

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

Industrivej 5, 6261 Bredebro

Annual Report 2019
(12 Financial year)

Approved at the annual general meeting of shareholders on 20 May 2020
Chairman

Peter Schøtt Knudsen

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Statement by the Management

Today, the Supervisory Board and the Managing Board have discussed and approved the annual report of ECCO Middle East A/S for the financial year 1 January – 31 December 2019.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019.

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.

We recommend that the annual report be approved at the annual general meeting.

Bredebros, 20 May 2020

Managing Board:

Marco Bossen

Supervisory Board:

Michel Krol

Peter Schøtt Knudsen

Thomas Vangsgaard

Independent auditor's report

To the shareholder of ECCO Middle East A/S

Opinion

We have audited the financial statements of ECCO Middle East A/S for the financial year 1 January – 31 December 2019, which comprise accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities 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 as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Bredebros, 20 May 2020

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28

Jens Weiersøe Jakobsen
State Authorised
Public Accountant
mne30152

Claes Jensen
State Authorised
Public Accountant
mne44108

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: 12.

Supervisory Board: Michel Krol, Peter Schøtt Knudsen, Thomas Vangsgaard

Managing board: Marco Bossen

Audit:

Ernst & Young

Godkendt Revisionspartnerselskab

Værkmestergade 25

8000 Aarhus C

Management's review

Five Year Summary

DKK '000	2019	2018	2017	2016	2015
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Financial highlights

Gross profit	21,706	12,915	48,137	57,360	66,621
Operating profit	15,449	5,317	38,666	47,744	54,846
Financial items	815	791	-219	246	-497
Profit before tax	16,264	6,108	38,447	47,990	54,349
Profit for the year	16,265	4,725	38,454	48,001	54,349

Balance total	105,499	96,494	137,861	189,279	162,254
Investment in property, plant and equipment	0	0	0	345	196
Equity	46,353	61,199	85,093	105,253	86,514

Key ratios

Solvency ratio	43.9%	63.4%	61.7%	55.6%	53.3%
Return on equity	30.2%	8.4%	40.4%	50.1%	74.8%

Number of employees	6	8	11	10	14
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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

2019 improved topline as well as bottomline. The positive development in sales as well as profitability is primarily driven by the closure of activities with Iran in 2018 following the sanctions by the USA. Also the re-opening of stores in KSA and Egypt contributed positively to the activities.

Expectations for the future

Following a distressful 2018, 2019 has been the year of stabilizing activities. 2020 will benefit from the positive developments in 2019, but with activities in the middle east, activities remains with high uncertainty due to various political activities.

Incidents after closing the Annual Report

Outbreak of the COVID-19 has resulted in drastic cancellations in orders that will impact topline as well as profitability in 2020.

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 2019 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 2019 are presented in accordance with the provisions of the Danish Financial Statements Act applicable to class C medium sized companies.

The financial statements have been prepared based on the same accounting policies as last year.

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.

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

Cost of sales: Cost of goods sold includes consumption of commercial products.

Other external costs: 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.

Financial income and expenses: Financial income and expenses comprise interest income and expense, capital gains and capital loss on payables and transactions denominated in foreign currencies.

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

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.

Equity: 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.

Liabilities: Liabilities are measured at net realizable value.

INCOME STATEMENT 1 JANUARY 2019 – 31 DECEMBER 2019

		<u>2019</u> <u>(DKK)</u>	<u>2018</u> <u>(DKK)</u>
<u>Note</u>			
	Gross profit	21,706,445	12,914,932
1	Staff costs	-6,150,314	-7,458,992
	Amortisation and depreciation	-107,155	-138,703
		-----	-----
	Operating profit	15,448,976	5,317,237
2	Financial income	1,034,606	1,175,459
2	Financial expenses	-219,209	-384,604
		-----	-----
	Profit before tax	16,264,373	6,108,092
3	Tax on profit for the year	445	-1,382,703
		-----	-----
	Profit for the year	16,264,818	4,725,389
		=====	=====

