



Frappé



ANNUAL REPORT 2017



We
make
the
bike



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Ladies and gentlemen,

Let me share with you the fact that the company BIKE FUN International s.r.o. (“BFI” or the “Company”) had another successful year. This statement is supported by a profit of EUR 2.29 million. The constantly increasing level of our products and the continuous shift forward is confirmed by the fact that this year we focused on producing bikes using more advanced and complex technology, which of course also increases their added value.

We truly appreciate the increasing customer interest in our brands Superior, Rock Machine and the youngest member of our BIKE FUN family Frappé. Sales of our brands increased by more than EUR 2.4 million year-over-year. We believe that this interest is driven mainly by the fact that our bikes are completely manufactured by our Company, from design to the final stages of production. As we are continuously moving forward, we see the future of our segment in E-bikes – we intensively focused on their development and production also this year. The demand for E-bikes is growing every year, and we believe that our Company will due to development in this area to remain among top tier manufacturers of bicycles in upcoming years.



BFI is a limited liability company which was established on 27th June 2001. BFI is registered in Trade Register at Regional Court in Ostrava, insert C/25241. Residence of the Company is in Kopřivnice, Areál Tatry 1445/2, Czech Republic.

Majority of the shares have two Holland companies:

Owners BFI (more than 20%)	Share (%)
Bike Fun Nederland B.V.	57%
WIDEK Holding B.V.	38.10%

Members of Statutory Body were as of 30th June 2017:

- **Marinus Arie de Kwant** (executive head)
- **Henricus Hulzebos** (executive head)
- **Ing. Marie Matušů** (executive head)

Selected economic indicators

Fiscal year ("FY") 2017 was again very good for BFI. We produced 167,204 bikes and we sold 161,019 bikes.

Again it was confirmed that our Company is strongly export oriented and in this year, exports accounted for 83% of revenues.

This year, we successfully managed to sell our products at a higher value than the previous year, and the sales price of our products increased by 13%.

Selected economic indicators (ths. EUR)	FY 2017	FY 2016	FY 2015	FY 2014
Production value	59,958	63,666	49,383	36,228
Fixed Assets	7,273	7,582	6,678	4,883
Shareholder's Equity	12,994	11,124	9,108	7,631
Not-own capital	27,000	24,000	19,831	14,039
Receivables	13,024	9,043	7,416	7,202
Accounts Payable Trade	1,810	1,653	3,337	2,211
EBIT	2,336	3,935	3,339	3,202
Bikes produced	167,204	211,097	191,711	153,204
Bikes sold	161,019	193,732	190,743	162,448
Indicator of production value rentability	4%	6%	7%	9%
Q bikes / 1 employee	449	575	620	596
Average employees	372	367	309	257
Production value per employee	161	173	160	141
Exchange rate EUR/CZK 30 June	26.195	27.13	27.245	27.45

Overview of product sales (ths. EUR)	FY 2017	FY 2016	FY 2015	FY 2014
Revenues from sold Bikes	54,109	57,310	46,384	36,229
Revenues from Bike services	616	163	33	289
Total Bike Revenues	54,725	57,473	46,417	36,518
Total Q Sold bikes	161,019	193,732	190,743	162,448

Overview of product sales domestic (ths. EUR)	FY 2017	FY 2016	FY 2015	FY 2014
Revenues of domestic	9,236	8,251	8,105	5,790
Q bikes for domestic	27,850	30,061	34,579	26,424

Overview of product sales for export (ths. EUR)	FY 2017	FY 2016	FY 2015	FY 2014
Revenues of export	44,873	49,059	38,279	30,439
Q bikes for export	133,169	163,671	156,164	136,024
Export (%)	83%	86%	83%	84%



Human resources

We make the bike

In the FY 2017, all vacancies across the company were filled and the average number of employees (FTE) increased by five to 372. We succeed in time when development on the labor market in the Kopřivnice region with unemployment rate falling to 3.3% in June 2017. In this situation companies around us are facing a shortage of skilled and unskilled labor as well.

The development and success of BFI follows from the application of the BFI Human Resource Management Strategy, which has its practical implications for high loyalty and employee motivation. However, BFI in order to further improve its work with human resources will focus in the following period from each point of strategy on one project:

1. Hire the right employees, which is ensured not only by effective selection using the most modern methods, but above all, it is necessary to have possibility to choose from. This FY as in previous years, the recommendations of existing employees remains the main source.

We are expanding the possibilities of selecting new employees to intensify **cooperation with schools**. With local college, co-operation lasts more than ten years. BFI has been working long-term to promote and popularize technical education in the region.

	30 June 2017	30 June 2016
Male	215	224
Female	176	196
Total	391	420
% of female	45%	47%

	Employees	Long-term	Temporary
30 June 2017	391	363	28
30 June 2016	420	399	21

2. Develop the right competencies not only for existing staff who have been in place in the last few years with a functioning education system, but especially for newcomers, who need to be better and more effective trained due to the lack of qualified workforce on the labor market.

The introduction of **TWI** - Job Instructions will help even better and more effectively train newcomers and current employees to new positions as well. This will be supported by the introduction of the second part of the TWI method - **Job Relations**, which through the standardized approach can build positive relationships between employees and leaders, contribute to increasing cooperation and motivation and, last but not least, to prevent and tackle problems effectively.

3. Pay fair - when BFI pays for performance and uses the "Performance Related Pay" approach. A system of internal wage justice is also set up and maintained. Benchmarking shows that companies in the neighborhood are struggling with wage incentives and benefits, which may complicate the recruitment of new employees in future.

Innovation of reward system linked to the goals of the whole Company, teams and individuals is running with close cooperation with **Trexima**.

4. Take care when systematically measuring and managing employee satisfaction.

The **Investors in People** Standard defines what it takes to lead, support and manage people well for sustainable results. Measurements were made according to this methodology and outcomes were processed in the Action Plan. The best results BFI reached in the area Leading (Leading and inspiring people, Living the organization's values, Empowering and involving people), the areas Supporting (Managing performance, Recognizing and rewarding high performance, Structuring work) and Improving (Building capability, Delivering continuous improvement, Creating sustainable success) have similar results and offer more room for improvement.

All projects and planned actions have to prepare BFI for future success, because we do understand that it is people that make the difference.





During FY 2017 we went through many changes and we faced new challenges. Logistics department has changed leadership team and need to cope with very high stock of finished bikes and incoming materials.

Stock of finished goods

Our new bike warehouse went through first real challenge – it was full of bikes. We needed to organize external warehouse space to cope with this situation. Unfortunately, there was no possibility to rent one big external warehouse within TATRA premises. That's why we rented three smaller warehouses. This resulted in extra handling and costs.

We needed to establish second shift to be able to operate and deliver bikes to our customers during high season. Due to tough labor market it was not easy to find new people fast and few weeks even people from different departments (incl. management) helped to keep warehouse operating. Strong team spirit is big advantage of BFI.

Our new bike warehouse manager is now focusing on stabilizing the team and working with colleagues on process and system improvements to be more efficient.

Material stock and internal logistics

Similar to bike warehouse we had problems with space also in material warehouse. During short time period we received many materials and we needed to keep one external warehouse also for material despite we wanted to have it empty by the end of 2016.



We have continued with steps to improve internal processes. Implementation of the order of the picking process for production lines was successful. Materials are picked not only per production line, as before, but now split between each position at the assembly line.

New layout in the warehouse, new racks, and new storage location system helped us to clean and sort and be prepared for introducing warehouse management system.

