

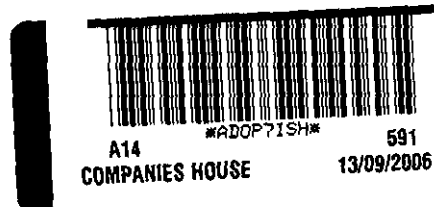
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SCOTT Sports SA, Givisiez

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

Financial Statements as of August 31, 2005



KPMG Fides Peat
Fribourg, November 17, 2005
Ref. MR/mif, 8+3

**KPMG Fides Peat****Audit**

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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, 2005.

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 from 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 Fides Peat

Stéphane Gard
Auditor in Charge

ppn Myriam Roulin

Fribourg, November 17, 2005

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)

	2005	2004
ASSETS		
CURRENT ASSETS :		
Cash and securities	288'900	13'550'936
Accounts receivable		
- Trade	21'091'194	16'508'584
- Allowance for doubtful accounts	(873'296)	(977'784)
<i>Total trade receivable</i>	20'217'898	15'530'800
- Group	7'591'163	7'390'048
- Shareholders	15'400'000	7'987'725
- Other	56'834	99'337
- Taxes receivable	37'166	-
<i>Total accounts receivable</i>	43'303'061	31'007'910
Inventories, net of reserve of CHF 15'231'030 (2004: CHF 8'342'314)	30'425'947	23'511'748
Prepaid expenses	1'642'234	1'861'844
<i>Total current assets</i>	75'660'142	69'932'438
NON-CURRENT ASSETS :		
Investment in subsidiaries	6'245'544	6'245'566
Fixed assets, at cost	31'738'154	27'522'062
Less- accumulated depreciation	(18'811'950)	(15'988'934)
<i>Total net fixed assets</i>	12'926'204	11'533'128
Goodwill	3'924'070	3'199'592
Less- accumulated depreciation	(1'694'576)	(707'379)
<i>Total goodwill</i>	2'229'494	2'492'213
<i>Total non-current assets</i>	21'401'242	20'270'907
<i>Total assets</i>	97'061'384	90'203'345

SCOTT SPORTS SA

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

	<u>2005</u>	<u>2004</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES :		
Current portion long-term debt	11'863'635	300'000
Accounts payable		
- Trade	11'141'514	16'050'464
- Group	5'996'664	5'678'056
<i>Total accounts payable</i>	<u>17'138'178</u>	<u>21'728'520</u>
Accrued expenses	6'388'735	5'089'290
Accrued taxes	-	1'561'504
<i>Total current liabilities</i>	<u>35'390'548</u>	<u>28'679'314</u>
NON-CURRENT LIABILITIES :		
Long-term debt	3'800'000	4'100'000
<i>Total non-current liabilities</i>	<u>3'800'000</u>	<u>4'100'000</u>
SHAREHOLDER'S EQUITY :		
Share capital	6'000'000	6'000'000
Legal reserve	1'887'200	1'485'200
Retained earnings	49'983'636	49'938'831
<i>Total shareholder's Equity</i>	<u>57'870'836</u>	<u>57'424'031</u>
<i>Total liabilities and shareholder's Equity</i>	<u>97'061'384</u>	<u>90'203'345</u>

SCOTT SPORTS SA

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

	<u>2005</u>	<u>2004</u>
Net Sales	252'204'340	218'530'299
Cost of Sales	(194'100'819)	(161'902'692)
<i>Gross profit</i>	<u>58'103'521</u>	<u>56'627'607</u>
EXPENSES:		
Personnel	(18'599'729)	(16'476'700)
Advertising and product development	(19'467'182)	(16'002'770)
Professional fees and management fees	(9'144'795)	(6'571'560)
Depreciation	(1'927'150)	(1'559'854)
Office rent, telephone, postage	(2'642'241)	(2'158'124)
Travel and representation	(329'263)	(372'642)
Repair and maintenance	(820'096)	(460'450)
<i>Total expenses</i>	<u>(52'930'456)</u>	<u>(43'602'100)</u>
<i>Income from operations</i>	<u>5'173'065</u>	<u>13'025'507</u>
OTHER INCOME / (EXPENSES):		
Interest income	70'246	111'648
Interest expense	(1'815'692)	(780'641)
Exchange differences	(3'211'639)	(1'970'866)
Other income	362'951	457'052
Other expense	(83'683)	(120'402)
<i>Total other expenses</i>	<u>(4'677'817)</u>	<u>(2'303'209)</u>
<i>Income before taxes</i>	<u>495'248</u>	<u>10'722'298</u>
TAXES	(20'821)	(1'327'756)
<i>Net income</i>	<u><u>474'427</u></u>	<u><u>9'394'542</u></u>

