

FC 25370.

702490/50  
op.

**SCOTT Sports SA, Givisiez**  
**Report of the Statutory Auditor**  
**on the Financial Statements**  
**to the General Meeting**  
Financial Statements August 31, 2009

FRIDAY



\*AESDUKY5\*  
A43 18/06/2010 108  
COMPANIES HOUSE



**KPMG SA**  
**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 Auditor on the Financial Statements to the General Meeting of **SCOTT Sports SA, Givisiez**

---

As statutory auditor, we have audited the accompanying financial statements of SCOTT Sports SA, which comprise the balance sheet, income statement, statement of retained earnings and notes for the year ended August 31, 2009

### *Board of Directors' Responsibility*

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements for the year ended August 31, 2009 comply with Swiss law and the company's articles of incorporation.

### **Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG SA



Stéphane Gard  
*Licensed Audit Expert  
Auditor in Charge*



Myriam Roulin  
*Licensed Audit Expert*

Fribourg, November 19, 2009

*Enclosures*

- 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)

	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and securities	14'627'594	24'832'619
Accounts receivable		
- Trade	29'878'047	33'161'556
- Allowance for doubtful accounts	(2'816'070)	(3'066'247)
<i>Total trade receivable</i>	27'061'977	30'095'309
- Group	19'931'501	15'685'838
- Allowance for doubtful accounts	(1'918'223)	(1'281'570)
<i>Total group receivable</i>	18'013'278	14'404'268
- Shareholders	4'640'000	24'597'012
- Other	444'734	84'749
- Taxes receivable	9'825	39'887
<i>Total accounts receivable</i>	50'169'814	69'221'225
Inventories, net of reserve of CHF 26'410'761 (2008 CHF 26'542'436)	47'340'344	49'243'296
Prepaid expenses	1'262'926	2'341'738
<i>Total current assets</i>	113'400'678	145'638'878
<b>NON-CURRENT ASSETS .</b>		
Investment in subsidiaries	6'250'158	6'250'158
Fixed assets, at cost	41'974'704	39'067'902
Less- accumulated depreciation	(25'765'840)	(22'029'670)
<i>Total net fixed assets</i>	16'208'864	17'038'232
Goodwill	3'924'070	3'924'070
Less- accumulated depreciation	(3'789'150)	(3'644'254)
<i>Total goodwill</i>	134'920	279'816
Patent	370'594	370'594
Less- accumulated depreciation	(266'580)	(197'237)
<i>Total patent</i>	104'014	173'357
<i>Total non-current assets</i>	22'697'956	23'741'563
<i>Total assets</i>	136'098'634	169'380'441

## SCOTT SPORTS SA

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

	2009	2008
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Bank Borrowings	41'145'763	45'379'209
Current portion long-term debt	662'128	662'086
Accounts payable		
- Trade	23'357'545	35'956'596
- Group	6'648'531	2'811'417
<i>Total accounts payable</i>	<u>30'006'076</u>	<u>38'768'013</u>
Accrued expenses	11'665'254	7'877'755
Accrued taxes	955'357	1'180'323
<i>Total current liabilities</i>	<u>84'434'578</u>	<u>93'867'386</u>
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt	5'699'057	6'360'779
<i>Total non-current liabilities</i>	<u>5'699'057</u>	<u>6'360'779</u>
<b>SHAREHOLDER'S EQUITY</b>		
Share capital	6'000'000	6'000'000
Legal reserve	3'000'000	1'887'200
Retained earnings	36'964'999	61'265'076
<i>Total shareholder's Equity</i>	<u>45'964'999</u>	<u>69'152'276</u>
<i>Total liabilities and shareholder's Equity</i>	<u>136'098'634</u>	<u>169'380'441</u>

## SCOTT SPORTS SA

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

	2009	2008
Net Sales	326'781'911	335'737'708
Cost of Sales	(261'712'581)	(255'271'251)
<i>Gross profit</i>	<u>65'069'330</u>	<u>80'466'457</u>
EXPENSES		
Personnel	(20'440'974)	(21'029'499)
Advertising and product development	(26'612'882)	(23'741'295)
Professional fees and management fees	(12'161'389)	(10'495'189)
Depreciation for G&A related fixed assets	(1'184'073)	(1'189'290)
Depreciation for G&A related intangible assets	(211'415)	(766'759)
Office rent, telephone, postage	(2'813'903)	(2'910'953)
Travel and representation	(227'347)	(314'652)
Repair and maintenance	(1'153'687)	(1'180'013)
<i>Total expenses</i>	<u>(64'805'670)</u>	<u>(61'627'650)</u>
<i>Income from operations</i>	<u>263'660</u>	<u>18'838'807</u>
OTHER INCOME / (EXPENSE)		
Interest income	682'092	310'935
Interest expense	(4'601'772)	(4'170'585)
Exchange differences	11'236'605	(6'365'853)
Other income	1'058'647	548'599
Other expense	(260'640)	(88'604)
Gain on sale of fixed assets	91'567	22'491
<i>Total other income/(expenses)</i>	<u>8'206'499</u>	<u>(9'743'017)</u>
<i>Income before taxes</i>	<u>8'470'159</u>	<u>9'095'790</u>
TAXES	(1'171'195)	(1'971'153)
<i>Net income</i>	<u><u>7'298'964</u></u>	<u><u>7'124'637</u></u>

