

ECCO MIDDLE EAST A/S
(CVR No. 30 71 33 54)

Industrivej 5, 6261 Bredebro

Annual Report 2015
(8 Financial year)

ÅRSRAPPORT TIL ERHVERVSSTYRELSEN

Nærværende årsrapport er fremlagt og godkendt på selskabets ordinære generalforsamling

den 19. maj 2016

dirigent

PETER SCHOTT KNUDSEN

CONTENTS:

Signatures

Statement by the management	3
Independent auditors' report	4

Management's review

Company information.....	5
Five year summary.....	6
Management's review	7
Accounting policies.....	8

Annual Report

Income statement 2015	10
Balance sheet as of 31 December 2015	11
Notes	13

Statement by the Management

The supervisory Board and Managing Board have today considered and adopted the Annual Report for 2015 for ECCO Middle East A/S.

The Annual Report is presented in accordance with the Danish Financial Statements Act. We consider the accounting policies to be appropriate to the effect that the Annual Report gives a true and fair view of the company's assets, liabilities and financial position, as of 31 December 2015 and of the result of the company's operations for the financial year ended 31 December 2015.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

The Annual Report is adopted by the shareholders at the Annual General Meeting.

Bredebro, 19 May 2016

Managing Board:

A blue ink signature in cursive script, appearing to read 'Allan Rosenberg'.

Allan Rosenberg

Supervisory Board:

A blue ink signature in cursive script, appearing to read 'Michel Krol'.

Michel Krol

A blue ink signature in cursive script, appearing to read 'Peter Schøtt Knudsen'.

Peter Schøtt Knudsen

A blue ink signature in cursive script, appearing to read 'Andrew Ros'.

Andrew Ros

Independent auditors' report

To the shareholder of ECCO Middle East A/S

Independent auditors' report on the financial statements

We have audited the financial statements of ECCO Middle East A/S for the financial year 1 January – 31 December 2015. The financial statements comprise accounting policies, income statement, balance sheet and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 auditors' judgement, 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 auditors consider internal control relevant to the Company's preparation of financial statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, 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 opinion. Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of its operations for the financial year 1 January – 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Bredbro, 19th May 2016

ERNST & YOUNG

Godkendt Revisionspartnerselskab

Cvr – no. 30 70 02 28


Jens Weiersøe Jakobsen

State Authorised

Public Accountant

Management's review

Company information

Adress: Industrivej 5, 6261 Bredebro

Telephone: 74 91 16 25

CVR-no.:30 71 33 54

Founded: 2 July 2007

Municipality of domicile: Tønder

Financial year: 8.

Supervisory Board: Michel Krol, Peter Schøtt Knudsen, Andrew Ros.

Managing board: Allan Rosenberg

Audit:

Ernst & Young

Godkendt Revisionspartnerselskab

Havnegade 33

6700 Esbjerg

Management's review

Five Year Summary

DKK '000	2015	2014	2013	2012	2011
Financial highlights					
Gross profit	66,621	42,247	33,096	30,619	20,294
Operating profit	54,846	34,000	25,604	20,775	12,905
Loss from financial income and expenses	-497	-204	-70	-55	-82
Profit before tax	54,349	33,796	25,534	20,720	12,823
Profit for the year	54,349	33,796	25,534	20,720	12,823
Balance total					
Investment in property, plant and equipment	196	104	170	0	0
Equity	86,514	58,763	46,319	39,673	19,756
Key ratios					
Solvency ratio	53.3%	45.5%	48.8%	40.7%	27.6%
Return on equity	74.8%	64.3%	59.4%	69.7%	79.9%
Number of employees					
	14	14	12	12	12

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Solvency ratio (%) = equity * 100 / assets

Return on equity (%) = profit for the year * 100 / average equity

Management's review

Principal activities

The company's activities consist of purchase, sale, distribution and marketing of shoes and accessories through its branch in the Middle East.

The trend in activities and finances

The result for the year of 54,349,483 DKK is satisfactory and somewhat over the budget. This was mainly driven by stronger than budgetted sales in the larger markets such as Iran, UAE and Kuwait.

Likewise, company's pricing structure also saw an increase in the contribution by nearly one per cent reaching 28.6 per cent for the year.

Restructuring of the logistic and warehousing changing the business model to direct deliveries also influenced the bottom line positively combined with a stronger than expected USD.

Expectations for the future

The company is expected to continue its positive development in the future.

Incidents after closing the Annual Report

There have not occurred any incidents after closing the Annual Report with significant influence on the financial position.

