

Applied Kilovolts Limited

Annual Report and Financial Statements

Year Ended

28 June 2019

Company Number 02101051

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Applied Kilovolts Limited

Company Information

Directors	P Faulds S Cosgrove T B Campbell
Company secretary	A L Docherty
Registered number	02101051
Registered office	Woods Way Goring By Sea Worthing West Sussex BN12 4QY
Independent auditor	BDO LLP 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA
Bankers	J P Morgan Chase Bank N.A 25 Bank Street London E14 5JP
Solicitors	Shoosmiths 1550 Parkway Solent Business Park Whiteley Fareham Hampshire PO15 7AG

Applied Kilovolts Limited

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Applied Kilovolts Limited

Strategic Report For the Year Ended 28 June 2019

The directors present their strategic report together with the audited financial statements of the company for the year ended 28 June 2019.

Strategic review

The principal activity continues to be design, manufacture and supply of application-specific high voltage power supplies for quadrupole and time-of-flight mass spectrometry in an expanding international market. This remains the key business focus, consistent with the previous year.

A stable demand outlook in our core mass spectrometry market and gradually improving operational effectiveness through FY19 resulted in solid financial performance for the period, as evidenced in the financial report. We have taken price action with some customers and made investments, mostly into improved compliance, in FY19 which suppressed profit compared with similar revenue last fiscal year (before adjustments). The business retains reasonably strong customer relationships and continues to develop new ones through a healthy mix of legacy and new product offerings.

Profit before tax is £845k on FY19 sales of £8,311K. This represents the best profitability Applied Kilovolts has had since the Harris acquisition and reflects continuing operational improvement since consolidating the power supply business at Applied Kilovolts from Al-Rochester in FY17.

The global mass spectrometry market continues to witness rapid transformation towards high-resolution systems for qualitative analysis, driven by demands in life science, pharmaceutical, chemical and petrochemical industries. A 5 year CAGR of 7.2% is forecast in the global mass spectrometry market and is expected to continue to be roughly equally split among North America, Europe and Asia markets.

Principal risks and uncertainties

The business operates in a highly competitive market which is a continuing risk to the company. The risk is managed by providing high value offerings and services to its customers closely aligned to their specific needs and expectations.

The company sources products primarily from within the UK due to the critical nature of the products and markets served, and strategically to maximize our influence among suppliers. There are several high value strategic suppliers based in Western Europe and the USA, and the company is therefore exposed to movements in the Euro / Dollar to Pound exchange rate. Risk of fluctuations continue to be minimised by the level of Euro and Dollar customer revenues and limited long term fixed price contracts.

Competitive Risk

The majority of our contracts are obtained through a competitive bidding process. The successful award of these contracts is uncertain. To continue to operate successfully the company relies on a diverse portfolio of specialist products and capabilities which enables us to support our prime contractors and commercial customers. The company continues to invest in capital equipment, research and development and focussed training to maintain product and program capabilities.

Applied Kilovolts Limited

Strategic Report (continued) For the Year Ended 28 June 2019

Principal risks and uncertainties (continued)

Legislative Risk

As a supplier to an international market, compliance with local market regulations and product safety requirements are carefully evaluated. Failure to comply with such requirements may impact on the performance of company. The company carries out contractual compliance reviews and regular audits to ensure ongoing compliance. Applied Kilovolts remains compliant with GDPR regulation FY19, for which the staff is to be commended.

Primary legislative risk in FY19 is connected to the impending Brexit and ongoing tariff and exchange rate uncertainty surrounding that event. We have not quantified nor reserved against any such risk because it is our belief that a difficult Brexit, which could result in tariffs on our products destined for EU countries (representing 25% of our revenue) would likely be offset by Sterling weakness and not materially affect our financial results in FY19/20.

Technical Skill Risk

Competition for technical resources, as well as inflationary wage pressures, are an accepted part of the business landscape in our industry and in the Sussex business environment in general. We have experienced less attrition in engineering roles in FY19 than last year and are largely hitting our marks on new product introduction efforts.

Coronavirus

The directors of the Company have assessed the impact of COVID-19 and have completed a range of forecasts and "what if scenarios" to address the impact of this pandemic through the review period. These show that the company has significant financial resources and is in a strong position to deal with the possible economic impact. We have reviewed the possible effects of a temporary reduction in revenue either due to a mandated shutdown period or temporary drop in customer demand and do not see any impact to the business aside from a possible immaterial movement of revenue and profit to subsequent periods.