The project of implementation of the warehouse material management system (as part of our current ERP system – Syteline) was delayed due to various reasons but now we continue and our goal is to have it fully operational by the end of the FY 2018.



Purchase

We make the bike

Purchase value

BFI purchased in FY 2017 raw materials in the amount EUR 43 mil. It reflects decrease of 12% compared to the previous year. Thanks to renewed ERP procedures we managed to run our supply chain more efficiently and managed to decrease amount of materials on stock to final number EUR 6.2 mil. This is decrease of 22% compared to the last year amount. The number of bikes produced decreased by 21% from 211 thousand to 167 thousand. Despite the lower output of production the results prove trend of increasing value of our products, mainly thanks to increase of E-bikes production, and increasing supply chain effectiveness proved with the lower stock level at the end of the FY.

Bicycle industry market situation

It was more difficult to purchase materials in FY 2017 than ever before. Most of our Far East suppliers were forced to follow the continuing strict Chinese government environmental regulations aimed to lowering negative impact of industry to environment. Several suppliers even closed their factories. Far East suppliers have a share of almost 60% in our total purchase value.

The enormous increase in popularity of sharing bicycles for public transportation in big Chinese cities caused rapid increase in demands for share bikes production. This has impacted the bicycle industry dramatically. The industry becomes clogged what causes longer lead-times and aims of suppliers for increasing pricing.

Bankruptcy of the HANJIN ship-owner completed threesome of the most serious constraints in our supply chain this year.

Thanks to strong relationships with our supply chain partners we managed to overcome all these constraints, kept deliveries of materials and their prices under control and satisfied our customers with our products quality and level of support provided.

New products and projects

Same as each year our brands came with many news and new models in FY 2017. The Rock Machine brand brought renewed middle range models with the Shark Spine EVO technology frames adopted from more expensive models of this brand. The brand launched the new road bike Gravel Ride and the full suspension e-bike eBlizzard with fully integrated battery in a frame.

The Superior brand brought news in full suspension bikes segment, the awaited alloy version of the successful carbon version and new models in the woman category MODO. The brand also came with a new concept of a road bike in aggressive race design with AERO geometry. Also young cyclists were not forgotten, the brand came with the new junior race model TEAM and wider collection of its kid models.

The Frappé brand offered renewed modern design and large variety of brave colour combinations and patterns. It gives the brand an unmistakable look. Also this brand came with electric power systems and E-bikes become significant part of the collection.

New models could not go through its development stage without support of purchase. It was necessary to purchase many new parts and start cooperation with new supply chain partners.

The project of renewing of the ERP process of one of our key supply chain strategy so called BUFFER belongs to the FY 2017 projects. This project is in its testing stage. New process is aimed to give customers better flexibility in using of materials available on hand and this should shorten product's time to market.

The project item standardization started in FY 2016 targeted to cutting number of items is running and will be finished in FY 2018.

The most significant project of FY 2017 was entering into partnership with Asia company to get closer to our Far East suppliers, give support to teams of purchase, product development and quality. The new partner team controls production processes of our suppliers at their plants, assures products' quality and gives support to new projects. Last but not least they help to eliminate multicultural gaps between partners of our supply chain. First year of our cooperation was successful.

Next year we are going to concentrate to our supply chain, its strength, stability and effectiveness. Information flow and supply chain visibility draws our attention too. We are going to cooperate with our Asia partner on this project as well as support it with adopting new IT tools or software designed to sharing data of our ERP between supply chain partners. Our goal is to share data with selected supply chain partners both ways upstream and downstream, use them for making right decisions and this all in order to shorten time to market with our products.



Paintshop

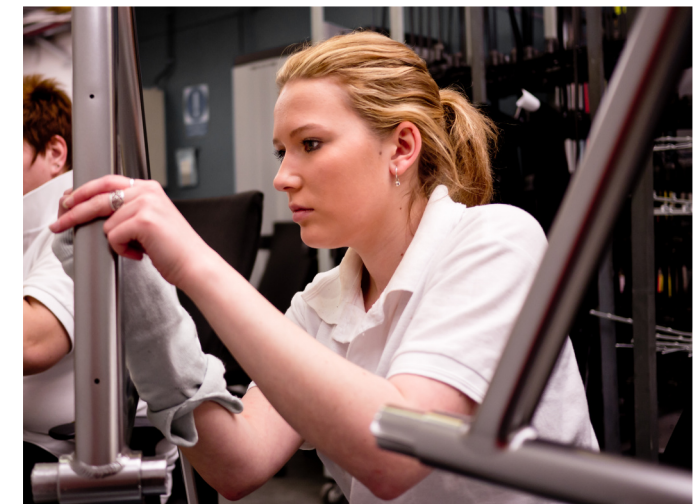
In the past years we were focused on modernization and adjusting of technology in our paint shop with the target of increasing the capacity and quality of spraying. This year we focused on developing new hooks for painting new components of bikes (rims, crank sets, chain cover and plastic parts). Our goal is to satisfy the wishes of our customers and designers, who are in their proposals reacting on fashion trends in each country, where our brands are being sold. By painting more components in BFI we can better follow these trends.

We managed to finalize the visualization in the paint shop. By separating work and storage areas more clearly, it is easier to keep paint shop clean and organized. With better cleaning organization, dust in the paint shop is reduced and because of this paint quality improved.

Last year we invested in a color dispenser for the paint shop. With this dispenser we can mix and prepare all paint colors. We are more flexible and we reduced the quantity of paints we have on stock. At this moment we are able to produce the colors exactly on given production day without the need for intermediate storage, as it was in the past.

We have completed a project of monitoring of the incoming material from material stock to the paint shop until releasing the final product from the paint shop to the assembly. Everything works based on barcodes, where every worker on given department of production will log off their work online and we get the overview, where the material is located, who processed it and how long did it took.

Our common goal for the future is to have a paint shop, which is able to react for changes on the market and wishes of our customers quickly and flexibly. We made good steps this year and we will continue to develop as there is still room for improvement.





Production

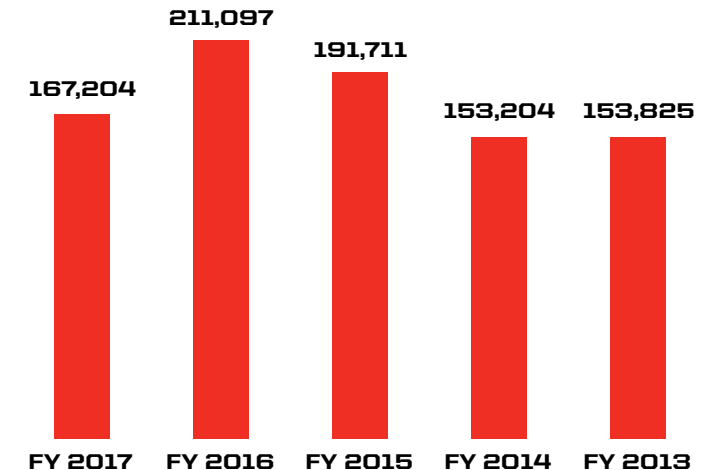
The FY 2017 was year when production was decreasing after many years of production growth. We produced 167 thousand bikes on 7 assembly lines. We focused on more expensive bikes, so despite the drop in production by 21% the fall in production value was only 6%.

