

Company Registration No. 02355933 (England and Wales)

TREK BICYCLE CORPORATION LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
29 DECEMBER 2018

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TREK BICYCLE CORPORATION LIMITED

COMPANY INFORMATION

Directors	Mr J Burke Mr C R Brown Ms J L Naeger
Secretary	Ms J L Naeger
Company number	02355933
Registered office	9 Sherbourne Drive Tilbrook Milton Keynes MK7 8HX
Auditor	RSM UK Audit LLP Chartered Accountants The Pinnacle 170 Midsummer Boulevard Milton Keynes MK9 1BP
Business address	9 Sherbourne Drive Tilbrook Milton Keynes MK7 8HX
Solicitors	Devonshires Solicitors LLP Salisbury House London Wall London EC2M 5QY

TREK BICYCLE CORPORATION LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 29 DECEMBER 2018

The directors present the strategic report and financial statements for the year ended 29 December 2018 (previous year ended 30 December 2017).

Review of the business

Operational review:

During 2018 we saw sales growth across all of our major product categories. In particular the new Madone and Project One launches have sold well. Electric Bike sales continue to grow and this is becoming an increasingly significant category in the business.

Since August 2018 we have been working directly with Retailers in the Czech Republic and Slovakia and we have made a promising start to building strong trading relationships in these markets.

Evans Cycles, a customer of Trek, entered administration during the year and were subsequently purchased by Sports Direct. We continue to trade with Evans Cycles under new ownership.

Despite uncertainties in the economic market and currency fluctuations during the year, our gross margin has been stable and we have controlled expenses, which have grown significantly less than sales during the year.

Key performance indicators:

The key performance indicators used by the company in monitoring its performance are as follows:

	12 months to	12 months to
	29.12.18	30.12.17
Changes in sales	36.1%	8.1%
Gross profit % sales	20.3%	19.7%
Profit after tax % sales	3.8%	2.0%

Future developments:

We will launch many new products in 2019 under the Trek, Electra & Bontrager brands which we expect will drive further growth. In March we will introduce a new B2B service which contains many new features for our retailers and runs off the same platform as our B2C website. We also plan to further develop our group of retail partners during the year.

Environment:

The company recognises the importance of its environmental responsibilities, monitors its impact and designs and implements policies to reduce any damage that might be caused by the company's activities.

Company vehicles are chosen with low CO2 emissions, cycling to work is promoted by giving staff discounts on cycling products and providing shower and bike storage facilities. All waste is collected by recycling agents. Our premises have been built to BREEAM standards.

TREK BICYCLE CORPORATION LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 29 DECEMBER 2018

Principal risks and uncertainties

The key risks fall broadly under the following categories:

Market:

The market continues to be very competitive. Coupled with increasing business costs we could see further bicycle retail closures, particularly in the independent sector during 2019. We intend to counter these risks by strengthening our relationships with retailers through the provision of additional retail services, sharing of best practice from the stores we own, and increasing our market share through retail partnerships.

Financial:

The company's principal financial instruments during the year comprised cash, trade debtors, group trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide funding for the company's operations.

The existence of these financial instruments exposes the company to a number of financial risks. The directors review and agree policies for managing each of these risks and they are summarised below:

Currency risk - the company's purchases are made primarily in US dollars and euros and it is therefore exposed to currency exchange movements. The parent company takes out dollar foreign exchange contracts in its name to hedge some of these risks.

Interest rate risk - the company is financed by equity and has no third party debt and therefore has no interest rate exposure.

Credit risk - the company seeks to manage its credit risk by dealing with established customers and by identifying and addressing any credit issues in a timely manner.

Liquidity risk - the company has no third party debt and seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Brexit - We continue to monitor developments and work with our advisors and the Bicycle Association to ensure we are prepared for changes to the regulatory environment, particularly around imports and customs clearance. Trek Bikes operate in the UK, EU and rest of the world and therefore is well positioned to adapt to developments in this area.

On behalf of the board



Mr C R Brown

Director

05/04/19

TREK BICYCLE CORPORATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 29 DECEMBER 2018

The directors present their annual report and financial statements for the year ended 29 December 2018.

Principal activities

The principal activity of the company continued to be that of the distribution of bicycles and accessories.

Directors

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

Mr J Burke

Mr R Burns

(Resigned 15 August 2018)

Mr C R Brown

Ms J L Naeger

(Appointed 15 August 2018)

Results and dividends

The results for the year are set out on page 7.