Specials risks

Currency risk

Due to the branch activities abroad, the company's profit and equity are exposed to the currency USD. The currency risks related to these activities have not been hedged as the company is convinced that an ongoing hedging of such long-term investments would not be optimal from an overall risk and cost perspective.

Knowledge resources and environment

Please refer to the consolidated financial statements in the Annual Report 2015 for ECCO Sko A/S, Bredebro.

Branches abroad:

The company has a branch with permanent establishment in Dubai, whose activities consist of purchase, sale, distribution, and marketing of shoes and accessories.

Accounting policies

Basis of preparation

The financial statements of ECCO Middle East A/S for 2015 are presented in accordance with the provisions of the Danish Financial Statements Act applicable to class C companies.

According to the Danish Financial Statements Act § 86 paragraph. 4, the cash flow statement for the company is not prepared. Instead we refer to the consolidated financial statements of ECCO Sko A/S.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivable and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognized in the latest financial statement is recognised in the income statement as financial income or financial expenses.

Foreign branches are considered separate entries. The income statements are translated at the average exchange rates for the month, and the balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of the opening equity of foreign branches at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates at the balance sheet date are recognised directly in equity.

Income statement

Gross profit: Gross profit includes sales revenues, cost of goods sold and Other external costs.

Sales revenues are recognized, when the risk has been passed to the customer. Sales revenue consists of amounts invoiced excluding VAT and less returned products, discounts and rebates.

Cost of goods sold includes consumption of commercial products.

Other external costs comprise costs relating to maintenance, premises, office expenses, sales promotion expenses, fees, etc.

Staff costs: Staff costs comprise remuneration to employees, including pension and social security costs.

Income taxes: Estimated tax on the profit for the year is recognized in the income statement along with the year's change in deferred tax.

As a subsidiary member of the ECCO Sko A/S Group, ECCO Middle East A/S is part of the Danish regulations regarding mandatory joint taxation. Subsidiaries are part of the joint taxation from the moment where they are a part of the consolidation in the annual accounts to the moment where they are omitted from the consolidation.

The current Danish corporate tax is allocated by paying a joint taxation contribution between the companies in the joint taxation. The contribution is allocated according to the taxable income in the companies. Companies in the joint taxation with a taxable deficit receive a joint taxation contribution from companies which have been able to use this deficit to reduce their taxable income.

The tax of this year is part of the income statement with the share which can be allocated to profit of the year, and is part of the equity with the share which can be allocated to entries in equity.

According to the Danish regulations regarding mandatory joint taxation, the debt of ECCO Middle East A/S towards the tax authorities is settled when the company has paid the joint taxation contribution to the administrative company.

Deferred tax is calculated as the difference between the carrying amounts and tax values of current assets and fixed assets. Furthermore, the tax value of tax losses carried forward is recognized in the amount at which they are expected to be used.

If, on a net basis, there is a tax asset, the amount of future tax savings is recognized, provided that it is deemed more likely than not that the deduction can be offset against future taxable profits.

Balance sheet

Property, plant, and equipment: Property, plant and equipment are recognized at cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the expected useful lives of the assets.

The expected useful lives are as follows:

- Plant and machinery, vehicles, fixtures and fittings 5 years
- Computer software 3 years

Dividends to be paid by the Company are recognized as a liability in the financial statements at the time of adoption by the shareholders at the Annual General Meeting. Dividend proposed in respect of the financial year is stated as a separate line item in the equity note.

Inventories: Commercial products are valued at acquisition price. Products with a net realizable value lower than the cost or acquisition price are written down to the lower value.

Receivables: Receivables are measured at amortized cost less provisions for anticipated losses determined based on an individual evaluation.

Provisions: Provisions comprise anticipated costs of warranty obligations restructuring, etc. Provisions are recognized when, as a consequence of a past event, the company has a legal or constructive obligation, and it is likely that the obligation will materialize.

INCOME STATEMENT 1 JANUARY 2015 – 31 DECEMBER 2015

<u>Note</u>		2015 (DKK)	2014 (DKK)
	Gross profit	66,620,546	42,246,586
1	Staff costs	-11,466,031	-7,974,185
3	Amortisation and depreciation	-308,039	-272,003
	Operating profit	54,846,476	34,000,398
	Financial income	346,572	327,642
	Financial expenses	-843,565	-532,515
	Profit before tax	54,349,483	33,795,525
2	Tax on profit for the year	0	0
	Profit for the year	54,349,483	33,795,525
	Proposed allocation		
	Proposed dividend	34,150,192	30,661,807
	Retained earnings	20,199,291	3,133,718
		54,349,483	33,795,525