Production of E-bikes and bikes with high added value means making bikes in smaller series, longer times of some operations, more manual work, better packaging and higher percentage of quality control. All E-bikes are connected and checked in a dedicated E-bike room.

Besides the standard end of line quality control, production introduced extra control of a final product done personally by the production manager, the quality manager and the technical manager not only from quality view, but also from design and customer preference. This extra control is helping to improve bike design and to better adjust production processes and quality control to newly produced bikes.

Also in wheel building the change to more and more added-value bikes was clearly visible. For top quality wheels the automatic centering process is in place in more steps to have straighter, stronger and more stable wheels. BFI has special OT centering robots. Process times are much longer to reach the desired quality level. It is influencing the capacity of the department.

This FY the production of carbon belt drive bikes was wider implemented. Not only standard bikes but also E-bikes were produced with belt system.

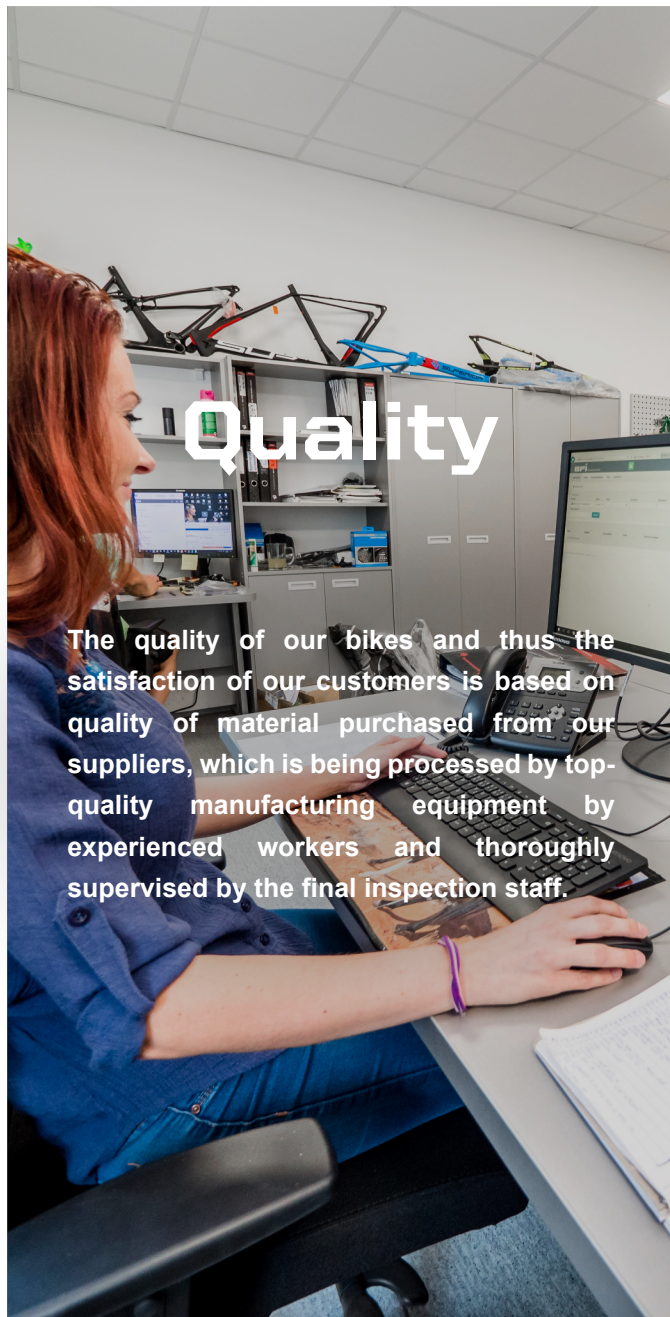


Production volume per FY

During this FY, all people in production attended training “Personal quality”. The quality of products is directly influenced by the quality of the Company, which is made up of the quality of the department, the team and individuals. We prepared also workshops for our most experienced employees - mechanic of bicycle production, so we can meet the highest production standards from our customers.

For the FY 2018 the focus will be on increasing production of E-bikes. We will add new E-bike system and production has to be adjusted. People have to be trained.

Improvement of quality will be other key issue. Not only of produced bikes but also improvement of quality of production processes.



Quality

The quality of our bikes and thus the satisfaction of our customers is based on quality of material purchased from our suppliers, which is being processed by top-quality manufacturing equipment by experienced workers and thoroughly supervised by the final inspection staff.

However, quality products are already almost commonplace for many manufacturers, so BFI was looking for “something extra” to increase customer satisfaction. And we found it in providing better service. That's why we have set up a customer service center in FY 2017 to be able to respond quickly to inquiries from our customers who can use our customer line with their queries. The goal is answer fast all hardware and software technical questions regarding our bikes, with focus on E-bikes. We feel that fast and clear service including faster solving of customer claims is one of key points for future success.

To improve our services, we strengthened the team by 100% in FY 2017, so 6 erudite staff currently takes care of our customers and they always try to offer to the customers the best solution for them.

New offices were built for both the service center staff and the incoming and final inspection staff during FY 2017. The service center staff now has enough space to store the claimed bikes and/ or their components, as well as a place for disassembly and reassembly of repaired bikes, and the workplace has also been supplemented with the necessary new tools.

Also, the incoming inspection staff moved into a larger area, where they now have all the control and measurement equipment in one place, which saves the time compared to the past years, when their facilities were deployed at the different locations in the warehouse. We also bought the necessary new gauges for incoming inspection to be able to react flexibly to the innovations prepared by our technical department e.g. a digital protractor to measure the parallelism of the BB and rear hub axes to check the frames used for belt-driven bikes.

At the beginning of FY 2017 we started cooperation with BFI China in the field of quality control of component at suppliers from China and we reduced the number of visits of the quality department staff by 50%. They have now more time to solve the quality problems directly at the factory and at our customers. BFI China staff has taken over a large part of the tasks and responsibility for troubleshooting at our suppliers so that most component defects are detected and they have been repaired before they are shipped.

Due to the expansion of E-bikes production, the team for the final inspection has also been strengthened, and this team is also regularly trained to be able to check innovated or completely new products flawlessly.

In the course of FY 2018 we plan to continue to cooperate with the purchasing department to evaluate the ability of suppliers and with BFI China on further development and improvement of quality of components from our suppliers. At the incoming inspection department we plan to purchase a laser length gauge for precise measurement of frames lengths which will be used for new “share bikes” project.

In the area of improvement of services to our customers we plan to decrease the response time for the complaints, as well as to reduce the average time for customer complaint solution.

We also started the project process management. We will clearly describe the individual processes in the whole Company, determine the targets of each process and indicators for their measurement and then we will regularly evaluate the performance of these processes.



Innovation & Support

To achieve high standard and customer satisfaction BFI has a team of experienced technician (Seniors/ Juniors) responsible for development and investigation, calculations, drawing documentations, BOM preparation together with samples production and other activities oriented to prepare production technical documentation. The Innovation and Support department is divided to main sections by type of bicycle (E-BIKE, CITY, SPORT, E-LAB and Sample room) and others departments such as Data group, Wheel building and 2D/3D drawer.

BFI constantly invests in the people and new technologies to reach high standards.

In the FY 2017 the Company invested in 3D drawing, to get accurate data for our development and realistic simulations for our customers. The innovation and Support team grew from 23 to 25 technicians in the FY 2017 to handle all tasks.

