

702185 | 30

FC025570

**SCOTT Sports SA, Givisiez**  
**Report of the Statutory Auditors**  
**to the General Meeting**  
Financial Statements August 31, 2007

FRIDAY



\*A62CK3N4\*

A10

03/10/2008

10

COMPANIES HOUSE



**KPMG Ltd**  
**Audit**  
Rue des Pilettes 1  
CH-1700 Fribourg

P.O. Box 887  
CH-1701 Fribourg

Telephone +41 26 347 49 00  
Fax +41 26 347 49 01  
Internet [www.kpmg.ch](http://www.kpmg.ch)

## Report of the Statutory Auditors to the General Meeting of

### **SCOTT Sports SA, Givisiez**

---

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement, statement of retained earnings and notes) of SCOTT Sports SA for the year ended August 31, 2007

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG Ltd

Stéphane Gard  
*Auditor in Charge*

Myriam Roulin

Fribourg, November 7, 2007

#### *Enclosure*

- Financial statements (balance sheet, income statement, statement of retained earnings and notes)
- Proposed appropriation of available earnings

## SCOTT SPORTS SA

BALANCE SHEETS AS OF AUGUST 31,  
(Currency - Swiss Francs)

	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and securities	3'259'321	249'727
Accounts receivable		
- Trade	23'165'087	23'223'560
- Allowance for doubtful accounts	(2'193'686)	(717'209)
<i>Total trade receivable</i>	20'971'401	22'506'351
- Group	12'782'826	8'544'988
- Shareholders	28'800'000	22'000'000
- Other	43'098	47'798
- Taxes receivable	35'724	-
<i>Total accounts receivable</i>	62'633'049	53'099'137
Inventories, net of reserve of CHF 19'342'436 (2006 CHF 14'942'436)	32'936'867	41'963'657
Prepaid expenses	1'613'946	1'597'731
<i>Total current assets</i>	100'443'183	96'910'252
<b>NON-CURRENT ASSETS</b>		
Investment in subsidiaries	6'250'158	6'245'544
Fixed assets, at cost	37'651'324	33'174'120
Less- accumulated depreciation	(21'494'279)	(17'799'318)
<i>Total net fixed assets</i>	16'157'045	15'374'802
Goodwill	3'924'070	3'924'070
Less- accumulated depreciation	(2'994'361)	(2'344'469)
<i>Total goodwill</i>	929'709	1'579'601
Patent	204'164	-
Less- accumulated depreciation	(81'665)	-
<i>Total patent</i>	122'499	-
<i>Total non-current assets</i>	23'459'411	23'199'947
<i>Total assets</i>	123'902'594	120'110'199

## SCOTT SPORTS SA

BALANCE SHEETS AS OF AUGUST 31,  
(Currency - Swiss Francs)

	2007	2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Bank Borrowings	15'169'400	24'341'793
Current portion long-term debt	395'000	395'000
Accounts payable		
- Trade	28'407'488	20'445'250
- Group	4'448'996	5'480'473
<i>Total accounts payable</i>	32'856'484	25'925'723
Accrued expenses	6'122'428	5'826'919
Accrued taxes	512'195	17'542
<i>Total current liabilities</i>	55'055'507	56'506'977
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt	7'259'826	5'281'309
<i>Total non-current liabilities</i>	7'259'826	5'281'309
<b>SHAREHOLDER'S EQUITY .</b>		
Share capital	6'000'000	6'000'000
Legal reserve	1'887'200	1'887'200
Retained earnings	53'700'061	50'434'713
<i>Total shareholder's Equity</i>	61'587'261	58'321'913
<i>Total liabilities and shareholder's Equity</i>	123'902'594	120'110'199

SCOTT SPORTS SA

STATEMENT OF INCOME  
FOR THE YEARS ENDED AUGUST 31,  
(Currency - Swiss Francs)

