The TC Group A/S

Sindalsvej 34, Postboks 2206, DK-8240 Risskov

Annual Report for 1 January - 31 December 2016

CVR No 21 37 86 07

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
10/7 2017

Cheryl S. Saldaña - de Leon

Cheryl Saldana-De Leon
Chairman

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of The TC Group A/S for the financial year 1 January - 31 December 2016.

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

In our opinion the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2016.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Risskov, 6 July 2017

Executive Board

Cheryl S. Saldaña - de Leon

Cheryl Saldana-De Leon
CEO

Board of Directors

	Cheryl S. Saldaña - de Leon	
Raul Guevara Gerodias Chairman	Cheryl Saldana-De Leon	Vanessa Raymundo-Uy

Independent Auditor's Report

To the Shareholder of The TC Group A/S

Disclaimer of opinion

We express no opinion on the Consolidated Financial Statements or the Parent Company Financial Statements. Due to the significance of the matters described in the section *Basis for Disclaimer of opinion* we have not been able to obtain sufficient and appropriate audit evidence which can form basis for an opinion on the Consolidated Financial Statements and the Parent Company Financial Statements.

We have been appointed to perform the audit of the Consolidated Financial Statements and the Parent Company Financial Statements of The TC Group A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows ("financial statements"). The financial statements are prepared in accordance with the Danish Financial Statements Act.

It is our view that the General Assembly should not approve the financial statements.

Basis for Disclaimer of opinion

The audit of a significant subsidiary has not been finalized due to missing audit documentation to be provided by local and group management and, hence we have not obtained sufficient audit evidence related to this subsidiary with a result after tax of DKK 9 million, an equity of DKK 50 million and a number of Income Statement and Balance Sheet line items.

Statement on Management's Review

Referring to the section *Basis for Disclaimer of Opinion* we have not been able to obtain sufficient and appropriate audit evidence which can form basis for an opinion on the financial statements. Therefore, we make no statement on Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company 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 Group's and the Parent 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 Group or the Parent 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 responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark, and to issue an audit opinion. Based on the significant matters described in the section *Basis for Disclaimer of opinion* we have not been able to obtain sufficient and appropriate audit evidence which can form basis for an opinion on the financial statements.

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

Aarhus, 10 July 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Claus Lindholm Jacobsen
State Authorised Public Accountant

Claus Lyngsø Sørensen
State Authorised Public Accountant

Company Information

The Company	The TC Group A/S Sindalsvej 34 Postboks 2206 DK-8240 Risskov Telephone: + 45 87427000 Facsimile: + 45 87427010 E-mail: info@tcgroup.tc Website: www.music-group.com CVR No: 21 37 86 07 Financial period: 1 January - 31 December Municipality of reg. office: Aarhus
Board of Directors	Raul Guevara Gerodias, Chairman Cheryl Saldana-De Leon Vanessa Cancio-Raymundo
Executive Board	Cheryl Saldana-De Leon
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Nobelparken Jens Chr. Skous Vej 1 DK-8000 Aarhus C
Bankers	Danske Bank

Financial Highlights

Seen over a five-year period, the development of the Group is described by the following financial highlights:

	Group				
	2016	2014/15	2013/14	2012/13	2011/12
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Revenue	708,924	1,171,297	723,994	712,955	636,778
Gross profit/loss	258,365	446,399	265,483	271,518	234,978
Operating profit/loss	94,431	99,801	58,579	59,337	29,018
Profit/loss before financial income and expenses	101,915	114,222	58,579	59,337	29,018
Net financials	-2,723	-9,428	-7,125	-14,000	-16,543
Net profit/loss for the year	79,461	76,876	36,770	31,927	2,436
Balance sheet					
Balance sheet total	1,369,381	572,688	443,572	414,061	417,985
Equity	345,091	269,424	121,030	104,003	93,335
Cash flows					
Cash flows from:					
- operating activities	103,028	134,619	70,711	113,356	93,085
- investing activities	-70,171	-73,918	-68,826	-63,832	-62,448
including investment in property, plant and equipment	-3,132	-20,008	-11,210	-5,152	-7,923
- financing activities	815,268	127,033	-15,881	-15,289	-44,019
Change in cash and cash equivalents for the year	848,125	187,734	-13,996	34,235	-13,382
Number of employees	414	440	415	402	389

Financial Highlights

	Group				
	2016	2014/15	2013/14	2012/13	2011/12
	kDKK	kDKK	kDKK	kDKK	kDKK
Ratios					
Gross margin	36,4%	38,1%	36,7%	38,1%	36,9%
Profit margin	14,4%	9,8%	8,1%	8,3%	4,6%
Return on assets	7,4%	19,9%	13,2%	14,3%	6,9%
Solvency ratio	25,2%	47,0%	27,3%	25,1%	22,3%
Return on equity	25,9%	39,4%	32,7%	32,4%	2,3%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

The financial year 2014/15 was extended to 18 months due to change of Balance Sheet date to 31 December. The reason was alignment of the Balance Sheet date to the new Parent Company, MUSIC Group Limited.

Other years presented contain a 12 month's period.

Management's Review

Consolidated and Parent Company Financial Statements of The TC Group A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The Consolidated and Parent Company Financial Statements have been prepared under the same accounting policies as last year.