In the FY 2017 BFI started with reconstruction of existing I&S offices and construction of new additional offices to create enough space for technicians. The E-lab team has its own laboratory to investigate, test and develop E-components. Following new trends, investigation and development improves the position of BFI on the bicycle market.





In the FY 2017 the following development projects were opened or completed:

New middle motor E-bike

E-bike production in BFI is continually growing every year. BFI invests to new E-bike models development with main goal to develop our own cheaper e-bike than the currently produced middle motor E-bikes. Development was focused for all main parts, such as new frame with new motor hanger, control unit and related electronics, display and diagnostic tool. 5 prototypes were presented in the June's distributor meetings. New middle motor E-bikes are being developed for a wider range of cycling group.

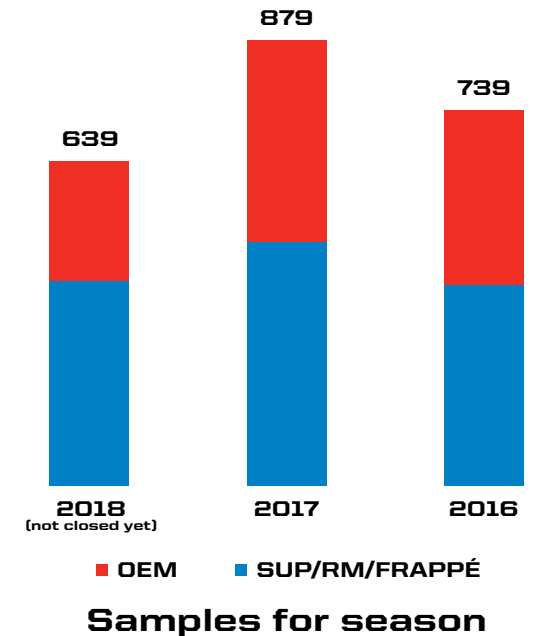
Share bike

A bicycle-sharing system or public bicycle system is a service in which bicycles are made available for shared use to individuals on a very short term basis. BFI developed its first prototype of share bike in the FY 2017. Investigation and development was focused on several 3D documentations and simulations with a wide range of special requirements specific for share bike. (Easy to use, heavy duty with internal cable routing, vandalism free and easy to maintain). Development of share bike will improve the position of BFI on the cycling market.

Sample room

Production of samples is very important and necessary for our customers and for BFI development.

The biggest challenge is to produce samples on time with on time material delivery and planning. The sample room was moved from old location to new roomy location in the past 2 years. A new 2 floor material sample stock was created with capacity of 800 stock locations. New photo studio is part of the sample room to improve service for our customers. BFI has invested and developed a new stock management system based on bar codes and QR codes to reduce human mistakes, control material flow and inspect components. All this steps help to create action sample production plan according to customers' requirements and on time material delivery.



Company business strategy

Increasing of customer service was the main goal for the FY 2017. What happened and which steps we did for our customers?

Everything is starting with development and we are close to our customers and prepare new collections of bikes together with them. We think global but act local, plan a lot visits of our customers in different countries where our product managers and sales guys are listening to customers and on the base of received information we are ready to prepare the best possible bikes for specific markets.

We are supporting our distributors and dealers on local shows with focus on regular direct contact with them and help them on their markets. This year we started with actions called "Road Show" when we are coming to our distributors with BFI trailer and flagship bikes and giving full info and support to their dealers including testing of bikes which is very important especially for new products and E-bikes.

In January we opened a Service Center for our distributors which should help them with technical issues and give them extra support from our side. The goal is answer fast all hardware and software technical questions regarding our bikes with focus on E-bikes. We feel that fast and clear service including faster solving of customer claims is one of key points for future success.



Internally B2B system of our own brands which we launched in the last FY is running well and is appreciated by our customers. In this year we finalized long-term project of spare parts which should speed up the preparation and sending of spare parts to our customers. This step should make our service even stronger.

We are more active in social media as Facebook or Instagram which should support our brands and present them in more details to final consumers. The websites of our brands were updated and are more interactive now. Our products are tested and promoted by local riding teams and ambassadors of our brands Superior and Rock Machine. Superior bikes were on famous cycling MTB race in South Africa "Cape Epic" where Czech and Slovak riders achieved good result in Top 20.

In the FY 2017 we decreased the share of bikes for Dutch market represented mainly by the brand Cortina from 57% into 47% and increased the share of sold bikes into the Czech Republic and Scandinavia. This step was very important not to be dependent on one market or one customer too much and to have wider portfolio of customers with interesting orders.

We found new distributors for our brands in Sweden and we won the tendering process in Volkswagen car producer and will be general supplier of bicycles for them in the FY 2018.

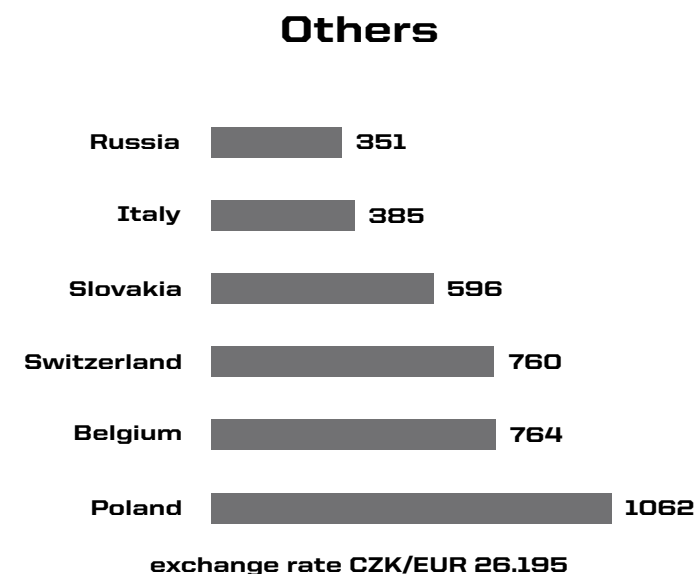
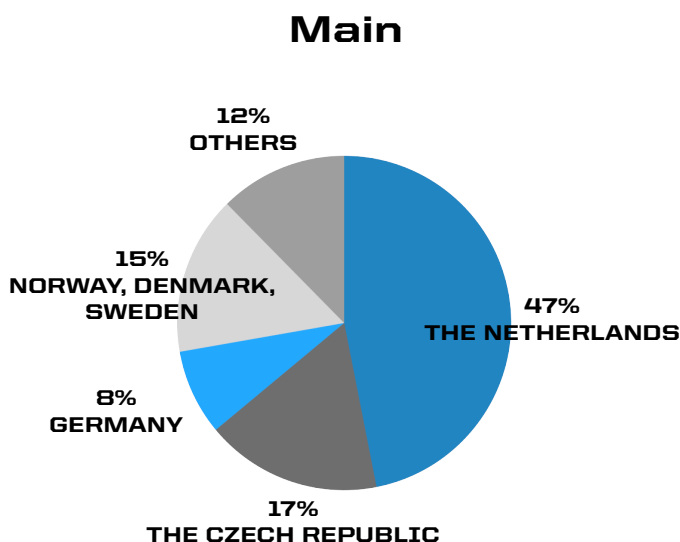
In the FY 2018 we would like to increase again the quantity of produced and sold bikes and decrease the level of stock of bikes. We will concentrate on customer satisfaction – starting with good quality of assembling, deliveries in time and ending by supporting of our customers in their individual needs and increasing of customer service.

We will continue in process of finding of new customers for our own brands mainly which should be one of the key tasks for our sales guys.

