

Registered Number: 00190137

# **Megger Instruments Limited**

## **Report and Financial Statements**

For the year ended 30 November 2019



## Megger Instruments Limited

Registered No: 00190137

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## Megger Instruments Limited

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Registered No: 00190137

### **Directors**

G M Heritage  
R R C Titeca  
C P Nicholls  
B Phillips  
N F Cooke  
A C Dodds

### **Secretary**

A M Jordan

### **Auditor**

Grant Thornton UK LLP  
2<sup>nd</sup> Floor  
St. John's House  
Haslett Avenue West  
Crawley  
RH10 1HS

### **Registered office**

Avocet House  
Archcliffe Road  
Dover  
Kent  
CT17 9EN

## Megger Instruments Limited

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# Strategic Report

## Strategy of the company

The strategy of Megger Instruments Limited reflects that of Megger Group Limited at 30 November 2019 being the design, manufacture and sale of test instrumentation for the electrical industry.

## Performance and development of the company during the period

The profit for the year after taxation amounted to £9,922,000 (2018 - £8,663,000). The directors declared and paid a dividend of £5,250,000 (2018 - £7,239,000).

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

	2019	2018	Change
Turnover (£000)	36,356	34,358	6%
Total operating profit (£000)	12,281	10,573	16%
Average monthly number of employees	242	243	(0%)

Turnover increased by 5.8% in the year as a combined result of new product releases, increased sales and support focus in key areas, some large orders won and improving market conditions

Operating profit was 16.2% higher partly as a result of increased sales, new product releases, manufacturing efficiency improvements and a control of overheads.

Efficiency improvements were made through a Lean manufacturing programme and investment in new manufacturing plant increased output without increasing headcount in production areas.

The company continued to invest heavily in Research and Development and in the ongoing engagement, training, support and career growth of its people.

## Future developments

The major programmes for Megger Instruments Limited include further expansion and investment in New Product Development complimentary acquisitions prompting growth and increased share of key target markets, further improvements in manufacturing excellence and operational efficiency and further improvements in the effectiveness of material sourcing.

## Principal risks and uncertainties

The principal risks and uncertainties facing Megger Instruments Limited are exchange rate, legislation and economic conditions, liquidity and cash flow.

## Exchange rate risks

Megger Instruments Limited procures material internationally and over 50% of its purchases are US Dollar or Euro denominated. Generally the period of time between order receipt and payment is limited and currency gains and losses on individual transactions are not significant. However, over the year Megger Instruments Limited results can be significantly affected by fluctuations in exchange rates. This is partly mitigated by operating bank accounts in the major currencies used.

## Legislation risk

The company is fully supportive of health and safety and environmental improvement, but is at a continual disadvantage compared with international competitors, and faces potential design and supply issues as regulations continue to change. The company aims to mitigate these risks by holding regular compliance meetings, adopting ISO standards and maintains a business continuity focus.

## Strategic Report

### Economic conditions risks

Organic growth in the electrical test and measurement industry continues at a slow but steady rate, influenced by world-wide electrical demand, expansion of the construction industry in developing countries, tighter controls and stricter enforcement of electrical regulations and the adoption of higher efficiency loads. Increasing demand for alternative technology such as cleaner transportation solutions, electric vehicles and on-line monitoring, in turn provides opportunities for the Company through demand for innovative new electrical test solutions.

2019 has seen some continued market recovery but also uncertainty. However, excellent collaboration across the Megger Group and improvements to operating methodologies and process efficiency has facilitated beneficial revenue and profitability growth. Uncertainties in stock markets, oil and commodities, foreign exchange, and the actions of governments focused on reducing national debt continue.

The continued and elevated turbulence surrounding Brexit during 2019 has heightened uncertainty as the country prepares for its exit from Europe but this has so far had only minor effects on Megger instruments Ltd. As the company prepares for the now certain exit, mitigating actions will continue to be taken to reduce potentially unfavourable impact to the business.

