

Registration number: 01825037

XTRAC LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

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XTRAC LIMITED
COMPANY INFORMATION

Directors	P Digby A Moore C Hawkins S Lane M Halley P Daenen
Registered office	Gables Way Kennet Park Thatcham Berkshire RG19 4ZA
Banker	HSBC Bank PLC 8 Canada Square Canary Wharf London E14 5HQ
Auditor	KPMG LLP 2 Forbury Place 33 Forbury Road Reading RG1 3AD

**XTRAC LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

The directors present their report and the financial statements for the year ended 30 September 2019.

Principal activity

The principal activity of the Company is the design, manufacture, supply and support of precision mechanical engineering components and transmission systems for use in motor sport, high performance automotive and specialist engineering applications in the United Kingdom and overseas.

Directors of the Company

The directors who held office during the year were as follows:

P Digby

A Moore

C Hawkins

S Lane

M Halley

P Daenen (appointed 11 March 2019)

Employment

The Company is structured to ensure that procedures exist for employee communication, training and development. The Company ensures that the views of its employees are taken into account when decisions are made that are likely to affect their interests.

The Company operates an equal opportunities employment policy. The recruitment processes used are non-discriminatory and seek to give fair consideration to those with disabilities, taking into account their aptitudes and skills.

Disclosure of information to the auditor

Each director has taken the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditor

Pursuant to section 487(2) of the Companies Act 2006, the auditor KPMG LLP will be deemed to be reappointed and will therefore continue in office.

Approved by the Board on 24/6/19 and signed on its behalf by:



A Moore
Director

Gables Way
Kennet Park
Thatcham
Berkshire
RG19 4ZA

XTRAC LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2019

The directors present their strategic report for the year ended 30 September 2019.

Result and dividend

The results for the Company are set out in the financial statements. Its development, performance of the business during the year, and position at the year end is as follows:

	2019	2018	2017
	£ 000	£ 000	£ 000
Turnover	55,329	50,917	49,709
Gross profit	18,321	16,662	16,450
Gross profit margin	33.1%	32.7%	33.1%
Net assets	77,068	62,573	49,677

The Directors do not recommend the payment of a dividend for the year.

Key performance indicators

The Company's Directors are of the opinion that key performance indicators are important to both monitor and improve the performance and development of the business. The Company uses a number of indicators to monitor and improve the development, performance and position of the business. Indicators are reviewed and updated to meet changes in the internal and external environments and include turnover and gross profit margin, both of which are reported above.

Turnover in the year increased by 8.7% with this increase driven by our continued growth in the High Performance Automotive sector.

The gross margin for the year of 33.1% is in line with prior years.

Future outlook

The Board, together with our partners Inflexion, are optimistic about continued growth in the coming years. New innovative products are continuing to be well received by our hugely valued customers as they strive for ever better performance. Our High Performance Automotive business continues to thrive and is rapidly expanding in the areas of hybridisation of transmissions, electric vehicles transmissions and other areas where our industry leading technical knowledge and skills can be applied.

The Company has a very robust financial platform from which to move forward, and together with the commercial opportunities that we have ahead of us there is every reason for the Board to continue to be optimistic about the potential for future growth.

Going concern and liquidity risk

The Company has sufficient financial resources available and continues to trade profitably and generate cash. The Directors have prepared forecasts for the next 12 months that indicate that these trends will continue. The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have continued to adopt the going concern basis in preparing the financial statements.

Research and development

The Company continues to invest in the use of new technology to enhance the quality of its products and in order to remain competitive within the motor sport industry and other markets.

**XTRAC LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

Price risk, credit risk, liquidity risk and cash flow risk

The business' activities of the Company expose it to the financial risks of changes in foreign currency exchange rates. The risk of fluctuation in foreign exchange rates deflating or inflating the Company's foreign currency assets and liabilities is mitigated through the use of bank accounts held in foreign currencies.