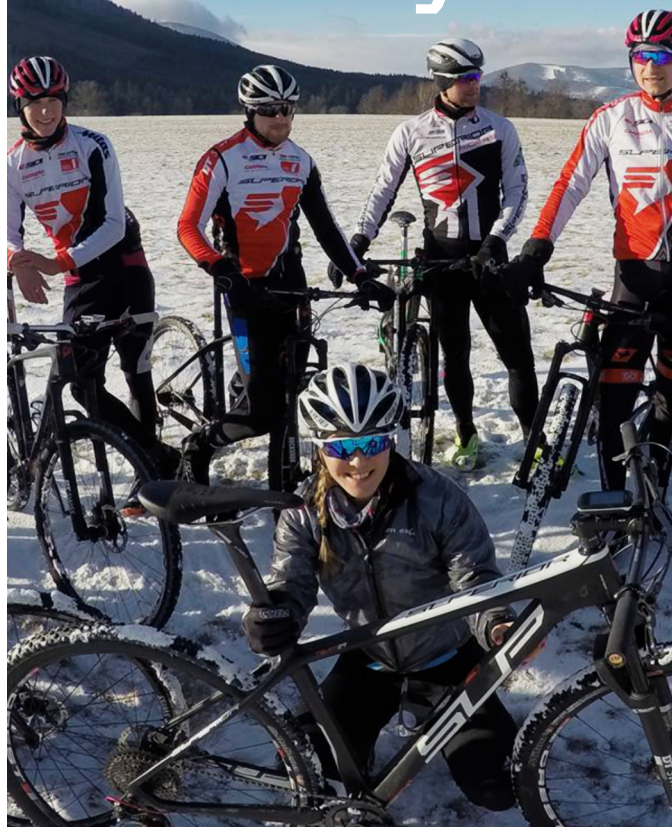
In development we will invest a lot of money into new models of E-bikes which should increase the sales and turnover of BFI.

Sales by territories

Country	The Netherlands	The Czech Republic	Germany	Norway, Denmark, Sweden	Others
Sales in ths EUR	25,372	9,236	4,480	8,322	6,699



Brands owned by BFI



We make the bike

Brands in PCS	FY 2017	FY 2016	FY 2015	FY 2014
Superior	21,709	21,926	25,514	20,616
Rock Machine	23,278	27,491	30,265	32,008
Frappé	1,998	1,897	823	0
TOTAL	46,985	51,314	56,602	52,696

Brands in EUR	FY 2017	FY 2016	FY 2015	FY 2014
Superior	9,758,272	7,924,068	7,647,802	5,723,184
Rock Machine	6,964,998	7,213,257	6,501,940	6,538,039
Frappé	1,345,471	632,706	215,531	0
TOTAL EUR	18,068,741	15,770,031	14,365,274	12,261,223

BFI is owner of three international brands – Superior, Rock Machine and Frappé which are sold across the whole Europe. The turnover of these own brands represents one third of total turnover of BFI. In the FY 2017 the turnover was 18 million EUR and increased in comparison with the previous FY 2016 by 15% although we sold 8% bikes less.

We are more and more successful with selling of expensive bikes and E-bikes and this is the main reason why turnover of own brands is growing. We are presenting our brands at the biggest European exhibition Eurobike in Germany every year where we show the key products of the new season to everyone.

We have a possibility to see our customers again and discuss with them face to face open topics and orders.

All distributors of our own brands have an invitation on our Distributor meeting which we have at the end of June every year and they have possibility to see first all models and complete collection for the new season. At the end of June we presented new models in Prague where around 100 people and distributors arrived. The part of presentation is testing of new models as well.



SUPERIOR

BFI continuously invests in developing a new product and innovates the current products. The results of the mentioned development are new products and innovations which improve the position of the brand Superior on the market.

In the FY 2017 we focussed mainly for these projects:

Full suspension bikes – During last four years the sales full suspension bikes is three times bigger. For the model year 2017, we offer full suspension bikes like hi-tech products designed for racing and amateur for races sports use. For the model year 2018, we offered to customers also full suspension bikes for sport and active leisure time. This level bikes are focused on the widest cycling group. And according to Industry data in next 3-4 years, this group should increase about 70%.

MODO – We continue with project MODO. This project reflects the dynamic trend of healthy lifestyles and the development of women's cycling. The aim of the project is to attract the female population through a complete line series of bicycles, due to composition and the specific elements suited to the female anatomy and needs. During the first year, we build a community around key shops and we increased social network and women's interaction.

Also, we enlarged model line so that we now can offer to the women's model line in full width.

E-MTB – Development and popularity of electric bikes are now clearly evident in the bike industry. Superior sees as a future trend and development of electric bikes also in the segment sporty MTB E-bikes. This model year we focused on preparing the complete model line for any riders.



High-performance system with sensitive power assistance for a smooth ride.

The lightweight motor and Shimano STEPS E8000 battery underline the playful character of taking the bike for a ride.

The sophisticated integration of the electric drive has enabled us to lower the bike's centre of gravity and shorten the rear stay, which radically improves handling and makes riding feel very natural.

Wider tyres improve comfort, safety and traction on all types of surfaces.

SHIMANO STEPS E8000

High performance **250 W / 70 Nm**

Lightweight system **up 2,9 kg**

3 power assistance levels **Eco / Trail / Boost**

High battery capacity **504 Wh (36 V / 14,0 Ah)**

Fast recharging **100 % after 5 hours / 80 % after 2,5 hours**

Power Walk Assist

Our main focus and efforts were for development of model line for real MTB using. During one year we invested a lot of time and created new fifth models for MTB riding. All of these models are admirable, and we have been positioned among the top models E-MTB's on the market.

This moment Superior offers complete model line of e-bikes. From commuting e-bike through Trekking bikes to hi-end full suspension E-MTB bike.

In all these projects, we cooperate with Shimano, who has compared to other suppliers of electrical sets significant advantages in the best coverage bicycle dealer network. Thanks to thickly covered a dealer network, we are able together with the supplier of electrical kits provide quality after-sales customer service. The common goal of both was to create functional harmonious E-bikes.

New trends - About the building bike parks at ski resorts and also the development of E-MTB bike shows the needs use a tire with the wider profile. Thanks to using of these wider and more voluminous tires the bike is increasing comfort and safety. We see potential especially in addressing young generation.

Next steps - As already mentioned above. Direction for further development is seen in the segment full suspension models and especially the massive expansion we have seen in the segment MTB electric bikes. In this segment we already prepared complete model range to which expected to attract customers from a lower-middle-class to hi-end model's electric bicycles in the following model years.

FRAPPÉ

The demand for bikes in urban areas is still growing, due to globalization and environmental issues. With Frappé brand, BFI likes to play a role in this international movement. As there are many competitors aiming for a part of this interesting market, Frappé wants to stand out with producing and selling beautiful, stylish and colorful bikes. Frappé combines new trendy frames and tubing with modern and sometimes challenging color combinations. To make the bike complete Frappé bikes are equipped with the finest parts and ready for trendy accessories.



Frappé model with new developed Sport Drive midmotor system

Target group

Frappé bikes are primarily designed for urban use, but with the large collection, including several new e-bikes, it is possible to find a Frappé model for many different purposes. For shorter rides in the city, but also for commuters which need to travel longer distances will find a suitable Frappé model. Frappé is focusing on anyone who is bike oriented, for any reason, and likes to distinct him or herself from the crowd. Biking with a Frappé bike is age-independent!