Whilst the economic conditions for 2020 remain uncertain the structure and commercial diversity of Megger Instruments business continues to offset some of the risks created:

- The Company's products form a balanced portfolio with differing but limited lifetimes so replacements are needed periodically creating a significant ongoing demand for products.
- The gradual refocus of the electrical markets is providing new opportunities for the company
- Legislation changes not only continue but are increasing, providing an opportunity for the Company as product demand in many key markets is directly linked to ongoing product compliance.
- The Company continues to expand its market share focusing on Voice of the Customer and introducing a variety of new products, addressing new opportunities and demands for upgrades.
- Ageing infrastructure maintenance will continue regardless of economic conditions.
- The company continues its strategy of long term investment and focus on efficiency improvements.

Despite the continuing uncertainties in economic outlook for 2020 there remains many opportunities for growth both in core and adjacent markets and the company is expected to start reaping the benefits from recent investments in the expansion of manufacturing capacity and production technology so is expected to remain strongly profitable and cash positive.

### Liquidity and cash flow risks

The company aims to mitigate liquidity risk by managing cash generation throughout its operations and by applying cash generation procedures. The company manages cash flow risk by careful negotiation of terms with fellow group companies, customers and suppliers and maintains available funds to enable it to meet its liabilities as they fall due.

On behalf of the board



G M Heritage  
Director  
10 February 2020

## Megger Instruments Limited

Registered No: 00190137

### Directors' report

The directors present their report and accounts for the year ended 30 November 2019.

The strategic report on page 3 includes discussion on the following:

- Strategy of the company
- Performance and development of the company during the period including dividends paid during the financial year
- Future developments
- Risks and uncertainties facing the business

#### Principal activity

The company's principal activity continued to be the development and manufacture, marketing and distribution of electrical and electronic testing and measuring instruments.

#### Going concern

A financial review of the results and financial position of Megger Group, which includes Megger Instruments Limited, occurs each month with the whole Board of Megger Instruments Limited and the board of Megger Group Limited. The group and the company has considerable financial resources together with established long-term relationships with a number of customers and suppliers. As a consequence, the directors believe that the company is well placed to manage its business risks and liquidity successfully.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. The directors have reviewed the forecasts for the company for the following year and the predictions for growth in revenue and gross profit are conservative.

#### Employees

The company gives full consideration to applications for employment of disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

The company holds regular meetings with employee representatives to discuss the company's financial results, any significant operating issues, the future plans of the company and other matters of concern to its employees.

Their consultation is generally through informal channels, but is supplemented by an Employee Communication Forum whose members are elected by the employees.

#### Modern Slavery Act

Megger Group is committed to operating all aspects of its supply chain to ethical, environmental, social and safe business best practice. As such Megger requires all vendors supplying the company to operate to the same high standards, noting that vendors shall operate within the rules, laws and regulations applicable to the country of origin. The supply chain code of conduct used and operated by Megger Group has been developed to detail the expectations from all vendors. This is our minimum standard of practice expected, which includes appropriate due diligence to address the Modern Slavery Act 2015, implementing effective systems and controls to prevent and detect modern slavery. All vendors must be capable of demonstrating their procedures for compliance upon request and during vendor audits, which are regularly implemented in high risk countries.

## Megger Instruments Limited

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### Directors' report

Megger reviews its supply chains and operations on an ongoing basis to check compliance with the policy, and to ensure the policy is implemented effectively.

The directors who served during the year and to the date of this report were as follows:

G M Heritage  
R R C Titeca  
B Phillips  
C P Nicholls  
N F Cooke  
A C Dodds

#### Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report and 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, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). 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 and 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

#### Directors' qualifying third party indemnity provisions

The Company's parent undertaking has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report.

#### Research and development activities

The company has a programme of research and development projects in order to develop new products in line with market demand and to respond to rapid change in new technology and a programme of current development projects which address on going enhancements to existing products.

## Megger Instruments Limited

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### Directors' report

#### Disclosure of information to the auditors

The directors confirm that:

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

#### Auditors

In accordance with s485(4) of the Companies Act 2006 a resolution to appoint Grant Thornton UK LLP as auditors will be proposed at the Annual General Meeting.

On behalf of the board



G M Heritage  
Director  
10 February 2020



## **Independent auditor's report**

### **to the members of Megger Instruments Limited**

#### **Opinion**

We have audited the financial statements of Megger Instruments Limited (the 'company') for the year ended 30 November 2019 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, 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 30 November 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.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information other than the financial statements and our auditor's report there on. 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.