During the year, dividends of £6,000,000 were paid (2017: £nil).

Auditor

In accordance with the company's articles, a resolution proposing that RSM UK Audit LLP be reappointed as auditor of the company will be put to the members.

Strategic report

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

Statement of disclosure to auditor

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

On behalf of the board



Mr C R Brown

Director

05/04/19

TREK BICYCLE CORPORATION LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 29 DECEMBER 2018

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;
- 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TREK BICYCLE CORPORATION LIMITED

Opinion

We have audited the financial statements of Trek Bicycle Corporation Limited (the 'company') for the year ended 29 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 29 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TREK BICYCLE CORPORATION LIMITED (CONTINUED)

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 the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, 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: <http://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.

RSM UK Audit LLP

David Olsson (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants

The Pinnacle

170 Midsummer Boulevard

Milton Keynes

MK9 1BP

13/05/2019

TREK BICYCLE CORPORATION LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 DECEMBER 2018


	Notes	2018 £	2017 £
Turnover	3	61,268,665	45,006,149
Cost of sales		(48,232,199)	(36,121,361)
Gross profit		13,036,466	8,884,788
Distribution costs		(1,812,725)	(1,303,569)
Administrative expenses		(10,953,565)	(8,409,494)
Other operating income		2,615,656	2,238,958
Exceptional item	21	-	(270,253)
Operating profit	4	2,885,832	1,140,430
Interest receivable and similar income	7	127,834	122,860
Interest payable and similar expenses	8	(20,880)	(7,505)
Profit before taxation		2,992,786	1,255,785
Taxation	9	(692,569)	(267,208)
Profit for the financial year	25	2,300,217	988,577

The income statement has been prepared on the basis that all operations are continuing operations.

TREK BICYCLE CORPORATION LIMITED**STATEMENT OF FINANCIAL POSITION
AS AT 29 DECEMBER 2018**

	Notes	2018 £	£	2017 £	£
Fixed assets					
Goodwill	11	82,612		-	
Tangible assets	12	825,847		879,688	
Investments	13	94,770		222,268	
		<u>1,003,229</u>		<u>1,101,956</u>	
Current assets					
Stocks	16	12,335,032		7,807,478	
Debtors	17	16,376,378		15,084,802	
Cash at bank and in hand		1,149,638		1,293,349	
		<u>29,861,048</u>		<u>24,185,629</u>	
Creditors: amounts falling due within one year	18	<u>(20,418,616)</u>		<u>(11,098,976)</u>	
Net current assets		<u>9,442,432</u>		<u>13,086,653</u>	
Total assets less current liabilities		<u>10,445,661</u>		<u>14,188,609</u>	
Provisions for liabilities	21	<u>(311,290)</u>		<u>(311,290)</u>	
Net assets		<u><u>10,134,371</u></u>		<u><u>13,877,319</u></u>	
Capital and reserves					
Called up share capital	24	799,327		799,327	
Profit and loss reserves	25	9,335,044		13,077,992	
Total equity		<u><u>10,134,371</u></u>		<u><u>13,877,319</u></u>	

The financial statements were approved by the board of directors and authorised for issue on 05/04/19 and are signed on its behalf by:



 Mr C R Brown
 Director

TREK BICYCLE CORPORATION LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 29 DECEMBER 2018

	Notes	Share capital £	Profit and loss reserves £	Total £
Balance at 1 January 2017		799,327	12,089,415	12,888,742
Year ended 30 December 2017:				
Profit and total comprehensive income for the year		-	988,577	988,577
Balance at 30 December 2017		799,327	13,077,992	13,877,319
Year ended 29 December 2018:				
Profit and total comprehensive income for the year		-	2,300,217	2,300,217
Dividends	10	-	(6,000,000)	(6,000,000)
Adjustment arising on business hive up	15	-	(43,165)	(43,165)
Balance at 29 December 2018		799,327	9,335,044	10,134,371

TREK BICYCLE CORPORATION LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 29 DECEMBER 2018