BALANCE SHEET AS OF 31 DECEMBER 2015

<u>Note</u>		31.12.15 <u>(DKK)</u>	31.12.14 <u>(DKK)</u>
	<u>ASSETS</u>		
	FIXED ASSETS:		
3	Tangible fixed assets:		
	Fixtures and fittings, tools and equipment	386,334	451,814
	Total fixed assets	<u>386,334</u>	<u>452,814</u>
	CURRENT ASSETS:		
	Inventory	12,229,705	25,436,930
	Trade receivables	89,506,197	59,513,965
	Receivables from affiliated companies	47,320,085	39,751,360
	Other receivables	1,520,085	1,405,672
	Cash	11,291,830	2,608,949
	Total current assets	<u>161,867,902</u>	<u>128,716,876</u>
	TOTAL ASSETS	<u><u>162,254,236</u></u>	<u><u>129,168,690</u></u>

BALANCE SHEET AS OF 31 DECEMBER 2015

<u>Note</u>		31.12.15 (DKK)	31.12.14 (DKK)
	<u>EQUITY AND LIABILITIES:</u>		
	EQUITY:		
	Share capital	2,250,000	2,250,000
	Retained earnings	50,114,161	25,851,492
	Proposed dividend	34,150,192	30,661,807
4	Total equity	<u>86,514,353</u>	<u>58,763,299</u>
	Short-term debt:		
	Trade payables	2,256,494	250,476
	Payables to affiliated companies	61,804,366	60,356,289
	Other debt	11,679,023	9,798,626
	Total short-term debt	<u>75,739,883</u>	<u>70,405,391</u>
	TOTAL EQUITY AND LIABILITIES	<u><u>162,254,236</u></u>	<u><u>129,168,690</u></u>
5	Contingent liabilities and collateral security		
6	Information about shareholder conditions.		

NOTES

	31.12.15 (DKK)	31.12.14 (DKK)
<u>Note 1: Staff costs</u>		
Salaries	10,151,823	7,477,910
Pensions	528,272	496,275
Other social security costs	785,936	-
	<u>11,466,031</u>	<u>7,974,185</u>
Fees to Managing Board and Supervisory Board	0	0
Average numbers of employees	<u>14</u>	<u>14</u>
According to the Danish Financial Statements Act § 98 b stk. 3 nr. 2 fees to managing board have been left out.		

Note 2: Income taxes

	(DKK)	(DKK)
Income taxes	-	-
	<u>-</u>	<u>-</u>
	-	-
	<u>-</u>	<u>-</u>

NOTES

Note 3: Tangible Fixed Assets

(DKK)

31.12.15

**Fixtures and fittings,
tools and equipment**

(DKK)

Cost at 1 January	
Currency translation	3,056,240
Additions	279,558
Disposals	196,186
	0

Cost at 31 December	3,531,984
---------------------	-----------

Accumulated depreciation at 1 January	-2,604,426
---------------------------------------	------------

Currency translation	-233,185
Depreciation	-308,039
Depreciation on disposals	0

Accumulated depreciation at 31 December	-3,145,650
---	------------

Carrying amount at 31 December	386,334
--------------------------------	---------

Note 4: Equity

(t.DKK)

	Share capital	Retained earnings	Proposed dividend	Total
Equity 1. January 2014	2,250	17,025	27,044	46,319
Paid dividend	0	0	-27,044	-27,044
Currency translation of branch	0	5,693	0	5,693
Retained from profit for the year	0	3,133	30,662	33,795
Equity 1. January 2015	2,250	25,851	30,662	58,763
Paid dividend	0	0	-30,662	-30,662
Currency translation of branch	0	4,064	0	4,064
Retained from profit for the year	0	20,199	34,150	54,349
Equity 31. December 2015	2,250	50,114	34,150	86,514

NOTES

Note 5: Contingent liabilities and collateral security

31.12.15

(DKK)

Letter of Guarantee

747,643

The company is taxed jointly with other Danish companies in the ECCO Group. As a wholly owned subsidiary, the company is jointly and unlimited liable together with the other companies as regards joint taxation of Danish taxation at source on dividends, interests, and royalties within the joint taxation group.

Note 6: Information about shareholder conditions

The company's list pursuant to Section 55 of the Danish Companies Act of shareholders with more than 5% of the votes or more than 5% of the nominal value of the share capital includes:

- ECCO EMEA B.V., Netherlands

ECCO Middle East A/S is included in the consolidated financial statement of ECCO Sko A/S and Anpartsselskabet af 1. oktober, Bredebro, Denmark.