SCOTT SPORTS SA

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

	<u>2005</u>	<u>2004</u>
RETAINED EARNINGS		
Balance, beginning of the year	49'938'831	41'003'036
Allocation to general reserve	(402'000)	(385'000)
Translation adjustment	(27'622)	(73'747)
Net income	474'427	9'394'542
<i>Balance, end of the year</i>	<u><u>49'983'636</u></u>	<u><u>49'938'831</u></u>

SCOTT Sports S.A.

NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2005

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 %	2005	Owned in %	2004
S.P.F. S.p.A., Aosta, Italy	100	3'600'000	100	3'600'000
Scott Sportech Benelux, N.V., Kortenberg, Belgium	19	110'094	20	110'116
Ed Scott Sports Group Svenska AB, Uppsala, Sweden	100	2'535'450	100	2'535'450
		<u>6'245'544</u>		<u>6'245'566</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. The total inventory reserves have been increased during the year ended August 31, 2005, which is included under cost of sales.

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	3.33% 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 16'226'013 as of August 31, 2005 and CHF 16'167'563 as of August 31, 2004.

5. Goodwill

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

• Goodwill	20% p.a.
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6. Legal reserve

	2005	2004
Capital surplus	687'200	687'200
General reserve	1'200'000	798'000
	<u>1'887'200</u>	<u>1'485'200</u>

7. Depreciation

Total depreciation expense amounts to CHF 3'756'447 (2004 : CHF 2'976'541).

	2005	2004
Depreciation	1'927'150	1'559'854
Depreciation included in cost of sales	1'659'991	1'274'189
Depreciation included in advertising	169'306	142'498
	<u>3'756'447</u>	<u>2'976'541</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, 2005.

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, 2005, the Company had foreign exchange contracts for a total value of CHF 53.7 million (2004 : CHF 65.0 million). The Company has unrealized gains relating to these contracts of approximately CHF 444'689 at August 31, 2005 and unrealized gains of approximately 109'385 at August 31, 2004.

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 7'973'075 for the period ended August 31, 2005 and of CHF 6'611'365 for the period ended August 31, 2004.

c. Management Fees

The Company paid no management fee to Friror Holding S.A. in 2005 (2004 : CHF 179'265). The management fees are primarily reimbursements for consulting and other costs related to group management.

11. Credit lines

The credit arrangements include the following conditions and covenants :

- Maximum availability under the credit line of CHF 35'000'000 (2004 : CHF 30'000'000) and CHF 5'000'000 (2004 : nil) as margin coverage for over-the-counter (OTC) transactions ; including seasonal credit line for a maximum of CHF 10'000'000 (2004 : CHF 15'000'000).
- 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

- Outstandings letters of credit amounting to CHF 170'108 (2004 : 819'446) were issued in the normal course of the business.
- An irrevocable standby letter of credit amounting to CHF 1'649'960 (2004 : 1'020'320) was issued to guarantee banking facilities to a supplier.
- SCOTT SPORTS SA has open guarantees amounting to CHF 296'104 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. Londerzeel, Belgium in the amount of CHF 7.6 mio (2004 : CHF 5.4 mio) for a new distribution warehouse.

13. Long-term debt

The long term debt of CHF 3'800'000 (2004 : CHF 4'100'000) is secured by the building and land to the extent of CHF 6'971'732.92 (net book value). The repayment of the mortgage is scheduled in installments of CHF 300'000 per year.

14. Leasing Commitment

At August 31, 2005 the company had lease commitments that were not recorded in the balance sheet for a total of CHF 1'844'532 (2004 : CHF 1'311'096).

SCOTT Sports S.A.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS
AS OF AUGUST 31, 2005

The Board of Directors proposes to allocate the balance of retained earnings of CHF 49'983'636 as follows :

To be carried forward

CHF 49'983'636