Our Key customers are remaining open at present and have requested a continued supply as they are determined as key suppliers within the life sciences and medical fields. We have also had no significant adverse communications or issues with current supply of products. The procurement team are performing regular reviews to verify the incoming supply is robust and that we can get the required parts, we have secured further stocks of key components to mitigate any possible future risks, including tactical buys to bring in extra parts where vulnerabilities are suspected.

Whilst at this point is not possible to anticipate or cover all scenarios to determine the full impact on the company, its customers, employees and suppliers, the Directors are confident that the plans in place are robust and have been developed to cover multiple potential situations and mitigate risk to the business. The plans will continue to be monitored regularly to ensure the business has the resources required to meet the challenges in this difficult time. In addition to this, day to day challenges are being addressed through daily COVID – 19 reviews by the leadership team to ensure that all concerns are dealt with prior to them becoming serious enough to effect the strategic direction or the medium term stability of the business.

Corporate and social responsibility

Our business is aligned with the L3Harris Corporate owner Values — "Integrity, Respect, and Excellence". They guide us in making business decisions; governing our organisation; improving the environment and caring for our employees. We are committed to developing and maintaining strong safety and environmental management programs with auditable and actionable target improvements.

Applied Kilovolts Limited

Strategic Report (continued)
For the Year Ended 28 June 2019

This report was approved by the board on 17 April 2020 and signed on its behalf.



J. Cosgrove
Director

Applied Kilovolts Limited

Directors' Report For the Year Ended 28 June 2019

The directors present their report together with the audited financial statements for the year ended 28 June 2019.

Principal activities

The principal activities of the company during the year continued to be that of manufacturing of electronic components.

Results and dividends

The profit for the year, after taxation, amounted to £688,381 (2018 - £802,124).

During the year the directors recommended a dividend of £5,283,151 (2018 - £Nil), which was settled through the intercompany balance with the parent entity.

Directors

The directors who served during the year were:

P Faulds
S Cosgrove
T B Campbell
M Krishnan (appointed 17 July 2018, resigned 9 September 2019)

Post statement of financial position events

On 20th February L3 Harris signed a definitive agreement with Adaptas Solutions to acquire Applied Kilovolts Limited. This is a great opportunity for Applied Kilovolts as our product range is strategically aligned with Adaptas Solutions, whose strategy is to expand their mass spectrometer component product offering, whilst expanding their global manufacturing to include Europe. Adaptas Solutions have extensive experience in this business segment and already sell products to our existing key customers. The transaction is expected to be finalised mid-2020.

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks including price risk, credit risk, cash flow risk and liquidity risk. These are minimised by robust contracting practices throughout the supply chain and customer base, tight credit controls and robust review policies.

Cash flow risk

The capital-intensive nature of electronics manufacturing business exposes Applied Kilovolts to risk of maintaining sufficient cash reserves to conduct ongoing operations including meeting payroll. We have mitigated that risk in FY19 through close cash flow management, and ended FY19 with £2,586K or ~4 months expenses in cash accounts, more than sufficient to meet near term operating expenses.

Exchange risk

Since consolidating the power supply business at Applied Kilovolts from Al-Rochester, our customer mix has changed to become >40% sales to one key customer. All these sales are in \$USD, so we are exposed to margin risk associated with GBP/USD exchange, since almost all our costs (>95%) are in Sterling. L3 Harris policies do not permit us to hedge this risk, so we mitigate it with close cost control in manufacturing.

Credit risk

The principal financial assets are bank balances and trade receivables however the company does not have a significant concentration of credit risk, with exposure spread over a large number of customers and the use of "Proforma Invoices" for new customers or historical poor payers.

Applied Kilovolts Limited

Directors' Report (continued)
For the Year Ended 28 June 2019

Financial risk management objectives and policies (continued)

Liquidity risk

There is no significant liquidity risk to the company and in the unlikely event of liquidity issues assistance from the Group would be sought.

Price/cost risk

The company is exposed to commodity price risk due to the purchase of various raw materials where supply costs are potentially volatile. This commodity price risk is mitigated by incorporating known cost increases into the items selling prices, and wherever possible fixing supply contract prices for the duration of the requirement. The increasingly competitive mass spectrometry market places pressure on our pricing ability as well, so revenue has that risk associated. We have taken price action in FY19 with two large customers and consider this risk abated for a couple of years at least.

Future developments

The business has considerable financial resources and together with group prospects for the forthcoming year, is well placed to deliver technology led new product opportunities with both existing and new customers across defined market growth targets. The directors believe that the company is well placed in the market and fully prepared to invest and exploit the targeted growth areas, both domestically and internationally.