## **Independent auditor's report**

**to the members of Megger Instruments Limited**

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

### **Matter on which we are required to report under the Companies Act 2006**

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 directors' report or the strategic report.

### **Matters on which we are required to report by exception**

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.

### **Responsibilities of directors for the financial statements**

As explained more fully in the directors' responsibilities statement set out on page 6, 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 on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Independent auditor's report**

**to the members of Megger Instruments Limited**

### **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.

*Grant Thornton UK LLP*

Jonathan Maile BSc (Hons) FCA  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Crawley  
10 February 2020

## Income Statement

for the year ended 30 November 2019

		2019	2018
	Notes	£000	£000
Turnover	2	36,356	34,358
Cost of sales		<u>(16,907)</u>	<u>(15,875)</u>
Gross profit		19,449	18,483
Distribution costs		(1,660)	(1,726)
Administrative expenses		(2,444)	(2,459)
Research and development expenses		<u>(3,064)</u>	<u>(3,725)</u>
Operating profit	3	12,281	10,573
Interest receivable and similar income	4	471	462
Interest payable and similar charges	5	<u>(505)</u>	<u>(483)</u>
Profit on ordinary activities before taxation		12,247	10,552
Taxation	6	<u>(2,325)</u>	<u>(1,889)</u>
Profit for the financial year		<u>9,922</u>	<u>8,663</u>

All operations are continuing for the years ended 30 November 2019 and 2018.

## Statement of comprehensive income

for the year ended 30 November 2019

		2019	2018
		£000	£000
Profit for the financial year		9,922	8,663
Actuarial gain/ (loss) in respect of defined benefit pension schemes	21	474	(485)
Tax (charge) / credit in respect of defined benefit pension scheme		<u>(80)</u>	<u>82</u>
Total comprehensive income for the financial year		<u>10,316</u>	<u>8,260</u>

Wholly attributable to shareholders of Megger Instruments Limited

The accounting policies and notes on pages 13 to 26 form part of these financial statements.

## Statement of Financial Position

at 30 November 2019

	Notes	2019 £000	2018 £000
<b>Fixed assets</b>			
Intangible assets	9	5,227	4,715
Tangible assets	10	<u>6,110</u>	<u>4,904</u>
		11,337	9,619
<b>Current assets</b>			
Stocks	11	4,125	4,343
Debtors	12	6,650	5,151
Cash at bank and in hand		<u>4,616</u>	<u>3,140</u>
		15,391	12,634
<b>Creditors: amount falling due within one year</b>	13	<u>(3,154)</u>	<u>(3,536)</u>
<b>Net current assets</b>		<u>12,237</u>	<u>9,098</u>
<b>Total assets less current liabilities</b>		23,574	18,817
<b>Provisions for liabilities</b>	15	(1,017)	(863)
<b>Defined benefit pension liability</b>	21	<u>(599)</u>	<u>(962)</u>
<b>Net assets</b>		<u>21,958</u>	<u>16,892</u>
<b>Capital and reserves</b>			
Called up share capital	16	6,000	6,000
Profit and loss account		<u>15,958</u>	<u>10,892</u>
<b>Shareholder's funds</b>		<u>21,958</u>	<u>16,892</u>

## Statement of changes in equity

	Share Capital £000	Profit and loss account £000	Total Shareholders' Funds £000
As at 1 December 2017	6,000	9,871	15,871
Profit for the year	-	8,663	8,663
Dividends paid	-	(7,239)	(7,239)
Actuarial gain in respect of defined pension schemes net of deferred tax allowance	-	<u>(403)</u>	<u>(403)</u>
At 30 November 2018	<u>6,000</u>	<u>10,892</u>	<u>16,892</u>
Profit for the year	-	9,922	9,922
Dividends paid	-	(5,250)	(5,250)
Actuarial loss in respect of defined pension schemes net of deferred tax	-	<u>394</u>	<u>394</u>
At 30 November 2019	<u>6,000</u>	<u>15,958</u>	<u>21,958</u>

The financial statements, including the accounting policies and notes on pages 13 to 26 were approved by the board of directors on 31 January 2020 and were signed on its behalf by:



G M Heritage  
Director  
10 February 2020

Registered Number: 00190137

## Notes to the financial statements

For the year ended 30 November 2019

### 1. Accounting policies

#### *Company information*

Megger Instruments Limited is a limited liability company incorporated in England and Wales.