	Notes	2018 £	£	2017 £	£
Cash flows from operating activities					
Cash generated from operations	30	5,391,431		707,031	
Interest paid		(20,880)		(7,505)	
Income taxes paid		(444,035)		(247,404)	
Net cash inflow from operating activities		4,926,516		452,122	
Investing activities					
Purchase of business		-	(75,613)		
Purchase of intangible assets		(1,040)	-		
Purchase of tangible fixed assets		(152,557)	(191,901)		
Interest received		127,834	122,860		
Net cash used in investing activities		(25,763)		(144,654)	
Financing activities					
Dividends paid		(6,000,000)	-		
Net cash used in financing activities		(6,000,000)		-	
Net (decrease)/increase in cash and cash equivalents		(1,099,247)		307,468	
Cash and cash equivalents at beginning of year		1,293,349		985,881	
Cash and cash equivalents at end of year		194,102		1,293,349	
Relating to:					
Cash at bank and in hand		1,149,638		1,293,349	
Bank overdrafts included in creditors payable within one year		(955,536)		-	

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 DECEMBER 2018

1 Accounting policies

Company information

Trek Bicycle Corporation Limited ('the company') is a private company limited by shares and domiciled and incorporated in England and Wales, company registration number 02355933. The address of the Company's registered office and principal place of business is 9 Sherbourne Drive, Tilbrook, Milton Keynes, MK7 8HX.

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

Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and under the historical cost convention.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £1.

Going concern

The directors have at the time of approving the financial statements, having produced future profit and cash flow forecasts, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Turnover

The turnover shown in profit or loss represents the value of all goods sold during the period, less returns received, at selling price exclusive of Value Added Tax. Sales are recognised at the point at which the company has fulfilled its contractual obligations and the risks and rewards attaching to the product, such as obsolescence, have been transferred to the customer.

Interest income

Interest income shown in profit or loss represents interest receivable on overdue customer balances.

Intangible fixed assets - goodwill

Goodwill which arose on the hive up of the business of the company's subsidiary undertaking represents the 'deemed book value' at the date of hive up. Deemed book values are applied to the additional assets and liabilities that would have been recognised had the company originally acquired the trade and assets of its subsidiary directly (rather than acquiring the equity and subsequently hiving up the business) and applied the purchase method of accounting; they represent their fair value at the date of the original acquisition (October 2016), less amortisation up to the date of the hive up (31 August 2018). Goodwill is initially recognised as an asset at its 'deemed book value' and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a systematic basis over its expected life, which is 8 years.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 DECEMBER 2018

1 Accounting policies (Continued)

Intangible fixed assets other than goodwill

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

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

Software	50% per annum
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Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Cost represents purchase price together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of an asset, net of anticipated disposal proceeds, over the useful economic life of that asset as follows:

Leasehold improvements	Over the remaining lease term
Fixtures & fittings	10% - 33% per annum

Fixed asset investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

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

Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Cost is calculated using the first-in first-out method and includes the normal cost of transporting stock to its present location and condition. Cost represents materials, freight and duty.

At each reporting date, the company assesses whether stocks are impaired or if an impairment loss recognised in prior periods has reversed. Any excess of the carrying amount of stock over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss.

Financial instruments

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

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Basic financial assets, which include trade and other debtors, amounts due from group undertakings and accrued income, are initially measured at transaction price including transaction costs and are subsequently carried at cost.

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 DECEMBER 2018

1 Accounting policies (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

Derecognition of financial assets

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

Basic financial liabilities

Basic financial liabilities which include trade creditors, accruals and amounts due to group undertakings which are repayable on demand are initially measured at transaction price and subsequently measured at amortised cost.

Derecognition of financial liabilities

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

Equity instruments

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

Taxation

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

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

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting period.

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 DECEMBER 2018

1 Accounting policies (Continued)

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the reporting 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 reporting date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised only to the extent that the directors consider it more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities recognised have not been discounted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the reporting date.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. 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. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense as incurred.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Retirement benefits

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to profit or loss.

Leases

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease.

Foreign exchange

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

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction.

All translation differences are taken to the profit or loss.

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 DECEMBER 2018

1 Accounting policies (Continued)

Transfer of business from subsidiary undertakings

During the year the trade and net assets of the company's subsidiary undertaking were transferred to the Company which has been accounted for through intercompany balances. The directors have applied common practice under UK GAAP and allocated the residual investment balance to the assets and liabilities that would have been recognised, under the purchase method of accounting for a business combination, had the company acquired the trade and assets of its subsidiary directly, rather than acquiring the equity and subsequently having up the business. Refer to note 15 for further details.

Under the purchase method of accounting the excess of the cost of a business combination over the value of the identifiable assets, liabilities and contingent liabilities recognised is recognised as goodwill.