	<u>2007</u>	<u>2006</u>
Net Sales	298'967'203	275'670'058
Cost of Sales	(230'320'117)	(213'130'967)
<i>Gross profit</i>	<u>68'647'086</u>	<u>62'539'091</u>
EXPENSES		
Personnel	(20'879'715)	(21'476'503)
Advertising and product development	(22'177'754)	(21'717'409)
Professional fees and management fees	(10'451'874)	(11'654'889)
Depreciation for G&A related fixed assets	(1'952'677)	(2'039'860)
Depreciation for G&A related intangible assets	(81'665)	-
Office rent, telephone, postage	(2'544'080)	(2'773'949)
Travel and representation	(260'839)	(310'420)
Repair and maintenance	(967'932)	(700'950)
<i>Total expenses</i>	<u>(59'316'536)</u>	<u>(60'673'980)</u>
<i>Income from operations</i>	<u>9'330'550</u>	<u>1'865'111</u>
OTHER INCOME / (EXPENSE) .		
Interest income	163'039	67'792
Interest expense	(3'402'192)	(2'125'026)
Exchange differences	(2'046'102)	860'804
Other income	512'720	446'387
Other expense	(247'080)	(252'780)
Gain on sale of fixed assets	137'297	17'347
<i>Total other expenses</i>	<u>(4'882'318)</u>	<u>(985'476)</u>
<i>Income before taxes</i>	<u>4'448'232</u>	<u>879'635</u>
TAXES	(604'209)	(185'337)
<i>Net income</i>	<u><u>3'844'023</u></u>	<u><u>694'298</u></u>

SCOTT SPORTS SA  
STATEMENT OF RETAINED EARNINGS  
FOR THE YEARS ENDED AUGUST 31,  
(Currency - Swiss Francs)

	<u>2007</u>	<u>2006</u>
RETAINED EARNINGS		
Balance, beginning of the year	50'434'713	49'983'636
Translation adjustment	(578'675)	(243'221)
Net income	3'844'023	694'298
<i>Balance, end of the year</i>	<u><u>53'700'061</u></u>	<u><u>50'434'713</u></u>

## SCOTT Sports S.A.

### NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2007

#### 1. Operations

The Company sells mountain bikes, skipoles, skigoggles, snowboards, motorcycle-goggles, sunglasses and certain other leisure equipment and accessories through its own sales branches in Europe and to independent distributors

As of September 1, 1998, SSG (Europe) SA was merged with SSG Holdings SA, without any increase in capital. Its name was then changed to SCOTT Sports S A

#### 2. Investments

Investments in the following subsidiaries are stated at cost

Subsidiaries	Owned in %	2007 CHF	Owned in %	2006 CHF
S.P F S p A , Aosta, Italy	100	3'600'000	100	3'600'000
Scott Sportech Benelux, N V., Kortenbergh, Belgium	19	110'094	19	110'094
Ed Scott Sports Group Svenska AB, Uppsala, Sweden	100	2'535'450	100	2'535'450
Acerbis UK Ltd LUTON BEDS, UK	19	4'614		-
		<u>6'250'158</u>		<u>6'245'544</u>

#### 3. Inventories

Inventories are stated at cost. Manufactured inventories are assembled to a large extent by contractors and primarily consist of mountain bikes, ski and motorcycle goggles, skipoles and snowboards. Specific and general reserves are provided on inventory balances.

#### 4. Fixed assets

Fixed assets include land, a building, machinery and equipment, furniture and fixtures, computer equipment and cars. The depreciation is computed on the straight-line basis over the estimated useful lives. The following depreciation rates are used:

• Building	33% p.a.
• Machinery and equipment	20% p.a.
• Furniture and fixtures	20% p.a.
• Computer hardware & software	33% p.a.
• Cars	33% p.a.

Expenditures for maintenance and repairs are charged to the statement of income as incurred.

As of the balance sheet date, the Company had insured its fixed assets against fire for a total of CHF 38'115'663 as of August 31, 2007 and CHF 16'439'964 as of August 31, 2006.