Megger Instruments Limited's functional currency is sterling.

Megger Instruments Limited's registered address is Archcliffe Road, Dover, Kent, CT17 9EN.

#### *Accounting convention*

These financial statements have been prepared in accordance with applicable United Kingdom standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis.

#### *Statement of cash flows*

The directors have taken advantage of the exemption in FRS 102 from including a statement of cash flows in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements which are publically available.

#### *Significant estimates*

Preparation of the financial statements requires management to make significant estimates. The items in the financial statements where these judgements have been made include:

- Impairment of intangible assets
- Defined benefit pension liability, note 21

#### *Consolidation*

The financial statements contain information about Megger Instruments Limited as an individual company and do not contain consolidated financial statements as the parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirements to prepare financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Megger Group Limited, a company registered in England and Wales.

#### *Basis of preparation*

The individual accounts of Megger Instruments Limited have also adopted the disclosure exemption in respect of financial instrument disclosures, including:

- categories of financial instruments,
- items of income, expenses, gains or losses relating to financial instruments, and
- exposure to and management of financial risks.

#### *Revenue recognition*

Revenue from the sale of goods is recognised when ownership has passed to the buyer, which is typically on dispatch of goods, and is recognised net of VAT and discounts. Revenue from the rendering of services is recognised on the provision of those services.

#### *Investments in Group Undertakings*

The cost of fixed asset investments is their purchase cost, together with any incidental expenses of acquisition. The carrying values of fixed asset investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Tangible assets*

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Demonstration stock is capitalised as tangible fixed assets when held for use in the business and is amortised over its estimated useful life. On disposal to third parties, the item is transferred to stock at the lower of its carrying cost or net realisable value, and the disposal recognised through revenue and cost of sale.

## Notes to the financial statements

For the year ended 30 November 2019

### 1. Accounting policies (continued)

#### *Depreciation*

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	25 years
Plant, equipment and motor vehicles	-	3 - 10 years

Capital works in progress are depreciated from the point at which the asset becomes in service.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Intangible Assets*

Capitalised software is capitalised and amortised on a straight-line basis over its estimated useful life of between 3 and 5 years. Amortisation of other intangibles is charged so as to allocate the cost of the intangibles over its estimated useful life (1-5 years) on a straight-line basis.

Development expenditure is recognised on an individual project basis as an intangible asset where the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Amortisation is included in the Research and development expenses line in the Income Statement.

The carrying values of intangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The basis for impairment is the review of future cash flows from sales of products subject to research and development products on a simple payback calculation to assess if an impairment event is identified. Should that be found then a full impairment review including discounted cash flows will be undertaken.

#### *Stocks and work in progress*

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes transport to the company's facilities and handling costs; in the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition.

Provision is made, where necessary, for obsolete, slow moving and defective stock.

#### *Taxation*

The charge for taxation is based on the profit for the period as adjusted for disallowable items.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the accounts.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the Statement of Financial Position date.

## Notes to the financial statements

For the year ended 30 November 2019

### 1. Accounting policies (continued)

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

All differences are taken to the Income Statement.

#### *Financial instruments: basic*

The company enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like cash, trade and other accounts receivable and payable, loans from banks and other third parties and loans to related parties.

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 payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received.

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, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the balance sheet 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.

#### *Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Company. All other leases are classified as operating leases.

Assets held under finance leases are recognised initially at the fair value of the leased asset (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in tangible fixed assets and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the Company recognises annual rent expense equal to amounts owed to the lessor.

The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.



## Notes to the financial statements

For the year ended 30 November 2019

### 1. Accounting policies (continued)

#### *Pensions*

The main pension fund is a contributory, defined benefit, externally funded scheme which is contracted out of the UK state scheme. The scheme was closed to new employees on 4 April 2000 and then, all future accrual of benefit under the scheme for existing members was suspended with effect from 31 December 2003. The fund will continue to be valued by professionally qualified independent actuaries, and contributions to the fund are charged to the Income Statement in accordance with the long-term funding rate as advised by the actuaries.