The Company's principal financial instruments comprise bank balances, bank and other loans, trade debtors and trade creditors. The main purpose of these instruments is to finance the business' operations.

All of the Company's cash balances are held in such a way that achieves a competitive rate of interest. The Company makes use of money market facilities where funds are available.

Any loans are managed to the extent that repayments are fixed, and by ensuring sufficient funds are available to meet amounts due.

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits. The amounts presented in the balance sheet are net of any allowances for doubtful debtors.

Trade creditors' liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

Training and the community

The Company is an active member both within the industry and the wider community and continues to be recognised as such in many industry awards. The Company places particular importance on its Princess Royal Standard apprenticeship and under-graduate training schemes and in addition, its award winning Employee Share Trust, whereby staff with a prerequisite amount of service are able to participate as stakeholders in the business.

The apprenticeship scheme has been in operation for more than 25 years and we are extremely proud that the services of more than 50% of all apprentices in this period are still retained at Xtrac.

Further, for more than 20 years the Company has operated an Industrial Placement Program with many placement students returning to Xtrac as graduates following the completion of their studies. These graduates then go on to develop their careers within Xtrac, gaining promotion to senior roles and working on high technology projects.

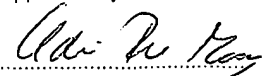
The Company also awards bursaries to under-graduates at various universities in the UK and is a member of the Advisory Board for the MSc in Motorsports Engineering and Management at Cranfield University. Further, the Company continues to help develop the engineers of the future by presenting at colleges and universities both nationally and internationally, that include the Italian Motorsport Technical School in Monza.

In addition the links throughout both the motorsport and automotive industries remain very strong with directors and senior managers regularly presenting at technical seminars as well as being an active member of the Automotive Council - Technology Group which provides a link between our industry and the Government.

The attributes of the Company such as the apprentice and under-graduate schemes, the Employee Share Trust and the links with Government and Industry bodies combine to provide an environment where the Company encourages its employees to fulfil their career aspirations.

As part of our wider responsibility to the environment the Company actively monitors its energy usage and continually looks to ensure its use of energy is as efficient as possible

Approved by the Board on 29/11/20 and signed on its behalf by:



A Moore
Director

XTRAC LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT,
THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 of the Company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XTRAC LIMITED

Opinion

We have audited the financial statements of Xtrac Limited ("the company") for the year ended 30 September 2019 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of trade debtors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going Concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XTRAC LIMITED

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.
- We have nothing to report in these respects.

Director's responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Derek McAllan (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

2 Forbury Place
33 Forbury Road
Reading
RG1 3AD

Date: 29/11/2020

XTRAC LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Note	2019 £ 000	2018 £ 000
Turnover	3	55,329	50,917
Cost of sales		<u>(37,008)</u>	<u>(34,255)</u>
Gross profit		18,321	16,662
Administrative expenses		(5,928)	(5,255)
Other operating income	4	<u>1,794</u>	<u>1,566</u>
Operating profit	6	14,187	12,973
Interest receivable and similar income		13	11
Interest payable and similar charges	5	<u>(5)</u>	<u>(5)</u>
Profit before tax		14,195	12,979
Taxation	10	<u>300</u>	<u>(83)</u>
Profit for the financial year		<u>14,495</u>	<u>12,896</u>

The above results were derived from continuing operations.

The Company had no other comprehensive income in the current or preceding year.

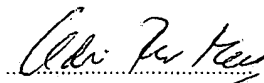
The accompanying notes form an integral part of the financial statements.