2 Judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

The directors do not consider that there are any critical areas of judgement that need to be brought to the attention of the readers of the accounts.

The key areas of estimation that affects these accounts are the assessment of the net realisable value of stock and the assessment of impairment of trade debtors and the calculation of the warranty provision. The provision for bad debts at the reporting date and the net bad debt expense recognised in profit or loss in the year were £696,609 (2017: £443,037) and £719,525 (2017: £93,185) respectively. Stock provisions at the reporting date and the net stock impairment recognised in profit or loss in the year were £276,958 (2017: £254,278) and £22,680 (2017: £72,278) respectively. Disclosure in respect of the warranty provision is made in note 21.

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2018 £	2017 £
Turnover analysed by class of business		
Distribution of bicycles & accessories	61,268,665	45,006,149
	<u> </u>	<u> </u>
	2018 £	2017 £
Other revenue		
Interest income	127,834	122,860
	<u> </u>	<u> </u>

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 DECEMBER 2018

3 Turnover and other revenue (Continued)

	2018 £	2017 £
Turnover analysed by geographical market		
United Kingdom	37,263,576	29,972,355
Europe	18,168,691	10,557,869
USA	5,836,398	4,475,925
	<u>61,268,665</u>	<u>45,006,149</u>

4 Operating profit

	2018 £	2017 £
Operating profit for the year is stated after charging/(crediting):		
Exchange (gains)/losses	(428,089)	23,285
Depreciation of owned tangible fixed assets	206,398	147,524
(Profit)/loss on disposal of tangible fixed assets	-	3,647
Amortisation of intangible assets	2,761	5,581
Cost of stocks recognised as an expense	47,917,804	36,002,443
Impairment of stocks recognised or reversed	22,680	72,278
Operating lease charges	840,050	689,652
	<u></u>	<u></u>

Other operating income in the current and prior year represents a recharge of costs to Trek Bicycle Corporation group undertakings.

5 Employees

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

	2018 Number	2017 Number
Distribution staff	20	20
Administrative staff	89	65
	<u>109</u>	<u>85</u>

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 DECEMBER 2018

5 Employees (Continued)

Their aggregate remuneration comprised:

	2018 £	2017 £
Wages and salaries	4,562,974	3,572,086
Social security costs	462,331	364,354
Pension costs	88,728	70,303
	<u>5,114,033</u>	<u>4,006,743</u>

The directors did not receive any remuneration during the year (2017: £nil).

6 Auditor's remuneration

	2018 £	2017 £
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the company	19,300	19,300
For other services		
Taxation compliance services	2,700	2,575
All other non-audit services	4,525	3,800
	<u>7,225</u>	<u>6,375</u>

7 Interest receivable and similar income

	2018 £	2017 £
Interest income		
Other interest income	127,834	122,860

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	127,834	122,860
--	---------	---------

8 Interest payable and similar expenses

	2018 £	2017 £
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	1,939	-
Interest payable to group undertakings	18,941	7,505
	<u>20,880</u>	<u>7,505</u>

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 DECEMBER 2018

9 Taxation

	2018 £	2017 £
Current tax		
UK corporation tax on profits for the current period	692,569	299,015
Adjustments in respect of prior periods	-	8,752
Total current tax	692,569	307,767
Deferred tax		
Origination and reversal of timing differences	-	(40,559)
Total tax charge	692,569	267,208

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

	2018 £	2017 £
Profit before taxation	2,992,786	1,255,785
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	568,629	241,739
Tax effect of expenses that are not deductible in determining taxable profit	16,895	4,302
Adjustments in respect of prior years	39,667	8,752
Other differences	57,420	(43)
Amounts relating to change in tax rates	1,212	5,360
Fixed asset permanent differences	8,746	7,098
Taxation charge for the year	692,569	267,208

Factors that may affect future, current and total tax charges

A reduction in the UK corporation tax rate from 20% to 19% and subsequently to 17% was substantively enacted in September 2016 and will take effect from 1 April 2017 and 1 April 2020 effectively.

10 Dividends

	2018 £	2017 £
Final paid	6,000,000	-

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 DECEMBER 2018

11 Intangible fixed assets

	Goodwill £	Software £	Total £
Cost			
At 31 December 2017	-	66,970	66,970
Additions - business combinations	84,333	1,040	85,373
At 29 December 2018	84,333	68,010	152,343
Amortisation and impairment			
At 31 December 2017	-	66,970	66,970
Amortisation charged for the year	1,721	1,040	2,761
At 29 December 2018	1,721	68,010	69,731
Carrying amount			
At 29 December 2018	82,612	-	82,612
At 30 December 2017	-	-	-

Amortisation incurred on software is charged to administrative expenses.