Following full consultation with its employees, the company closed the scheme with effect from 31 December 2003. For this closed scheme, as the age profile of the active membership rises, the current service cost will rise significantly as members approach retirement.

Scheme assets are measured at fair values. Scheme liabilities include the discounted value of future scheme administration costs. The Scheme liabilities are measured annually on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates of equivalent currency and term of the scheme liabilities. The net surplus or deficit is presented separately from other net assets on the Statement of Financial Position. A net surplus is recognised only to the extent that it is recoverable by the Group.

Past service costs are recognised over the period in which the benefit changes vest. Interest on the scheme liabilities and the expected return on scheme assets are included in finance costs. Actuarial gains and losses are reported within the Statement of Comprehensive Income.

A UK defined contribution scheme, contracted into the UK state scheme was opened on 1 October 2000 to both existing and new employees. This has now been replaced by a Stakeholder Pension scheme.

#### *Provisions*

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

## Notes to the financial statements

For the year ended 30 November 2019

### **1. Accounting policies (continued)**

#### *Going concern*

A financial review of the results and financial position of Megger Group, which includes Megger Instruments Limited, occurs each month with the whole Board of Megger Instruments Limited and the board of Megger Group Limited. The group and the company has considerable financial resources together with established long-term relationships with a number of customers and suppliers. As a consequence, the directors believe that the company is well placed to manage its business risks and liquidity successfully.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. The directors have reviewed the forecasts for the company for the following year and the predictions for growth in revenue and gross profit are conservative.

#### *Long-term bonus plans*

An employee of the company participates in a long-term bonus plan set up by Megger Group Limited. Provisions are made for the estimated liability for this plan at each financial year-end, based upon current and estimated future business performance.

## Notes to the financial statements

For the year ended 30 November 2019

### 2. Turnover

Turnover excludes value added tax but includes transactions with fellow subsidiaries of the ultimate parent company and represents the invoiced value of goods and services supplied.

The company operates in only one continuing class of business and all sales originate from the United Kingdom.

Geographical analysis of turnover would be seriously prejudicial to the interest of the company in the opinion of the Directors and as such has not been disclosed.

	2019	2018
	£000	£000
Sale of goods	35,451	33,569
Rendering of services	905	789
	<u>36,356</u>	<u>34,358</u>

### 3. Operating profit

This is stated after charging/ (crediting):

	2019	2018
	£000	£000
Depreciation of tangible fixed assets - owned assets	988	957
- leased assets	-	4
Amortisation of intangible fixed assets	1,466	1,462
Hire of plant and equipment	34	31
Other operating leases	85	78
Auditors' remuneration - annual audit services	25	24
Foreign currency exchange differences	(45)	(19)
Loss on sales of fixed assets	(1)	(1)
Impairment of investments in group undertakings	-	-
Research and development costs	<u>3,701</u>	<u>3,590</u>

### 4. Interest receivable and similar income

	2019	2018
	£000	£000
Expected return on pension scheme assets (note 21)	<u>471</u>	<u>462</u>
	<u>471</u>	<u>462</u>

### 5. Interest payable and similar charges

	2019	2018
	£000	£000
Interest on pension scheme liabilities (note 21)	505	482
Other	-	1
	<u>505</u>	<u>483</u>

## Notes to the financial statements

For the year ended 30 November 2019

### 6. Taxation

#### (a) Analysis of charge for the year

	2019	2018
	£000	£000
UK corporation tax - current year	2,263	2,055
- adjustments in respect of prior periods	<u>(108)</u>	<u>(57)</u>
	2,155	1,998
Deferred taxation:		
Origination and reversal of timing differences	197	(101)
Adjustment in respect of prior periods	(7)	(18)
Effect of change in tax rates	<u>(20)</u>	<u>10</u>
Charged to income statement	<u>170</u>	<u>(109)</u>
	<u>2,325</u>	<u>1,889</u>
Deferred taxation:		
Origination and reversal of timing differences	<u>80</u>	<u>(82)</u>
Charged to other comprehensive income	<u>80</u>	<u>(82)</u>