SCOTT SPORTS SA

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

	<u>2009</u>	<u>2008</u>
RETAINED EARNINGS		
Balance, beginning of the year	61'265'076	53'700'061
Dividend allocation	(31'291'512)	-
Allocation to general reserve	(1'112'800)	-
Translation adjustment	805'271	440'378
Net income	7'298'964	7'124'637
<i>Balance, end of the year</i>	<u><u>36'964'999</u></u>	<u><u>61'265'076</u></u>

## SCOTT Sports S.A.

### NOTES TO FINANCIAL STATEMENTS AS OF AUGUST 31, 2009

#### 1. Operations

The Company sells mountain bikes, skipoles, skigoggles, skis, 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 %	2009 CHF	Owned in %	2008 CHF
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	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	19	4'614
		6'250'158		6'250'158

#### 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 skis. 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 38'164'201 as of August 31, 2009 and CHF 39'290'005 as of August 31, 2008.

#### 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

Due to the dividend of CHF 31'291'512, an allocation to the general reserve of CHF 1'112'800 has been recorded. The legal reserve having reached 50% of the share capital, the company decided not to make further allocation.

	2009 CHF	2008 CHF
Capital surplus	687'200	687'200
General reserve	2'312'800	1'200'000
	3'000'000	1'887'200

## 7. Depreciation

Total depreciation expense amounts to CHF 5'292'130 (2008 CHF 4'641'863)

	2009 CHF	2008 CHF
Depreciation for G&A related fixed assets	1'184'073	1'189'290
Depreciation for G&A related intangible assets	211'415	766'759
Depreciation included in cost of sales	3'719'504	2'387'394
Depreciation included in advertising	177'138	298'420
	5'292'130	4'641'863

## 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, 2009.

## 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, 2009, the Company had foreign exchange contracts for a total value of CHF 56.9 million (2008 CHF 114.9 million). The Company has unrealized losses relating to these contracts of approximately CHF 704'549 at August 31, 2009 and gains of approximately CHF 2'314'337 at August 31, 2008.

## 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 4'611'586 for the period ended August 31, 2009 and of CHF 4'674'412 for the period ended August 31, 2008.

## **11. Credit lines**

The credit arrangements include the following conditions and covenants :

- Maximum availability under the credit line of CHF 120'000'000 (2008 : CHF 120'000'000) ; including seasonal credit line of CHF 55'000'000 (2008 : CHF 55'000'000)
- 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.
- SSG Invest S A., the parent company, has pledged 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 1'062'300 (2008 : CHF 1'095'600) was issued to guarantee banking facilities to a supplier.
- SCOTT SPORTS SA has open guarantees amounting to CHF 1'999'885 (2008 : CHF 2'122'405) 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 5 7 million (2008 : CHF 6 6 million) for a new distribution warehouse.

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

The long term debt of CHF 2'600'000 (2008 : CHF 2'900'000) is secured by the building and land in Switzerland to the extent of CHF 6'262'342 (net book value) The repayment of the mortgage is scheduled in installments of CHF 300'000 per year

The long term debt of CHF 3'098'935 (2008 : CHF 3'461'049) is secured by the building and land in France to the extent of CHF 4'447'648 (2008 : CHF 4'918'670) (net book value) The repayment of the mortgage is scheduled in installments of CHF 362'114 per year

## **14. Leasing Commitment**

At August 31, 2009 the company had lease commitments that were not recorded in the balance sheet for a total of CHF 1'767'018 (2008 : CHF 2'233'640).

## **15. Litigations**

The group is also in litigation in Switzerland in relation to a bike sponsoring contract. The matter is pending at the court of arbitration for sport and on civil courts in Switzerland. The case is still early in the process and management decided to provide an amount of CHF 2'271'875 which is the best estimate of the potential outcome available as of August 31, 2009.

The Group's branch in Germany is presently in litigation with the fiscal authorities for backdated taxes. A reserve of CHF 968'760 has been included in provisions at August 31, 2008, in the accompanying financial statements. This provision is based on external advice related to the case and considers the likely outcome to determine the level of the provision. There has been no further development concerning this litigation and therefore there is no reason to change the amount of the provision.

## **16. Comparative information**

Certain comparative amounts have been reclassified to conform to the current year presentation.

## **17. Risk Assessment**

Before August 31, 2009 a risk assessment has been performed with regards to those risks which exercise a material impact on the financial statements. This assessment has been approved by the management.

**SCOTT Sports S.A.**

**PROPOSED APPROPRIATION OF AVAILABLE EARNINGS  
AS OF AUGUST 31, 2009**

The Board of Directors proposes to allocate the balance of retained earnings of CHF 36'964'999 as follows

To be carried forward CHF 36'964'999