Disclosure of information to auditor

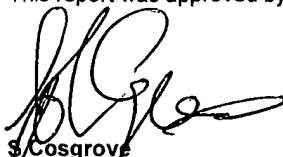
Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

The auditor, BDO LLP, is deemed to be reappointed in accordance with section 386 of the Companies Act 1985 by virtue of an elective resolution passed by the members on 30 June 2015.

This report was approved by the board on 17 April 2020 and signed on its behalf.


S. Cosgrove
Director

Applied Kilovolts Limited

Directors' Responsibilities Statement For the Year Ended 28 June 2019

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

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

Applied Kilovolts Limited

Independent Auditor's Report to the Members of Applied Kilovolts Limited For the Year Ended 28 June 2019

Opinion

We have audited the financial statements of Applied Kilovolts Limited ("the company") for the year ended 28 June 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 28 June 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

Applied Kilovolts Limited

Independent Auditor's Report to the Members of Applied Kilovolts Limited For the Year Ended 28 June 2019 (continued)

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Applied Kilovolts Limited

Independent Auditor's Report to the Members of Applied Kilovolts Limited For the Year Ended 28 June 2019 (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 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.

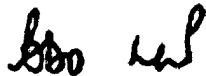
Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at 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.



John Everingham (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Gatwick
United Kingdom
01 May 2020

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

Applied Kilovolts Limited

Statement of Comprehensive Income For the Year Ended 28 June 2019

	Note	2019 £	2018 £
Turnover	4	8,311,159	8,159,042
Cost of sales		(4,299,500)	(4,461,858)
Gross profit		4,011,659	3,697,184
Distribution costs		(61,884)	(108,860)
Administrative expenses		(3,104,842)	(2,640,780)
Operating profit	5	844,933	947,544
Interest payable and similar expenses	8	(68)	(1,096)
Profit before tax		844,865	946,448
Tax on profit	9	(156,484)	(144,324)
Profit for the financial year		688,381	802,124
Other comprehensive income		-	-
Total comprehensive income for the year		688,381	802,124

The notes on pages 13 to 27 form part of these financial statements.

Applied Kilovolts Limited
Registered number: 02101051

Statement of Financial Position
As at 28 June 2019

	Note	28 June 2019 £	28 June 2019 £	29 June 2018 £	29 June 2018 £
Fixed assets					
Tangible assets	11		123,735		178,570
Current assets					
Stocks	12	1,498,351		1,643,442	
Debtors: amounts falling due within one year	13	971,307		6,427,150	
Cash at bank and in hand		2,585,577		1,947,222	
		<u>5,055,235</u>		<u>10,017,814</u>	
Creditors: amounts falling due within one year	14	(1,151,862)		(1,549,506)	
Net current assets			<u>3,903,373</u>		<u>8,468,308</u>
Total assets less current liabilities			<u>4,027,108</u>		<u>8,646,878</u>
Provisions for liabilities					
Other provisions	15		-		(25,000)
Net assets			<u>4,027,108</u>		<u>8,621,878</u>
Capital and reserves					
Called up share capital	16		89,267		89,267
Profit and loss account	17		3,937,841		8,532,611
Total equity			<u>4,027,108</u>		<u>8,621,878</u>

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


S Cosgrove
Director

27 April 2020

The notes on pages 13 to 27 form part of these financial statements.

Applied Kilovolts Limited

Statement of Changes in Equity For the Year Ended 28 June 2019

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 30 June 2018	89,267	8,532,611	8,621,878
Comprehensive income for the year			
Profit for the year	-	688,381	688,381
Total comprehensive income for the year	-	688,381	688,381
Contributions by and distributions to owners			
Dividends paid	-	(5,283,151)	(5,283,151)
Total transactions with owners	-	(5,283,151)	(5,283,151)
At 28 June 2019	89,267	3,937,841	4,027,108

Statement of Changes in Equity For the Year Ended 29 June 2018

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 July 2017	89,267	7,730,487	7,819,754
Comprehensive income for the period			
Profit for the period	-	802,124	802,124
Total comprehensive income for the period	-	802,124	802,124
At 29 June 2018	89,267	8,532,611	8,621,878

The notes on pages 13 to 27 form part of these financial statements.

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

1. General information

Applied Kilovolts Limited is a private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities are given within the strategic report and directors' report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

2.2 Going concern

As at the statement of financial position date, the company has net assets of £4,027,108 (2018 - £8,621,878) and has made a profit after tax in the year of £688,381 (2018 - £802,124). In determining if the company is a going concern, the directors have prepared the forecasts for a period of twelve months from the date of approval of these financial statements, including the potential impact of COVID-19. The Directors are monitoring the effects of COVID-19 closely and considered a number of scenarios in their assessment, including supply and demand requirements as discussed in the strategic report on page 1. The forecasts indicate that the company will continue as a going concern with the current cash resources available to it, even in the case of minimal activity. On that basis, the directors have a reasonable expectation that the company will be able to meet its liabilities as they fall due and have prepared the financial statements on a going concern basis.