Marketing activities

This model year Frappé is again introducing some very nice new models, E-bikes and normal bikes. We will show these models on national and international bike shows and we will also participate in cultural events and models are available for test-rides. Our dealers can expect full support in showing the bikes in their shops and with promotional activities.

For model year 2018 we will make a start with promoting Frappé on social media.





Hardtail bikes



Hardtail e-bikes



Full suspension bikes

ROCK MACHINE

Rock Machine is about fun and life style on and off bicycle. The brand motto is #InTrailWeTrust and it describes brand's philosophy and approach towards customers. Rock Machine believes the trail is new path towards the entertainment and new life style, which demands bicycles with new geometries offering comfort, safety and playful handling.

Product range is focusing on women and men, but mainly families with kids who are living active lifestyle. But still Rock Machine does not forget very important loyal customers.

Main projects for the FY 2017

Full suspension bikes

Models with rear wheel travel 140 mm and 160 mm including new tire dimension 27.5" Plus are the perfect offer to follow latest industry trends. Innovative frame designs and perfect geometries are the must to satisfy very demanding customers. With this in mind and at the same time listening to the feedback from the market the 2018 range was dialed to the smallest details to satisfied even bigger group of customers.

Hardtail bikes

Completely new platform of frames to fit new wheel dimension 27.5" Plus with Rock Machine characteristic geometry plays huge role to attract customers with smaller budget, but expecting fun similar to full suspension bike riding. At the same time these particular models are aiming for younger generation.

Hardtail e-bikes

For the model year 2017 Rock Machine is offering 9 models of e-bikes (eMTB, eCross and eCity), which are pretty much the copy of none electric models with the same model names. All models are powered by Shimano STEPS system, which gained within last year high reputation and set up new standard for the whole industry.

In FY 2017 range is just beginning and massive investment in to in house development allowing Rock Machine to step it up even further in the next model year 2018. Speaking in numbers we are coming up with 21 e-bike models including our very first full suspension eMTB with fully integrated battery.



Rock Machine has clear vision to be E-bike brand in future, but still keeping in offer standard bicycles to be able to satisfy customers in any age and at any location around the world.

The program of ambassadors is running to gain content as photos and videos for social media by dedicated riders to the Rock Machine brand and naturally spread out informations about high quality Rock Machine bicycles towards the end customers.

New cooperation with very talented enduro rider 18 years old Vojta Blaha started at the beginning of 2017 season and it is paying off. Vojta achieved during Enduro World Series (EWS) with races pretty much around the world, Australia, New Zeland, Europe, Canada and USA, few podium finishes at category Under 21 on the Blizzard 90-27 model year 2017 and he overcame everyone's expectations.

Last not the least, Rock Machine is continuously supporting bicycle resorts with test bicycles and newly started cooperation with trail and test centers are proof of it.





BFI is producing not only own brands mentioned above but a lot of bikes for OEM customers what means that we are producing bicycles for customers who are owners of their brands.

To be honest we are not only producing these bikes but doing also developing of these bikes together with our customers and offering complete service which should help to create long-term relationship with our OEM customers.

Our biggest key OEM customer is Cortina from Holland. In the FY 2017 we sold 80,471 bikes of this brand including 6,417 pcs of E-bikes.

CORTINA

The urban lifestyle bike segment is well established in Europe. In the Netherlands this bike segment is covered by the Dutch bicycle brand CORTINA.

Cortina has been BFI's biggest OEM customer in turnover and number of bikes for many years.

Cortina offers trendy city bikes that appeal to young adults and young people and suit their lifestyle. The world of fashion is Cortina's greatest source of inspiration. So fashion trends are the foundation of the contemporary bike design, vivid and trendy frame colours and fashionable styling details.

Cortina has successfully expanded their lifestyle bike concept to the important and promising segment of E-bikes. Cortina E-bike sales figures have been growing gradually since 2011.



For the city bike segment, BFI has recently developed a new series of 36 Volt batteries and a digital 36 Volt E-bike system. The most important advantages of this new system are the increased system reliability and modern E-bike diagnostic system. The first feedback from Cortina dealers sounds very positive and is promising for future sales.

With the newly developed E-bike system, BFI hopes to boost E-bike sales considerably and consequently to increase its contribution to the overall profit.

For normal bikes as well for E-bikes, Cortina is expanding their activities to Belgium and Germany. BFI is very well able to customize the Dutch bike specifications in order to comply with foreign bike standards (different standards for lighting and braking systems).

SKODA AUTO

We are producing complete bicycle program for Skoda Auto, Czech producer of cars, already from year 2009 and collection of bicycles 2017 season includes different types of bicycles with focus on road bikes. Skoda Auto also ordered for first time E-bikes with Shimano STEPS middle motor.

OTHER CUSTOMERS

Other biggest current OEM projects are mainly for Scandinavian and German customers. We are producing bicycles Birk which are done on the base of our own brand Superior with using of our frames for this brand and some changes and completely different design. For Finland we produced Evon bikes, into Germany we are delivering Conway bicycles for one of the biggest distributor in this country, Hartje company.

In Holland and Belgium we are successfully selling children bikes Bike Fun kids and Golden Lion, we also produce Gazelle children bikes for Dutch market for many years and E-bikes Madison which are delivered to our customer in UK.

We also started with new project of share bikes for Norway and Holland and from the FY 2018 we will be general supplier of bicycles for Volkswagen car producer.

BICYCLE SHARING

A relatively new phenomenon in the bicycle world is the 'shared bicycle', a service in which bicycles are made available for shared use to individuals on a very short term basis. Bicycle sharing allows people to borrow a bicycle from point A and return it at point B.



Many bicycle-share systems offer subscriptions that make the first 30–45 minutes of use either free or very inexpensive, encouraging the use as transportation. This allows each bicycle to serve several users per day.

The central concept is to provide free or affordable access to bicycles for short-distance trips in an urban area as an alternative to motorised public transport or private vehicles, thereby reducing traffic congestion, noise, and air pollution. Bicycle-sharing systems can solve the "last mile" problem of long distance commuters and connect them to public transit networks.

The advantages of shared bicycle are that users do not have worries or concerns about theft, vandalism, parking or storage, and maintenance.

The success of a bicycle sharing system very much depends on the technology our customers are using. It is obvious that clever IT systems with smart real-time analytics of all bicycles in the system and user-friendly apps to enter the service are of vital importance for the success of the bike sharing project.

And so is the back office system which manages the billing to the users, maintenance and repair of the bicycles, the tracking and tracing of all bicycles in use, the logistics to keep a balanced availability of the service on all bicycle points throughout the covered urban area.

BFI wants learn from these bicycle sharing concepts and therefore invests in technologies to provide sturdy, tamper proof bicycles with anti-theft provisions. As a bicycle maker, we concentrate ourselves on the bicycle manufacturing alone and not on the IT-systems around bike sharing.

So far we have been offering bicycles for two bike sharing projects: an E-bike sharing system in the Netherlands and an urban bike sharing project in Trondheim (Norway). The Trondheim project in the meantime resulted in a fixed order of 750 bikes.

Recent new requests for proposal look very promising and will for sure increase our business in this market.



Sales

BFI Sold 161,019 bikes in the FY 2017 and although it was 17% less bikes than in the last FY, the FY 2017 was the second best year of BFI so far with total production value EUR 59.96 million. Due to bad weather and general market saturation with bikes in almost all European countries the turnover of bicycle producers went down.

