

Included in amounts owed by group undertakings is an amount of £1,484,789 (2019: £1,484,789) due from M.K. Test Group Limited, £133,009 (2019: £46,102) from M.K. Test Systems Americas, Inc. and £99,637 (2019: £99,637) from Jam Topco Limited. Included in amounts owed to group undertakings is an amount of £814,964 (2019: £345,873) due to Jam Bidco Limited.

During the year the company generated £604,965 (2019: £565,361) from intercompany sales to MK Test Systems Americas, Inc.

M.K. Test Systems Ltd

Notes to the Financial Statements

For the Year Ended 31 May 2020

15. Ultimate parent undertaking and controlling party

The company's immediate parent company is M.K. Test Group Limited and the ultimate parent company is Jam Topco Limited. Both companies are registered in England.

16. Post balance sheet event

Covid-19

The Covid-19 outbreak has developed rapidly in 2020 with a significant number of infections. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in economic slowdown. Government and central banks have responded with monetary and fiscal interventions to stabilise the economic conditions.

Having made a series of adjustments to its operating procedures to ensure the safety of its employees, the Company has continued to trade albeit at levels that were initially significantly lower than those levels experienced prior to the first lockdown. Subsequently, and during the second and third lockdown periods, the activity levels of the Company have increased such that they are similar to pre-pandemic levels.

During the first lockdown period, the Company utilised of the Government Job Retention Scheme by furloughing several members of staff during May to July 2020. The Company also applied for, and was accepted for, the Coronavirus Business Interruption Loan Scheme ('CBILS') in June 2020 to support the working capital during the lockdown period. The Company also utilised the HMRC Pay-As-You-Earn ('PAYE') deferral during March to August 2020. The Company has a repayment schedule agreed with HMRC for the deferred balance which has already commenced and the Company has been paying its PAYE liability on-time and in full since September 2020.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial statements for the year ended 31 May 2020 have not been adjusted to reflect their impact. The duration and impact of the Covid-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to assess the potential impact of the pandemic on the carrying value of the Company's assets in the forthcoming financial year.

We will continue to follow the various government policies and advice, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our team.

Company restructure

In December 2021, following a period of negotiation, Synova Capital LLP bought out M P Threfall's loan notes held in its parent company, Jam Bidco Limited, as part of a planned company restructure. Under the restructure, Synova Capital LLP have taken on M P Threfall's 12% loan notes in their entirety and have extended the maturity date of the loan notes out to 31 December 2024. M Threfall resigned as director of the company on 6 December 2021.