2.3 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Harris Corporation as at 28 June 2019 and these financial statements may be obtained from 1025 West NASA Boulevard, Melbourne, FL USA 32919.

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

2. Accounting policies (continued)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue 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 revenue is recognised:

Sale of goods

Revenue 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 revenue 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.

2.5 Tangible fixed assets

Tangible fixed 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.

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, using the straight-line method.

Depreciation is provided on the following basis:

Long-term leasehold property	- over the period of the lease
Plant and machinery	- 5 - 8 years
Computer equipment	- 3 years

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 comprehensive income.

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

2. Accounting policies (continued)

2.6 Operating leases: the company as lessee

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard of 4 July 2015 to continue to be charged over the period to the first market rent review rather than the term of the lease.

2.7 Impairment of fixed assets

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

2.8 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 standard cost method.

At each reporting date, inventories are assessed for impairment. If inventory 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.

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

2.9 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.

2.10 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.

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

2. Accounting policies (continued)

2.11 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 comprehensive income.

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.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

2.12 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.

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

2. Accounting policies (continued)

2.13 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the previous end of month exchange rate.

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 comprehensive income 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 comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

2.14 Finance costs

Finance costs are charged to the statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.15 Dividends

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

2.16 Leased assets: the company as lessee

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the statement of comprehensive income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

2. Accounting policies (continued)

2.17 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 comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

2.18 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the statement of financial position date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the statement of financial position date.

2.19 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 comprehensive income in the year that the company becomes aware of the obligation, and are measured at the best estimate at the statement of financial position 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 statement of financial position.

2.20 Current and deferred taxation

Tax is recognised in the statement of comprehensive income, 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 reporting 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 statement of financial position 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;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the company can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

2. Accounting policies (continued)

2.20 Current and deferred taxation (continued)

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 reporting date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgements:

- Determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- Tangible fixed assets (see note 11)

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking in to account their residual values where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on the number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

4. Turnover

Analysis of turnover by country of destination:

	28 June 2019 £	29 June 2018 £
United Kingdom	929,273	1,145,445
Rest of the world	7,381,886	7,013,597
	<u>8,311,159</u>	<u>8,159,042</u>

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

5. Operating profit

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

	28 June 2019 £	29 June 2018 £
Depreciation of tangible fixed asset	80,203	77,871
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	21,700	22,250
Taxation compliance services	4,306	4,650
Exchange rate differences	(16,719)	8,848
Other operating lease rentals	92,890	83,037
Loss/(Gain) on disposal of fixed asset	2,464	(2)

6. Employees

Staff costs were as follows:

	28 June 2019 £	29 June 2018 £
Wages and salaries	2,032,783	2,008,315
Social security costs	186,814	176,619
Cost of defined contribution scheme	77,500	60,398
	<u>2,297,097</u>	<u>2,245,332</u>

The average monthly number of employees during the year was as follows:

	2019 No.	2018 No.
Average number of production staff	30	26
Average number of administration staff	39	40
	<u>69</u>	<u>66</u>

7. Directors remuneration

During the year, no directors received any emoluments (2018 - £Nil).

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

8. Interest payable and similar expenses

	28 June 2019 £	29 June 2018 £
Bank interest payable	68	1,096

9. Taxation

	28 June 2019 £	29 June 2018 £
Corporation tax		
Current tax on profits for the year	165,895	191,639
Adjustments in respect of previous periods	(9,411)	(64,623)
Total current tax	156,484	127,016
Deferred tax		
Origination and reversal of timing differences	1,801	(2,732)
Adjustments in respect of prior periods	(1,801)	20,040
Total deferred tax	-	17,308
Taxation on profit on ordinary activities	156,484	144,324

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2018 - lower than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	28 June 2019 £	29 June 2018 £
Profit on ordinary activities before tax	844,865	946,448
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	160,524	179,825
Effects of:		
Fixed asset differences	1,087	-
Expenses not deductible for tax purposes	10	6,301
Other tax adjustments, reliefs and transfers	19	-
R&D expenditure credits	576	-
Adjustments to tax charge in respect of previous periods	(9,411)	(64,623)
Adjustments to tax charge in respect of previous periods - deferred tax	(1,801)	20,040
Deferred tax not recognised	5,093	2,781
Change in tax rates	387	-
Total tax charge for the year	156,484	144,324