BALANCE SHEET AS OF 31 DECEMBER 2019

<u>Note</u>	31.12.19 <u>(DKK)</u>	31.12.18 <u>(DKK)</u>
<u>ASSETS</u>		
FIXED ASSETS:		
4		
Tangible fixed assets:		
Fixtures and fittings, tools and equipment	137,050	238,609
	-----	-----
Total fixed assets	137,050	238,609
	-----	-----
CURRENT ASSETS:		
Inventory	9,065,614	13,651,378
Trade receivables	38,464,377	28,591,573
Receivables from affiliated companies	46,772,445	43,571,149
Other receivables	2,739,709	1,399,704
Cash	8,320,298	9,041,669
	-----	-----
Total current assets	105,362,443	96,255,473
	-----	-----
TOTAL ASSETS	105,499,493	96,494,082
	=====	=====

BALANCE SHEET AS OF 31 DECEMBER 2019

<u>Note</u>	31.12.19 <u>(DKK)</u>	31.12.18 <u>(DKK)</u>
<u>EQUITY AND LIABILITIES:</u>		
EQUITY:		
Share capital	2,250,000	2,250,000
Retained earnings	32,753,701	26,351,741
Proposed dividend	11,349,083	32,596,911
	-----	-----
Total equity	46,352,784	61,198,652
	-----	-----
Short-term debt:		
Trade payables	175,530	68,942
Payables to affiliated companies	51,668,475	23,687,686
Other debt	7,302,704	11,538,802
	-----	-----
Total short-term debt	59,146,709	35,295,424
	-----	-----
TOTAL EQUITY AND LIABILITIES	105,499,493	96,494,082
	=====	=====
5	Contingent liabilities and collateral security	
6	Information about shareholder conditions.	

STATEMENT OF CHANGES IN EQUITY

<u>Note</u>	(DKK)	Share capital	Retained earnings	Proposed dividend	Total
	Equity at 1 January 2019	2,250,000	26,351,741	32,596,911	61,198,652
	Paid dividend	0	0	-32,596,911	-32,596,911
	Currency translation of branch	0	1,486,225	0	1,486,225
7	Retained from profit for the year	0	4,915,735	11,349,083	16,264,818
	Equity 31 December 2020	2,250,000	32,753,701	11,349,083	46,352,784

NOTES

31.12.19 31.12.18
(DKK) (DKK)

Note 1: Staff costs

Salaries	5,266,186	6,516,847
Pensions	0	0
Other social security costs	884,128	942,145
	-----	-----
	6,150,314	7,458,992
	-----	-----

Average numbers of employees	6	8
	=====	=====

According to the Danish Financial Statements Act § 98 b stk. 3 nr. 2 fees to managing board and supervisory board have been left out.

Note 2: Financial Income and financial expenses

(DKK) (DKK)

Interest income to related parties	1,034,606	1,010,843
Net exchange rate gains	0	164,617
	-----	-----
Total financial income:	1,034,606	1,175,459
	-----	-----

Interest expense from related parties	0	32,904
Net exchange rate losses	102,485	91,665
Other financial expenses	116,724	260,035
	-----	-----
Total financial expenses:	219,209	384,604
	-----	-----

Note 3: Income taxes

(DKK) (DKK)

Income taxes	445	-1,382,703
	-----	-----
	445	-1,382,703
	-----	-----

NOTES

Note 4: Property, plant and equipment

	<u>(DKK)</u>
	31.12.19
	Fixtures and fittings, tools and equipment
	(DKK)
Cost at 1 January	3,687,454
Currency translation	88,546

Cost at 31 December	3,776,000

Accumulated depreciation at 1 January	-3,448,845
Currency translation	-82,950
Depreciation	-107,155

Accumulated depreciation at 31 December	-3,638,950

Carrying amount at 31 December	137,050
	=====

Note 5: Contingent liabilities and collateral security

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.

Transactions with Related Parties

	2019 (DKK)	2018 (DKK)
Purchase of goods from related parties	73,741,344	63,502,690
Interest income from related parties	1,034,606	1,010,843
Interest expense to related parties	0	32,904

Note 7: Proposed profit appropriation

	31.12.19 (DKK)	31.12.18 (DKK)
Proposed dividend	11,349,083	32,596,911
Retained earnings	4,915,735	-27,871,522
	-----	-----
	16,264,818	4,725,389
	-----	-----

Note 8: Significant events after the end of the financial year

The outbreak of COVID-19 will have significant impact on the financial performance of the company in 2020. The extent of the impact is not known until the situation normalizes.