#### (b) Factors affecting current tax charge for the year

The tax charge for the year differs from the standard rate of corporation tax 19.00% (2018: 19.00%). The differences are explained below:

	2019	2018
	£000	£000
Profit on ordinary activities before tax	<u>12,247</u>	<u>10,552</u>
Profit on ordinary activities multiplied by standard rate of corporation tax of 19.00% (2018: 19.00%).	2,327	2,004
Expenses not deductible for tax purposes	98	(66)
Income not taxable	(17)	(13)
Adjustment to charge in respect of previous period – corporation tax	(114)	(76)
Tax rate changes	(21)	10
Other differences	<u>52</u>	<u>30</u>
	<u>2,325</u>	<u>1,889</u>

#### (c) Factors affecting future tax charge

At the Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%.

## Notes to the financial statements

For the year ended 30 November 2019

### 7. Directors' emoluments

	2019	2018
	£000	£000
Aggregate emoluments	<u>727</u>	<u>653</u>

Included in the aggregate emoluments was an amount paid to a pension scheme in respect of Directors of £42,430 (2018: £22,502).

The key management personnel of Megger Instruments Limited are considered to be the Board of Directors.

	2019	2018
	No.	No.
Number of directors accruing benefits under defined benefit pension schemes	<u>1</u>	<u>1</u>

The emoluments, excluding contributions to the company's defined benefit pension scheme, of the highest paid director of the company are detailed below:

	2019	2018
	£000	£000
Aggregate emoluments	<u>215</u>	<u>120</u>

Pension contributions to money purchase pension schemes for the highest paid director was £12,771 (2018: £1,802). Payable amount at year end £839 (2018:£178).

The Group has a long-term bonus plan for certain Directors. One Director received £46,746 from the plan in 2019 (2018: NIL).

### 8. Staff costs

	2019	2018
	£000	£000
Wages and salaries	7,609	7,358
Social security costs	686	698
Other pension costs	<u>221</u>	<u>146</u>
	<u>8,516</u>	<u>8,202</u>

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

	2019	2018
	No.	No.
Production	169	172
Administration	16	16
Selling and distribution	11	13
Engineering	<u>46</u>	<u>42</u>
	<u>242</u>	<u>243</u>

## Notes to the financial statements

For the year ended 30 November 2019

### 9. Intangible assets

	<i>Development costs £000</i>	<i>Software £000</i>	<i>Total £000</i>
Cost:			
At 1 December 2018	8,172	1,788	9,960
Additions	1,875	103	1,978
Disposals	(1,478)	-	(1,478)
At 30 November 2019	<u>8,569</u>	<u>1,891</u>	<u>10,460</u>
Depreciation:			
At 1 December 2018	3,632	1,613	5,245
Charge for the year	1,326	140	1,466
Disposals	(1,478)	-	(1,478)
At 30 November 2019	<u>3,480</u>	<u>1,753</u>	<u>5,233</u>
Net book value:			
At 30 November 2019	<u>5,089</u>	<u>138</u>	<u>5,227</u>
At 1 December 2018	<u>4,540</u>	<u>175</u>	<u>4,715</u>

When performing impairment analysis of capitalised development projects, the cash flow projections used in the calculation were assessed using the following key assumptions:

a) Revenue Growth is based on predicted price uplifts of 3% per year.

b) Applying a discount rate of 8.9% pre taxation which was calculated based on the participant investor principal using independent market data.

The recoverable amounts determined by the value in use calculation, were in excess of the carrying values of the intangible assets, so no impairment charge has been recognised in the year (2018: nil).

#### Sensitivity to changes in key assumptions

Impairment testing is dependent on estimates and judgements, particularly as they relate to the forecasting of future cash flows, the outcome of the impairment test is not sensitive to reasonably possible changes in respect of the projected cash flows nor the discount rate applied.