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

10. Dividends

	28 June 2019 £	29 June 2018 £
Dividends paid (2019: £59.18 per share. 2018: £nil per share)	5,283,151	-

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

11. Tangible fixed assets

	Long-term leasehold property £	Plant and machinery £	Computer equipment £	Total £
Cost				
At 30 June 2018	441,933	271,227	173,905	887,065
Additions	-	25,368	-	25,368
Disposals	-	(9,245)	-	(9,245)
At 28 June 2019	441,933	287,350	173,905	903,188
Depreciation				
At 30 June 2018	410,822	123,768	173,905	708,495
Charge for the year	31,019	49,184	-	80,203
Disposals	-	(9,245)	-	(9,245)
At 28 June 2019	441,841	163,707	173,905	779,453
Net book value				
At 28 June 2019	92	123,643	-	123,735
At 29 June 2018	31,111	147,459	-	178,570

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

12. Stocks

	28 June 2019 £	29 June 2018 £
Raw materials and consumables	1,040,419	1,002,791
Work in progress	94,042	272,126
Finished goods	363,890	368,525
	<u>1,498,351</u>	<u>1,643,442</u>

The impairment loss recognised within cost of sales in the statement of comprehensive income for the period in respect of stock obsolescence was £55,070 (2018 - £43,153).

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

13. Debtors: amounts falling due within one year

	28 June 2019 £	29 June 2018 £
Trade debtors	749,751	908,793
Amounts owed by group undertakings	-	5,283,150
Other debtors	11,807	20,137
Prepayments and accrued income	55,460	55,554
VAT recoverable	154,289	159,516
	<u>971,307</u>	<u>6,427,150</u>

The impairment loss recognised in profit or loss for the year in respect of bad and doubtful trade debtors was £Nil (2018 - £Nil).

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

14. Creditors: amounts falling due within one year

	28 June 2019 £	29 June 2018 £
Trade creditors	664,367	939,639
Amounts owed to group undertakings	67,327	127,681
Corporation tax	92,886	94,743
Other taxation and social security	52,743	54,474
Other creditors	62,759	127,175
Accruals and deferred income	211,780	205,794
	<u>1,151,862</u>	<u>1,549,506</u>

15. Provisions

	Other provisions £
At 30 June 2018	25,000
Utilised in year	(25,000)
At 28 June 2019	<u>-</u>

The provision recognised in the prior year is related to costs associated with a legal case which was resolved post year end. Payment was made in February 2019.

16. Share capital

	28 June 2019 £	29 June 2018 £
Authorised, allotted, called up and fully paid		
89,267 ordinary shares of £1 each	<u>89,267</u>	<u>89,267</u>

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

17. Reserves

The company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of the shares issued.

Profit and loss account

The profit and loss account represents cumulative profits or losses net of dividends paid and other adjustments.

18. Pension commitments

The pension cost charge represents contributions payable by the company to the fund and amounted to £77,500 (2018 - £60,396). There were no amounts payable at the end of the year (2018 - £Nil).

19. Commitments under operating leases

At 28 June 2019 the company had future minimum lease payments under non-cancellable operating leases as follows:

	28 June 2019 £	29 June 2018 £
Not later than 1 year	19,568	80,531
Later than 1 year and not later than 5 years	-	19,337
	<u>19,568</u>	<u>99,868</u>

20. Related party transactions

The company has taken advantage of the exemption conferred by Section 33.1A of FRS 102 not to disclose transactions with other wholly owned subsidiaries within the group as consolidated accounts, including the subsidiary undertakings, are publicly available.

21. Post balance sheet events

On 20th February L3 Harris signed a definitive agreement with Adaptas Solutions to acquire Applied Kilovolts Limited. This is a great opportunity for Applied Kilovolts as our product range is strategically aligned with Adaptas Solutions, whose strategy is to expand their mass spectrometer component product offering, whilst expanding their global manufacturing to include Europe. Adaptas Solutions have extensive experience in this business segment and already sell products to our existing key customers. The transaction is expected to be finalised mid-2020.

Applied Kilovolts Limited

Notes to the Financial Statements For the Year Ended 28 June 2019

22. Controlling party

The immediate parent company is Harris Systems Limited, a company registered in England and Wales. Copies of their accounts are available from Unit 1 Dingley Way, Farnborough, Hampshire, United Kingdom, GU14 6FF. The company's ultimate parent company is Harris Corporation a company registered in the United States of America. The smallest and largest group in which the company's accounts are consolidated is now Harris Corporation. Copies of their accounts are available from 1025 West NASA Boulevard, Melbourne, FL USA 32919.