What is very important for our Company, we increased the average sales price of bicycles produced. Generally, this average price increased by 13% to EUR 337 and our brands average price increased even by 21%. This index is very important for profitability and future of our Company and thanks to very good selling of expensive

bikes and increasing of demand for E-bikes the average price is going up.

The growing demand for E-bikes is general trend of last years and will continue in coming seasons. We expand the offer in E-bikes mainly in our own brands and came on market with new e-MTB and e-fullies as well.

The new project for our Company is E-bike with battery in frame and in cooperation with Öhlins we prepared exclusive model **Blizzard eLTD** which received award as third best bike on Czech biggest exhibition ForBikes and was the only one Czech product which was awarded.



Our key markets are still The Netherlands, Czech Republic and Germany and big increase we achieved in Scandinavia – especially in Norway, Denmark and Sweden where we found new distributors of our brands Superior and Rock Machine. Poland, UK, Belgium and Switzerland are also in TOP 10 of the most important markets.

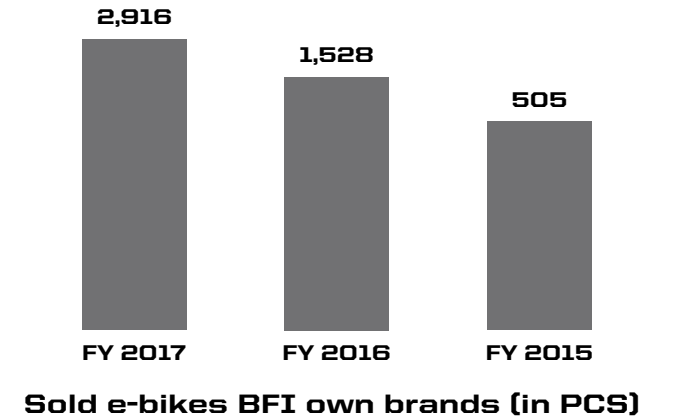
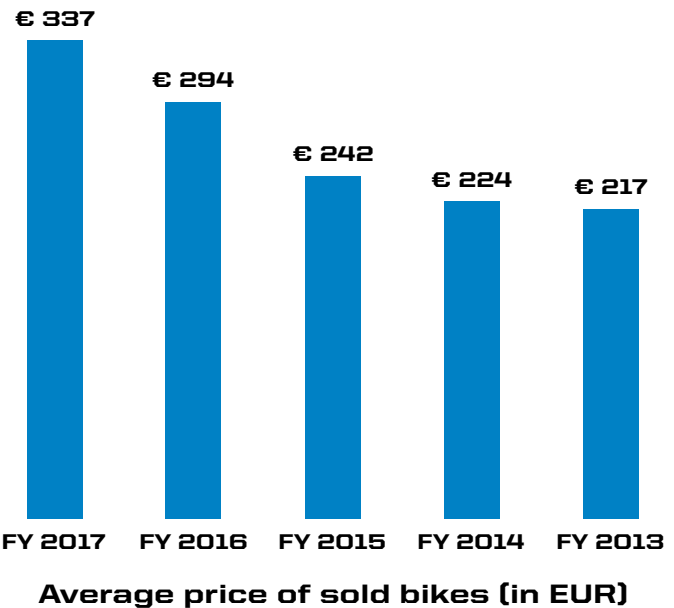
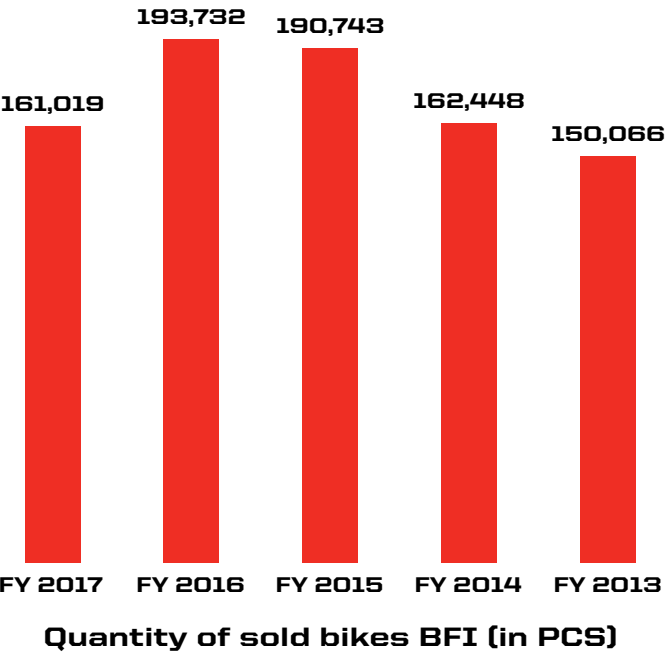
Generally, we are active and have customers in almost 30 countries in Europe.

Our goal for next years is to grow up with our current customers and find new long-term distributors and partners in some countries. The challenging markets are for us UK, Italy and France.

The trend in the bicycle business is E-bikes. Every year on all European markets E-bikes are sold in bigger and bigger quantities. In the FY 2017 we introduced full range of E-bikes with front, rear or middle motor from City models to E-MTB.

The global situation on bicycle markets caused that sales of E-bikes from our Company decreased in comparison with the last FY but what is positive we are growing in selling of E-bikes of our own brands and doubled the quantity of sold bikes.

E-bicycle collection of our brands is wider year by year and for new season includes not only Shimano STePS middle motor models but also new Sport Drive line with economic middle motor.



Outlook for the fiscal year 2018

Every year it is a challenge to not only look back at the previous FY, but at the same time make as good as possible forecast of sales and production for the next FY. Over the last years we have been very successful and the FY 2017 is the first year we didn't fulfil our ambitious plan.

Fiscal year 2017

We are happy with our profit over FY 2017, but are not happy with less produced bikes and even less bikes sold compared with bikes produced, so stock of finished bikes went up again. Besides the risk of some bikes on stock of our own brands we have many bikes on stock which are already sold to customers, but we offer them service to have the bikes on stock in our warehouse. We truly believe this was only temporarily and the market already has improved. The big quantity of bikes all over Europe on stock is going down according to us.

The last FY was very demanding, because the market has been changing more and more from middle level bikes to high end bikes and from normal bike to e-bikes. Of course both trends are not new, but both are going faster than expected. BFI is prepared very well for these changes.

The sales and production of bikes in general is going down in complete Europe, but luckily the turnover is the same or slightly increasing. All again this is caused by more expensive bikes and the sales growth of e-bikes almost all over Europe. In several countries e-bikes are being sold very well, but in many other countries in Europe this is just starting and the big boom will come soon.

Again, we would like to emphasize that we are satisfied with turnover and profit of the FY 2017. At the same time we did a very good job with material stock and work in progress. With slightly lower turnover we decreased the amount of material stock and work in progress from EUR 10,018,000 end of June 2016 to EUR 7,855,000 end of June 2017. We improved our supply chain and especially our purchase department did a great job. We are fully aware that our balance sheet increased a lot mainly due to higher stock of bikes and many trade receivables. Many of our customers are very happy we offer during top season longer payment conditions, a service we can provide with the support of our banks.

More detailed information can be found in our financial figures of the FY 2017 at the end of this annual report.