## Notes to the financial statements

For the year ended 30 November 2019

### 10. Tangible fixed assets

	<i>Freehold land and buildings</i>	<i>Plant, equipment and motor Vehicles</i>	<i>Capital Works in Progress</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:				
At 1 December 2018	6,407	12,651	345	19,403
Additions	610	1,016	570	2,196
Disposals	-	(69)	-	(69)
Transfer of assets	17	102	(119)	-
At 30 November 2019	<u>7,034</u>	<u>13,700</u>	<u>796</u>	<u>21,530</u>
Depreciation:				
At 1 December 2018	4,539	9,960	-	14,499
Charge for the year	266	722	-	988
Disposals	-	(67)	-	(67)
At 30 November 2019	<u>4,805</u>	<u>10,615</u>	<u>-</u>	<u>15,420</u>
Net book value:				
At 30 November 2019	<u>2,228</u>	<u>3,085</u>	<u>797</u>	<u>6,110</u>
At 1 December 2018	<u>1,868</u>	<u>2,691</u>	<u>345</u>	<u>4,904</u>

### 11. Stocks

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Raw materials and consumables	3,067	3,377
Work in progress	174	122
Finished goods and goods for resale	<u>884</u>	<u>844</u>
	<u>4,125</u>	<u>4,343</u>

The amount of inventories recognised as an expense during the year was £12,141,000 (2018: £11,234,000)

### 12. Debtors

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	464	332
Amounts owed by group undertakings	4,804	4,049
Other debtors	704	311
Prepayments	<u>678</u>	<u>459</u>
	<u>6,650</u>	<u>5,151</u>

## Notes to the financial statements

For the year ended 30 November 2019

### 13. Creditors: amounts falling due within one year

	2019	2018
	£000	£000
Trade creditors	1,170	1,092
Amount owed to group undertakings	242	299
Other creditors	612	689
Corporation tax	488	845
Other taxes including VAT and social security costs	158	193
Accruals and deferred income	484	418
	<u>3,154</u>	<u>3,536</u>

### 14. Deferred Taxation

	2019	2018
	£000	£000
<i>Deferred taxation is included in the balance sheet as follows:</i>		
Included in provisions for liabilities (note 15)	(890)	(703)
Included in defined benefit pension liability (note 21)	193	256
	<u>(697)</u>	<u>(447)</u>

	2019	2018
	£000	£000
<i>The deferred tax balance comprises:</i>		
Accelerated depreciation/capital allowances	(890)	(703)
Pension costs (note 21)	193	256
	<u>(697)</u>	<u>(447)</u>

### 15. Provisions for Liabilities

	Deferred Tax	Deferred Employee Compensation	Total
	£000	£000	£000
At 30 November 2017	812	68	880
Charged to the income statement	<u>(109)</u>	<u>92</u>	<u>(17)</u>
At 30 November 2018	<u>703</u>	<u>160</u>	<u>863</u>
(Credited)/Charged to the income statement	<u>187</u>	<u>(33)</u>	<u>154</u>
At 30 November 2019	<u>890</u>	<u>127</u>	<u>1,017</u>

The provision for deferred employee compensation relates to a long term incentive plan designed to incentivise senior management. Provisions are made for the estimated liability for these plans at each financial year-end.

### 16. Share capital

	<i>Authorised, allotted, called up and fully paid</i>	
	2019	2018
	£000	£000
6,000,000 Ordinary shares of £1 each (2018: 6,000,000)	<u>6,000</u>	<u>6,000</u>
All shares carried full voting and distribution rights.		



## Notes to the financial statements

For the year ended 30 November 2019

### 17. Operating lease commitments

	2019	2018
	£000	£000
Commitments for the next 12 months for operating leases which expire:		
- Within one year	133	122
- Between one and five years	<u>376</u>	<u>280</u>
	<u>509</u>	<u>402</u>

These leases are related to the company's fleet of motor cars and vending equipment.

### 18. Capital commitments

The company had capital commitments for building works and plant & machinery of £1,452,857 at 30 November 2019 (2018: £342,385).

### 19. Related party transactions

Director's emoluments are disclosed in note 7, the company has taken advantage of exemption available under FRS 102 not to disclose related party transactions with members of the Megger Group Limited and TBG AG groups as the company's share capital is wholly owned. There are no other related party transactions.

### 20. Reserves

Called-up share capital represents the nominal value of shares that have been issued.

Profit and loss account includes all current and prior period retained profits and losses.

Actuarial gains or losses from changes in demographic and financial assumptions and the return on plan assets (re-measurement of net defined benefit liabilities).