12 Tangible fixed assets

	Leasehold improvements £	Fixtures & fittings £	Total £
Cost			
At 31 December 2017	1,173,202	800,456	1,973,658
Additions	81,436	45,090	126,526
Business combinations	-	26,031	26,031
At 29 December 2018	1,254,638	871,577	2,126,215
Depreciation and impairment			
At 31 December 2017	479,338	614,632	1,093,970
Depreciation charged in the year	111,580	94,818	206,398
At 29 December 2018	590,918	709,450	1,300,368
Carrying amount			
At 29 December 2018	663,720	162,127	825,847
At 30 December 2017	693,864	185,824	879,688

Depreciation incurred on tangible fixed assets is charged to administrative expenses.

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 DECEMBER 2018

13 Fixed asset investments

	Notes	2018 £	2017 £
Investments in subsidiaries	14	94,770	222,268

Movements in fixed asset investments

	Shares in group undertakings £
Cost	
At 31 December 2017	222,268
Hive up	(127,498)
At 29 December 2018	94,770
Carrying amount	
At 29 December 2018	94,770
At 30 December 2017	222,268

14 Subsidiaries

These financial statements are separate company financial statements for Trek Bicycle Corporation Limited.

Consolidated accounts including these subsidiaries have not been prepared as, in the opinion of the directors, the effect of consolidating these companies would not be material.

Details of the company's subsidiaries at 29 December 2018 are as follows:

Name of undertaking	Registered office key	Nature of business	Class of shares held	% Held Direct Indirect
Concept Store (UK) Limited	1	In liquidation	Ordinary	100.00
Stan Jones & Sons Limited	1	In liquidation	Ordinary	100.00

Registered Office addresses:

- 1 RSM Restructuring Advisory LLP, The Pinnacle, 170 Midsummer Boulevard, Milton Keynes, MK9 1BP

During the year the trade and assets of Concept Store (UK) Limited were hived up into the company and the company is in the process of being liquidated. During the prior year, the business of Stan Jones & Sons Limited was hived up into the company and the company is in the process of being liquidated. See note 15.

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 DECEMBER 2018

15 Hive up

On 31 August 2018, the company acquired the trade and assets of Concept Store (UK) Limited, a subsidiary.

The trade and assets of Concept Store (UK) Limited, with carrying value of £260,656, were transferred to the company and recorded as an intercompany balance due to Concept Store (UK) Limited.

The assets acquired consisted of stock with a fair value of £233,585 and fixtures and fittings with a fair value of £27,071.

The Directors have applied common practice under UK GAAP by allocating this residual balance to the additional assets and liabilities (or fair value adjustments to the existing assets and liabilities) that would have been recognised under the purchase method of accounting, had the company acquired the trade and assets directly (rather than acquiring the equity and then subsequently hiving up the business). The application of this accounting treatment resulted in the allocation of the carrying value of the company's investment in Concept Store (UK) Limited of £222,268 as £84,333 of goodwill and a reduction in equity of £43,165, leaving a recoverable balance on investment of £94,770 (being equal to distributable reserves of Concept Store (UK) Limited).

On 3 December 2018 Concept Store (UK) Limited was put into voluntary liquidation with net assets of £94,770.

16 Stocks

	2018 £	2017 £
Finished goods and goods for resale	12,335,032	7,807,478

17 Debtors

	2018 £	2017 £
Amounts falling due within one year:		
Trade debtors	14,278,662	12,043,180
Amounts owed by group undertakings	1,228,994	2,327,717
Other debtors	569,155	401,543
Prepayments and accrued income	299,567	312,362
	<u>16,376,378</u>	<u>15,084,802</u>

During the year, an impairment loss of £719,575 (2017 - £93,185) was recognised in respect of trade debtors which are not expected to be recovered.

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 DECEMBER 2018

18 Creditors: amounts falling due within one year

	Notes	2018 £	2017 £
Bank loans and overdrafts	19	955,536	-
Trade creditors		446,627	998,748
Amounts due to group undertakings		15,544,546	7,863,151
Corporation tax		388,889	140,355
Other taxation and social security		1,292,966	962,708
Accruals and deferred income		1,790,052	1,134,014
		<u>20,418,616</u>	<u>11,098,976</u>

19 Borrowings

	2018 £	2017 £
Bank overdrafts	955,536	-
Payable within one year	955,536	-

The bank overdraft is secured by Group cross-guarantee (see note 26).