Fiscal year 2018

Most important for the next FY is not to increase bikes on stock and even bring this stock level down. We already explained many times we have to face long lead times in our supply chain of around 6 months. In the plan for the FY 2018, production is of only 154,500 bikes. We are really trying to be careful with production, so we are almost sure to bring the stock of bikes down with around EUR 4 million at the end of June 2018! In the first 3 months of the FY 2018 sales increased by 20% compared to last FY. We discussed over the last months with many customers stock situation and how they look at the market. Majority of the customers are optimistic and we see this in higher turnover and especially forecast orders for March till June 2018 are good.

Till the end of December 2017 we will be running 6 assembly lines and starting January 2018 we will run with 7 lines and most probably overtime on Tuesday and Thursday every week, to increase production to maximum.

Serious point for every company in the Czech Republic is how to keep or attract good work force with unemployment rate of 3.5% in our region. Still a big advantage of BFI is majority of the employees have only 1 shift and we are trying hard to be modern, professional, family oriented, international company. Yes, for sure we have to increase salaries with around 2.5% most probably inflation rate and several salaries with some extra increase to keep the good people working for us.

On the other side, we still see possibility to increase efficiency with some steps. Many people like bikes and together with clean production we are still popular company to work for.

We are still very happy with the support of our customers we have during the last years. With the help of our banks we are able to grow and invest a lot in BFI to be one of the best bicycle factories in Central Europe. New for the FY 2018 are again more e-bikes and nice new e-bikes. We will produce much less children bikes, because we have them on stock.

Our long-term plan and goals didn't change:

- **Turnover EUR 100 million**
- **Production of 250,000 middle to high-end bikes**
- **Profit EUR 4 to 5 million**

We only have to slow down temporarily our growth. Bike business is still good and will be better during next years. Many new competitors are starting especially with e-bikes, but we have good customer base and are succeeding to find new customers every year.



BIKE FUN International s.r.o.
Company Profit & Loss Account in EUR Actual 30 June 2017

	FY 2017	FY 2016	FY 2015	FY 2014
BIKE Revenues	54,725	57,473	46,417	36,518
Sales - goods	1,236	275	352	364
Sales materials	818	1,138	797	249
Revenues- rent	12	18	24	35
Other Revenues	395	194	304	136
Total Revenues	57,187	59,098	47,894	37,301
Change in Inventories	2,771	4,568	1,489	(1,073)
Total production value	59,958	63,666	49,383	36,228
Cost of BIKE Revenues	(44,861)	(46,883)	(35,279)	(25,547)
Cost of Sales - goods	(1,129)	(252)	(310)	(297)
Cost of Sales materials	(588)	(939)	(661)	(142)
Cost of Revenues- rent	(25)	(21)	(16)	(16)
Cost of Other Revenues	(11)	(5)	(8)	(8)
Total direct Cost of Sales	(46,614)	(48,100)	(36,275)	(26,008)
Gross Margin	13,345	15,576	13,108	10,220
Payroll costs	(4,180)	(4,021)	(3,101)	(2,473)
Social insurance	(1,503)	(1,426)	(1,111)	(896)
Services	(3,563)	(4,584)	(3,809)	(2,550)
Taxes and fees	(24)	(22)	(19)	(16)
Other operating expenses	(557)	(492)	(811)	(440)
Depreciation receivables/stock	0	0	0	(69)
Total operating expenses	(9,826)	(10,545)	(8,852)	(6,305)
EBITDA	3,518	5,022	4,256	3,915
Amortisation	(213)	(246)	(261)	(179)
Depreciation	(969)	(841)	(656)	(534)
Total Amort/Depr	(1,183)	(1,087)	(917)	(713)
EBIT	2,336	3,935	3,339	3,202
Result on foreign exchange	833	(429)	(896)	(1,267)
Interest income	3	4	7	9
Interest Senior Debt	(81)	(87)	(68)	(52)
Interest Subordinated Debt	0	0	(29)	(65)
Interest on Short Term debt	(346)	(281)	(202)	(151)
Net Financial expenses	410	(794)	(1,189)	(1,526)
EBT	2,745	3,141	2,150	1,676
Income tax on ordinary activities	(512)	(574)	(472)	(316)
Net income ordinary activities	2,234	2,567	1,678	1,361
Extr. Expense against provisions	60	(59)	45	68
Taxes on extraordinary results				
Extraordinary results after tax	60	(59)	45	68
Net earnings	2,294	2,508	1,723	1,428

Company Balance Sheet in EUR Actual 30 June 2017

TOTAL ASSETS	FY 2017	FY 2016	FY 2015	FY 2014
Goodwill - brand	151	173	171	296
Other intangibles- SW	97	204	329	219
Intangible fixed assets	248	377	500	515
Buildings & Land	5,456	5,367	4,639	2,819
Machinery & Equipment	1,405	1,634	1,399	1,407
Other tangibles/ moulds	164	205	141	142
Tangible fixed assets	7,025	7,206	6,179	4,369
TOTAL FIXED ASSETS	7,273	7,582	6,678	4,883
Raw Materials	6,246	7,986	8,762	4,954
Work in progress	1,609	2,032	1,413	1,173
Finished goods	11,729	8,459	4,660	3,455
Prepayments to suppliers	66	0	0	0
Inventories	19,650	18,478	14,835	9,583
Trade receivables	12,892	8,693	6,905	7,105
Due from taxes etc.	0	0	0	0
Other debtors	(41)	13	61	(29)
Prepayments	173	337	451	125
Receivables	13,024	9,043	7,416	7,202
Cash at bank and in hand	47	21	10	3
Total Cash items	47	21	10	3
TOTAL CURRENT ASSETS	32,721	27,542	22,261	16,787
TOTAL ASSETS	39,994	35,124	28,939	21,670

Equity & Liabilities	FY 2017	FY 2016	FY 2015	FY 2014
Share capital	1,265	1,265	1,265	1,265
Revaluation reserve	(58)	(1)	55	(49)
Exchange rate reserve	209	158	152	141
Legal reserves	147	142	142	141
Retained earnings A.P.	9,878	7,529	6,172	5,105
Net earnings crt year after dividend	1,554	2,031	1,323	1,028
Equity	12,994	11,124	9,108	7,631
Provision for deferred tax	11	22	(46)	(14)
Provision for repair	102	492	180	228
Provision for holiday	241	291	231	222
Provision for profit tax	245	154	251	25
Total provisions	599	959	617	461
Bike Fun Nederland BV	0	0	0	1,100
Total Subordinated Loans	0	0	0	1,100
CSOB	0	0	0	3
CSOB 2	291	500	0	0
CSOB 3 (RM)	0	0	0	0
CSOB - loan for roof	175	275	375	546
CS - loan investment	300	500	700	960
Loan -building BFre I	0	0	63	146
Loan -building BFre II	0	0	0	26
Loan building 230 I	650	743	836	0
Loan building 230 II	1,700	1,850	1,274	0
SKOFIN	79	34	0	0
CSOB 1 mil EUR	250	0	0	0
Total Long term senior debt	3,445	3,902	3,248	1,681
Bank overdrafts	18,594	14,971	9,607	6,344
Accounts payable trade	1,810	1,653	3,337	2,211
Curr portion subordinated debt	0	0	1,100	0
Current portion senior debt	983	866	576	622
Other short term debt	11	12	9	5
Taxes and social security	642	781	642	525
Transfinance, OB Heller, RM	917	857	696	1,091
Short term debt	22,956	19,139	15,967	10,798
EQUITY AND LIABILITIES	39,994	35,124	28,939	21,670
Exchange rate	26,195	27,13	27,245	27,45