XTRAC LIMITED
(REGISTRATION NUMBER: 01825037)
BALANCE SHEET
AS AT 30 SEPTEMBER 2019

	Note	2019 £ 000	2018 £ 000
Fixed assets			
Tangible assets	11	23,153	17,438
Investments	12	-	-
		<u>23,153</u>	<u>17,438</u>
Current assets			
Stocks	13	20,682	19,735
Debtors	14	36,389	29,832
Cash at bank and in hand	15	6,938	1,532
		<u>64,009</u>	<u>51,099</u>
Creditors: Amounts falling due within one year	16	<u>(9,995)</u>	<u>(5,508)</u>
Net current assets		<u>54,014</u>	<u>45,591</u>
Total assets less current liabilities		<u>77,167</u>	<u>63,029</u>
Creditors: Amounts falling due after more than one year	16	(51)	(83)
Provisions for liabilities	17	<u>(48)</u>	<u>(373)</u>
Net assets		<u>77,068</u>	<u>62,573</u>
Capital and reserves			
Called up share capital	18	22	22
Share premium reserve	19	12	12
Retained earnings	19	77,034	62,539
Total equity		<u>77,068</u>	<u>62,573</u>

The accompanying notes form an integral part of the financial statements.

Approved and authorised by the Board on 29/11/20 and signed on its behalf by:



A Moore
Director

XTRAC LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Share capital £ 000	Share premium reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 October 2017	22	12	49,643	49,677
Profit for the year	-	-	12,896	12,896
At 30 September 2018	<u>22</u>	<u>12</u>	<u>62,539</u>	<u>62,573</u>

	Share capital £ 000	Share premium reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 October 2018	22	12	62,539	62,573
Profit for the year	-	-	14,495	14,495
At 30 September 2019	<u>22</u>	<u>12</u>	<u>77,034</u>	<u>77,068</u>

The accompanying notes form an integral part of the financial statements.

XTRAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 General information

The Company is a private company incorporated, domiciled and registered in Great Britain.

The address of its registered office is Gables Way, Kennet Park, Thatcham, Berkshire, RG19 4ZA.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

These financial statements have been prepared using the historical cost convention except for, where disclosed in these accounting policies, certain items that are shown at fair value.

The presentational currency of the financial statements is Pounds Sterling, being the functional currency of the primary economic environment in which the company operates. Monetary amounts in these financial statements are rounded to the nearest Thousand Pound.

Exemption from preparing group accounts

The Company's ultimate parent undertaking, Viola Holdco Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Viola Holdco Limited are prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel Compensation

As the consolidated financial statements of Viola Holdco Limited include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The address of the parent company, Viola Holdco Limited, and where consolidated figures can be obtained is Kennet Park, Gables Way, Thatcham, Berkshire, England, RG19 4ZA.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

XTRAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

2 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

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

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

Judgements and estimation uncertainty

The Directors are required to make various judgements and estimates in respect of: the fair value of stock held; the recoverability of trade debtors; the fair value of share based payments; and the amount of warranty provision.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Turnover is shown net of value added tax, returns, rebates and discounts.

The Company recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Company's activities.

Foreign currency transactions and balances

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Interest receivable and interest payable

Interest payable and similar expenses include interest payable, finance expenses on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

XTRAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

2 Accounting policies (continued)

Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Tangible assets

Tangible fixed assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation.

The cost of tangible fixed assets includes directly attributable incremental costs incurred in their acquisition and installation.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation

Depreciation is charged to the profit and loss account over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Asset class	Depreciation method and rate
Freehold buildings	2% of cost per annum
Plant and machinery	20% of written down value per annum
Fixtures and fittings	15% to 20% of written down value per annum
Motor vehicles	20% of cost per annum

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Investments

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Other investments are measured at cost less impairment in profit or loss.

XTRAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price plus attributable transaction costs. Trade and other creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the average costing method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Leases

Operating lease:

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease:

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

XTRAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

2 Accounting policies (continued)

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as an employee benefit expense when they are due.

Share based payments

The company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (shares or options) of the entity. The fair value of the employee services received is measured by reference to the HM Revenue and Customs agreed value of the shares or estimate fair value of the options at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

Financial instruments

Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the company is presented as a liability on the balance sheet. The corresponding dividends relating to the liability component are charged as interest expenses in the profit and loss account.