## Notes to the financial statements

For the year ended 30 November 2019

### 21. Pension arrangements

Megger Instruments Limited (formerly Megger Limited) used to provide a defined benefit pension scheme to employees, but all future accrual of benefit under the scheme was suspended with effect from 31 December 2003.

An independent actuarial valuation of the scheme was carried out in 2018. The market value of the scheme investments at that date was £16,170,000 which was £775,000 below the actuarial value of benefits that had accrued to members at the valuation date. It was agreed that the level of funding should be decreased to the rate of £10,000 per month from September 2016.

The valuation used has been based on the most recent actuarial valuation in 2018 and updated by the scheme actuary in order to assess the liabilities of the scheme at 30 November 2019. Scheme assets are stated at their market values at the respective balance sheet dates.

	2019	2018
Discount rate	1.8%	2.8%
Inflation assumption	2.2%	2.5%
Rate of increase to pensions - Pre retirement	2.0%	2.2%
- Post retirement (pre 4/97)	2.6%	2.8%
- Post retirement (post 4/97)	3.1%	3.4%

The assets and liabilities of the scheme and the expected return at 30 November are:

	2019 Value £000	2018 Value £000
Equities	9,245	11,498
Gilts	9,218	1,830
Bonds	-	3,782
Cash	110	167
Total market value of scheme assets	18,573	17,277
Present value of scheme liabilities	(19,365)	(18,495)
Deficit in the scheme	(792)	(1,218)
Deferred tax asset (note 14)	193	256
Net pension liability	(599)	(962)

Analysis of the defined benefit cost for the year ended 30 November 2019 is as follows:

	2019 £000	2018 £000
<i>Amounts recognised in profit and loss</i>		
Administration costs	86	78
Net interest expense	34	20
Amount charged to profit and loss	120	98
<i>Amounts recognised in other comprehensive income</i>		
Actual Gain/ (loss) expected return on pension scheme assets	1,761	(524)
Experience gain/ (loss) arising on scheme liabilities	37	(7)
(losses) / gain arising from changes in assumptions		
underlying present value of scheme liabilities	(1,324)	46
Actuarial gain / (loss) recognised in the statement of other comprehensive income	474	(485)

## Notes to the financial statements

For the year ended 30 November 2019

### 21. Pension arrangements (continued)

Reconciliation of scheme liabilities during the year:

	2019	2018
	£000	£000
Scheme liabilities at the beginning of the year	(18,495)	(18,999)
Total other finance expense	(505)	(482)
Benefits paid	922	947
Actuarial (losses) / gain	(1,287)	39
At 30 November	<u>(19,365)</u>	<u>(18,495)</u>

Reconciliation of scheme assets during the year:

	2019	2018
	£000	£000
Market value of assets at the beginning of the year	17,277	18,182
Interest income	471	462
Actuarial gain / (losses)	1,761	(524)
Employer contributions	72	182
Benefits paid	(922)	(947)
Administration costs	(86)	(78)
At 30 November	<u>18,573</u>	<u>17,277</u>

#### Changes in the significant actuarial assumptions

The calculation of the net defined benefit liability is sensitive to the significant actuarial assumption mentioned above. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit liability at 30<sup>th</sup> November:

		2019	2018
	Change in assumptions	Change in defined benefit obligation	Change in defined benefit obligation
Discount rate	+/- 0.5% pa	-5.9% / +6.5%	-5.9% / +6.5%
RPI Inflation	+/- 0.5% pa	+3.9% / -4.1%	+3.9% / -4.1%
Assumed life expectancy	+/- 1 year	+4.5% / -4.4%	+4.0% / -3.9%

### 22. Ultimate parent company and controlling party

The directors consider that the company's ultimate parent undertaking and controlling party is TBG AG, based at Claridenstrasse 26, 8002 Zurich, Switzerland. TBG AG was incorporated in Switzerland.

TBG AG is the largest undertaking of which the Company is a member.

Megger Group Limited is the parent of the smallest group for which group financial statements are prepared. Copies of the accounts of Megger Group Limited can be obtained from Megger Group Limited, Archcliffe Road, Dover, Kent, CT17 9EN.