#### 5. Intangible assets

The depreciation is computed on the straight-line basis over the estimated useful lives. The following depreciation rate is used:

• Goodwill in Switzerland	20% p.a.
• Goodwill in Germany and Austria	10% p.a.
• Patents	40% p.a.

#### 6. Legal reserve

	2007 CHF	2006 CHF
Capital surplus	687'200	687'200
General reserve	1'200'000	1'200'000
	<u>1'887'200</u>	<u>1'887'200</u>



## 7. Depreciation

Total depreciation expense amounts to CHF 4'794'771 (2006 CHF 4'267'661)

	2007	2006
	CHF	CHF
Depreciation for G&A related fixed assets	1'952'677	2'039'860
Depreciation for G&A related intangible assets	81'665	-
Depreciation included in cost of sales	2'450'952	1'945'004
Depreciation included in advertising	309'477	282'797
	<u>4'794'771</u>	<u>4'267'661</u>

## 8. Income taxes

The Company is liable for income and capital taxes. In Switzerland the Company is taxed based on its income from domestic operations only. The foreign branches are taxed in their respective countries based on their local contribution to the Company's net result. For financial reporting purposes the Company has accrued all income taxes which will be levied based on the net income reported as of August 31, 2007.

## 9. Foreign currency

The Group's operations are conducted in numerous currencies. The Group manages its foreign currency exposures through a combination of natural hedging and the use of forward exchange contracts. The Company generally enters into these forward contracts to hedge positions for up to twelve months.

At August 31, 2007, the Company had foreign exchange contracts for a total value of CHF 46.4 million (2006 CHF 49.3 million). The Company has unrealized gains relating to these contracts of approximately CHF 178'993 at August 31, 2007 and unrealized losses of approximately CHF 689'837 at August 31, 2006.

## 10. Transactions with the group

### a. Group accounts receivable

These accounts receivable reflect trade receivables due from group companies for transactions entered into in the normal course of business.

### b. Royalties

Cost of sales includes royalties to Scott USA, Ltd of CHF 4'217'832 for the period ended August 31, 2007 and of CHF 3'915'119 for the period ended August 31, 2006.

## **11. Credit lines**

The credit arrangements include the following conditions and covenants

- Maximum availability under the credit line of CHF 75'000'000 (2006 CHF 75'000'000) , including seasonal credit line of CHF 35'000'000 (2006 CHF 35'000'000)
- Pledge of all accounts receivable in favour of the bank
- The company has signed a negative pledge agreement with the Bank in which SCOTT Sports SA agrees not to pledge any assets in favor of any other third party
- Pledge of the shares of SCOTT Sports S A to the bank
- The distribution of dividend is subject to the approval of the Company's bank under the line of credit agreement

## **12. Contingent Liabilities**

- Irrevocable standby letters of credit amounting to CHF 1'564'030 (2006 CHF 1'842'150) was issued to guarantee banking facilities to a supplier
- SCOTT SPORTS SA has open guarantees amounting to CHF 2'160'017 (2006 CHF 2'055'862) mainly for customs clearing and rent.
- SCOTT Sports SA acts as a guarantor on a leasing commitment taken by SSG (Europe) Distribution Center N V Aubange, Belgium in the amount of CHF 7.2 million (2006 CHF 7.3 million) for a new distribution warehouse

## **13. Long-term debt**

The long term debt of CHF 3'200'000 (2006 CHF 3'500'000) is secured by the building and land in Switzerland to the extent of CHF 6'732'306 (net book value) The repayment of the mortgage is scheduled in installments of CHF 300'000 per year

The long term debt of CHF 4'059'826 (2006 CHF 1'781'309) is secured by the building and land in France to the extent of CHF 4'517'759 (2006 CHF 2'016'573) (net book value) The repayment of the mortgage is scheduled in installments of CHF 95'000 per year

## **14. Leasing Commitment**

At August 31, 2007 the company had lease commitments that were not recorded in the balance sheet for a total of CHF 2'155'501 (2006 CHF 1'784'427)