Impairment of financial assets:

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below:

A non-financial asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

A financial asset, carried at amortised cost, is impaired when there is a difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

A financial asset, carried at cost less impairment, is impaired when there is a difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

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3 Revenue

The analysis of the Company's turnover for the year, from continuing operations, by market is as follows:

	2019 £ 000	2018 £ 000
UK	18,259	12,785
Europe	25,385	26,066
Rest of world	11,685	12,066
	<u>55,329</u>	<u>50,917</u>

The analysis of the Company's revenue for the year by class of business is as follows:

	2019 £ 000	2018 (As restated) £ 000
Sale of goods	46,076	43,606
Provision of services	9,253	7,311
	<u>55,329</u>	<u>50,917</u>

4 Other operating income

	2019 £ 000	2018 £ 000
Research and development tax credits	<u>1,794</u>	<u>1,566</u>

5 Interest payable and similar charges

	2019 £ 000	2018 £ 000
Interest on obligations under finance leases and hire purchase contracts	<u>5</u>	<u>5</u>

6 Operating profit

Arrived at after charging / (crediting):

	2019 £ 000	2018 £ 000
Depreciation expense	2,319	1,986
Foreign exchange (losses)/gains	(12)	50
Operating lease expense - property	168	165
Operating lease expense - plant and machinery	34	22
Loss on disposal of tangible fixed assets	2	1
Research and development expensed as incurred	<u>207</u>	<u>116</u>

XTRAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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7 Auditor Remuneration

	2019	2018
	£ 000	£ 000
Fees payable for audit services		
Audit of the financial statements	<u>30</u>	<u>60</u>

The auditor remuneration is paid directly by the Ultimate Parent Company.

8 Staff costs

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2019	2018
	£ 000	£ 000
Wages and salaries	13,957	13,370
Social security costs	1,417	1,369
Pension costs	<u>402</u>	<u>377</u>
	<u>15,776</u>	<u>15,116</u>

The average number of persons employed by the company (including Directors) during the year, analysed by category was as follows:

	2019	2018
	No.	No.
Production	317	290
Administration and support	<u>15</u>	<u>15</u>
	<u>332</u>	<u>305</u>

XTRAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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9 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2019 £ 000	2018 £ 000
Remuneration (including benefits in kind)	-	53
Contributions paid to money purchase schemes	-	8
	<u>-</u>	<u>61</u>

Further to the management buyout in October 2017, the directors' remuneration is now borne by the intermediate parent company, Viola Bidco Limited. Of this remuneration £984,000 (2018: £933,000) of it is attributable to the running and management of the Xtrac business.

10 Taxation

Tax charged / (credited) in the profit and loss account:

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	341	298
UK corporation tax adjustment to prior periods	<u>(285)</u>	<u>(175)</u>
	56	123
Deferred taxation		
Arising from origination and reversal of timing differences	<u>(356)</u>	<u>(40)</u>
	<u>(300)</u>	<u>83</u>

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10 Taxation (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - lower than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	<u>14,195</u>	<u>12,979</u>
Corporation tax at standard rate	2,697	2,466
Effect of:		
Expenses not deductible for tax purposes	5	27
Adjustment for prior periods	(285)	(175)
Deferred tax expense (credit) relating to difference in tax rates	(19)	1
Tax effect of the Employee Share Trust	19	(2,309)
Tax impact of RDEC claims	(333)	290
Tax impact of SME R&D claims	(402)	-
Group relief	(1,969)	(168)
Other timing differences	<u>(13)</u>	<u>(49)</u>
	<u>(300)</u>	<u>83</u>

Deferred tax

Deferred tax liabilities/(assets):

	2019 £ 000	2018 £ 000
Research and development tax credit	(545)	-
Accelerated capital allowances	<u>514</u>	<u>325</u>
	<u>(31)</u>	<u>325</u>

Reductions in the UK corporation tax rate from 21% (effective 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the budget on 8 July 2015, the chancellor announced additional planned reductions to 18% by 2020. A further rate reduction to 17%, effective from April 2020, was announced on 16 March 2016 and substantively enacted on 6 September 2016. The deferred tax assets and liabilities at 30 September 2019 have been calculated based on the rate of 17%.