20 Financial instruments

	2018 £	2017 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	16,076,811	14,772,440
Carrying amount of financial liabilities		
Measured at amortised cost	18,736,761	9,995,913

21 Provisions for liabilities

	Notes	2018 £	2017 £
Warranty provision		305,000	305,000
Deferred tax liabilities	22	6,290	6,290
		<u>311,290</u>	<u>311,290</u>

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 DECEMBER 2018

21 Provisions for liabilities (Continued)

Movements on provisions apart from retirement benefits and deferred tax liabilities:

	Warranty provision £
At 31 December 2017 and 29 December 2018	305,000

Warranty provision

Warranties are provided to customers in respect of bikes and other parts. The guarantees are for the lifetime of the bike frames and up to 5 years for all other parts. During the prior year, a provision was calculated based on historical claim rates over the past 5 years. A provision had not previously been recognised and therefore £270,253 of the £305,000 expense recognised in profit or loss related to goods sold in previous financial periods and was disclosed separately on the face of the statement of income and retained earnings.

22 Deferred taxation

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

	Liabilities 2018 £	Liabilities 2017 £
Balances:		
Fixed asset timing differences	6,290	6,290

There were no deferred tax movements in the year.

23 Retirement benefit schemes

	2018 £	2017 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	88,728	70,303

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions totalling £20,056 (2017: £17,159) were payable to the fund at the year end and are included in creditors.

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 DECEMBER 2018

24 Share capital

	2018 £	2017 £
Ordinary share capital		
Issued and fully paid		
99,327 Ordinary shares of £1 each	99,327	99,327
	<u>99,327</u>	<u>99,327</u>
Preference share capital		
Issued and fully paid		
175,000 Redeemable Preference 'A' shares of £1 each	175,000	175,000
175,000 Redeemable Preference 'B' shares of £1 each	175,000	175,000
175,000 Redeemable Preference 'C' shares of £1 each	175,000	175,000
175,000 Redeemable Preference 'D' shares of £1 each	175,000	175,000
	<u>700,000</u>	<u>700,000</u>

The company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the company.

Each of the classes of the redeemable preference shares are redeemable at par at any time at the discretion of the directors. Holders are entitled to preferential repayment of capital on liquidation. There are no rights to dividend or to vote at general meetings.

25 Reserves

Profit and loss reserves

Cumulative profit and loss net of distribution to owners.

26 Financial commitments, guarantees and contingent liabilities

The assets of the company have been pledged as part of the security for a term loan and asset based lending facility held by the parent undertaking. The total balance of the term loan and facility at 29 December 2018 was in excess of the total of the company's assets.

27 Operating lease commitments

Lessee

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

	2018 £	2017 £
Within one year	872,463	659,099
Between one and five years	2,954,695	2,539,210
In over five years	2,133,306	1,817,584
	<u>5,960,464</u>	<u>5,015,893</u>

TREK BICYCLE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 DECEMBER 2018

28 Related party transactions

Remuneration of key management personnel

The aggregate remuneration of key management personnel is as follows.

	2018 £	2017 £
Aggregate compensation	589,546	528,600

29 Controlling party

The company's immediate and ultimate parent company is Trek Bicycle Corporation, which is registered in the state of Wisconsin, USA. Trek Bicycle Corporation is the parent undertaking of the largest and the smallest group, which includes the company and for which group financial statements are prepared.

30 Cash generated from operations

	2018 £	2017 £
Profit for the year after tax	2,300,217	988,577
Adjustments for:		
Taxation charged	692,569	267,208
Finance costs	20,880	7,505
Investment income	(127,834)	(122,860)
(Gain)/loss on disposal of tangible fixed assets	-	3,647
Amortisation and impairment of intangible assets	2,761	5,581
Depreciation and impairment of tangible fixed assets	206,398	147,524
(Decrease)/increase in provisions	-	305,000
Impairment of fixed asset investments	-	4
Movements in working capital:		
(Increase)/decrease in stocks	(4,527,554)	131,483
(Increase) in debtors	(1,291,576)	(4,548,868)
Increase in creditors	8,115,570	3,522,230
Cash generated from operations	5,391,431	707,031