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11 Tangible assets

	Freehold buildings £ 000	Plant and machinery £ 000	Fixtures and fittings £ 000	Motor vehicles £ 000	Total £ 000
Cost					
At 1 October 2018	10,728	28,947	6,414	397	46,486
Additions	1,133	5,178	1,697	32	8,040
Disposals	-	-	-	(50)	(50)
At 30 September 2019	11,861	34,125	8,111	379	54,476
Depreciation					
At 1 October 2018	1,927	22,402	4,560	159	29,048
Charge for the year	213	1,539	524	43	2,319
Eliminated on disposal	-	-	-	(44)	(44)
At 30 September 2019	2,140	23,941	5,084	158	31,323
Carrying amount					
At 30 September 2019	9,721	10,184	3,027	221	23,153
At 30 September 2018	8,801	6,545	1,854	238	17,438

Included in the net book value of fixtures and fittings held as at 30 September 2019 was £88,000 (2018 - £120,000) in respect of an asset held under finance lease. Depreciation charged on this asset during the year was £32,000 (2018 - £32,000).

12 Investments

	£
Cost and carrying amount	
At 30 September 2019	1
At 30 September 2018	1

The company owns 100% of the ordinary share capital of Xtrac Inc, a company incorporated in the USA. The principal activity of Xtrac Inc is the provision of marketing, technical support and maintenance in relation to precision mechanical engineering components and transmission systems for use in motor sport in North America.

Xtrac Inc is registered at 6183 West 80th Street, Indianapolis, IN 46278, USA.

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13 Stocks

	2019 £ 000	2018 £ 000
Raw materials	2,569	2,889
Work in progress	2,889	2,663
Finished goods	15,224	14,183
	<u>20,682</u>	<u>19,735</u>

The cost of stocks recognised as a cost of sales expense in the year amounted to £37.0m (2018 - £34.1m).

The amount of impairment loss charged to the profit and loss for the year is £0.7m (2018 - impairment loss reversed of £0.8m).

14 Debtors

	2019 £ 000	2018 £ 000
Trade debtors	8,118	6,680
Amounts owed by group undertakings	23,848	19,296
Other debtors	209	835
Prepayments and accrued income	1,177	1,579
Deterred tax assets	31	-
Corporation tax asset	3,006	1,442
	<u>36,389</u>	<u>29,832</u>

15 Cash and cash equivalents

	2019 £ 000	2018 £ 000
Cash on hand	9	8
Cash at bank	6,929	1,524
	<u>6,938</u>	<u>1,532</u>

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NOTES TO THE FINANCIAL STATEMENTS
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16 Creditors

	2019 £ 000	2018 £ 000
Due within one year		
Finance leases	32	32
Trade creditors	7,886	4,315
Payments received on account	1,330	325
Social security and other taxes	405	366
Pension contributions	106	76
Accruals and deferred income	236	394
	<u>9,995</u>	<u>5,508</u>
Due after one year		
Finance leases	<u>51</u>	<u>83</u>

Finance leases are secured over the assets to which they relate.

17 Deferred tax and other provisions

	Warranty provision £ 000
At 1 October 2018	48
Increase / (decrease) in existing provisions	<u>-</u>
At 30 September 2019	<u>48</u>

The warranty provision is in place for the potential cost of replacing or repairing gearboxes covered by a warranty.

	Deferred tax liability £ 000
At 1 October 2018	325
Arising from origination and reversal of timing differences	189
Research and development tax credit	(545)
Reclass to deferred tax asset	<u>31</u>
At 30 September 2019	<u>-</u>

Details of the deferred tax liability are included in note 10.

XTRAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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18 Share capital

Allotted, called up and fully paid shares

	2019		2018	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	11	11	11	11
'B' Ordinary shares of £1 each	11	11	11	11
	<u>22</u>	<u>22</u>	<u>22</u>	<u>22</u>

All shares rank pari passu.

19 Reserves

The Company has recognised the following reserves:

Share premium reserve

This reserve records the excess amount received on the issue of shares over their par value.

Retained earnings

This reserve records: accumulated profit and loss; other comprehensive income; dividends and other distributions; and share based payment transactions.

20 Pension and other schemes

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £402,000 (2018 - £377,000). Contributions totalling £106,000 (2018 - £76,000) were payable to the scheme at the end of the year and are included in creditors.

21 Contingent liabilities

The Company is bound by an unlimited multilateral cross company guarantee arrangement with its immediate parent company Xtrac Group Limited, its fellow group company Xtrac Transmissions Limited, and its intermediate controlling parties Xtrac Transmissions (Holdings) Limited and Viola Bidco Limited. The guarantee is secured by a fixed and floating charge over the tangible and intangible assets of the Company and covers the following facilities that have been made available to Viola Bidco Limited:

Term loan of £35,000,000 (2018 - £35,000,000) and revolving credit facility of £15,000,000 (2018 - £15,000,000).

22 Commitments

Capital commitments

The total amount contracted for, but not provided in the financial statements was £854,000 (2018 - £955,000).

XTRAC LIMITED
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23 Obligations under leases

The total of future minimum lease payments is as follows:

Finance leases

	2019 £ 000	2018 £ 000
Not later than one year	32	32
Later than one year and not later than five years	51	83
	<u>83</u>	<u>115</u>

Operating leases - land and buildings

	2019 £ 000	2018 £ 000
Not later than one year	138	165
Later than one year and not later than five years	-	138
	<u>138</u>	<u>303</u>

The amount of operating lease payments (land and buildings) recognised as an expense during the year was £168,000 (2018 - £165,000).

Operating leases - other

	2019 £ 000	2018 £ 000
Not later than one year	27	15
Later than one year and not later than five years	17	20
	<u>44</u>	<u>35</u>

The amount of non-cancellable operating lease payments (other) recognised as an expense during the year was £34,000 (2018 - £15,000).

24 Related party transactions

The Company has taken advantage of the exemption from disclosing transactions with other members of the Group.

25 Control

The Company's immediate parent company is Xtrac Group Limited, incorporated in Great Britain. The ultimate parent company is Viola Holdco Limited, incorporated in Great Britain.

The largest group in which the results of the Company are consolidated is that headed by Viola Holdco Limited, Gables Way, Kennet Park, Thatcham, Berkshire, England, RG19 4ZA. The smallest group in which they are consolidated is that headed by Viola Bidco Limited, Gables Way, Kennet Park, Thatcham, Berkshire, England, RG19 4ZA. The consolidated financial statements of these groups are available to the public and may be obtained from Gables Way, Kennet Park, Thatcham, Berkshire, England, RG19 4ZA.

The address of the parent company, Xtrac Transmissions (Holdings) Limited, and that of the ultimate parent company, Viola Holdco Limited is Gables Way, Thatcham, Berkshire, RG19 4ZA.

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26 Employee Share Trust

An Employee Share Trust was created for the employees of Xtrac Limited in 1997. The Trust previously held a number of shares in Xtrac Transmissions (Holdings) Limited, and it used those to create share schemes to allow employees to contribute to and benefit from the Company's success. As at 30 September 2019 there are no active share incentive plans from which future distributions are planned. During the prior year, all shares previously held in Xtrac Transmissions (Holdings) Limited were settled.

During the current year the Trust received forfeited shares in Viola Holdco Limited and forfeited loan notes issued by Viola Midco Limited as a result of employees ceasing employment, these shares and loan notes having been originally acquired from the sale of shares previously awarded under HMRC approved share schemes.