Key activities

The Company's main acitivity is retail, production, distribution, development and marketing of audio and related activities in both the Company as through subsidiaries.

Development in the year

The income statement of the Group for 2016 shows a profit of kDKK 79,461, and at 31 December 2016 the balance sheet of the Group shows equity of kDKK 345,091.

Special risks - operating risks and financial risks

Foreign exchange risks

It is part of the Company's strategy to protect the Group against exchange rate fluctuations by, to the extent possible, matching the Group's sales currencies against its purchase and cost currencies.

The Group has net inflows in EUR and to a minor extent USD.

Interest rate risks

The Group's interest rate risk is related to the interest-bearing debt as interest-bearing assets are immaterial.

The main part of the Group's interest-bearing debt carries floating interest rates. Interest rate level developments are continuously monitored in cooperation with the Company's financial partners.

Credit risks

The most material credit risk relates to the Group's trade receivables.

The Group performs individual customer credit ratings on a current basis. No individual customer constitutes a major part of the Group's total sales.

Management's Review

Liquidity risks

The financial resources are assessed and controlled centrally by the Company's treasury function. This ensures that the committed credit facilities required to meet the budgeted financing requirements ongoing are made available by the Company's financial partners.

Outlook

Earnings are expected to be stabilized at the current level both next year and in the following years.

Distribution of net profit

The Board of Directors has no recommendation for any dividend distribution, and hence the result for the year to be allocated to the retained earnings.

Intellectual capital resources

The Group is intellectual capital intensive with material product development activities in the individual companies.

Therefore, the Group works continuously with programmes to ensure that this intellectual capital is maintained and embedded in the organisation. The Group focuses on both physical and mental working conditions and carries out staff satisfaction measurements on a current basis.

Statutory statement of corporate social responsibility, cf. section 99a of the Danish Financial Statement Act

The Group is a global enterprise and is represented with locations worldwide. The Group's activities are concentrated around sales, development and service and, to a minor extent, production; own production primarily consists of the assembly of semi-manufactures. The primary workplaces are ”office workplaces”. Therefore, the Group's activities are not assessed to have adverse environmental and climate impact as regards noise, smoke, discharge of waste products and massive use of energy and consequently, the Group has no actual environmental and climate policy.

The Group is however seeking on a current basis to optimise energy consumption, primarily for heating, and has in several locations carried out energy measurements. Subsequently, the Group has implemented several of the recommendations listed by the energy reports.

As stated above, the Group's own production primarily consists of assembly activities, and the Group has thus to a great extent outsourced the production of its semi-manufactures and finished products. The Group cooperates mainly with Asian sub-suppliers. The Group focuses on establishing partnership agreements in order to ensure long-term relations with the sub-suppliers.

The Group has prepared a code of conduct for the sub-suppliers which is to support the same responsibility as that prescribed by the Group's internal policies. Among other things, the code of conduct prescribes the following:

Management's Review

- No child labour
- Remuneration and working hours to follow local agreements and standards
- Responsibility towards the environment with focus on limitation of climate and environmental impact

The code of conduct thus intends to ensure that the sub-suppliers comply with the Group's policies concerning child labour, forced labour, human rights, corruption and environmental and climate impact. The code of conduct is part of the Group's basis for the contracts entered into with new sub-suppliers, and the code of conduct is discussed before a contract is entered into. In case of large contracts, a visit is paid to the sub-supplier in order to check whether the Group's code of conduct is complied with. This year, the result of such visits has been that the Group has refused cooperating with two sub-suppliers .

Furthermore, the Group pays control visits to existing sub-suppliers on a continuous basis in order to make sure that the code of conduct is complied with. During the financial year, four control visits were made, which did not disclose any issues that are not in accordance with the

Group's code of conduct . In the Group's opinion, the strategy, to ensure partnership agreements and long-term relations, is of great value in relation to securing the Group's policies.The Group's sales are effected in accordance with the Group policy of complying with international guidelines for trade and sanctions as enforced by the UN and the EU.

The Group has no other significant formalised policies.

Statement of distribution of gender in Management, cf. section 99b of the Danish Financial Statement Act

The Group believes that diversity among the employees, including representative distribution of genders, ethnicity and nationality, contributes positively to the working environment and strengthens the Company's performance and competitive power.

The objective at all management levels is to fill management positions based on the qualifications and competences required for the Company's business and at the same time ensure that diversity is reflected both in management bodies and among other employees.

The Group is represented internationally, and this organisation ensures extensive diversity in the Group's management bodies. In order to ensure a representative gender distribution, the Group is seeking to increase the number of female leaders in the Company. At present, 2 out of 3 members of the Board of Directors are women. The company has therefore obtained equal distribution on gender and hence no new target figure has been set. At other management levels (Executive Board, other directors and managers), it is also the Group's objective to ensure a gender distribution that is representative for the sector. At present, the underrepresented gender's share is 17% (increased from 16% last year). The Group's target is to ensure 20% before 31 December 2019.

The Group has established action plans in order to ensure that the targets are met. For example, both male and female employees are offered support both in respect of training and career plans and as regards flexible working hours. Moreover, in connection with employment and recruitment on

Management's Review

management positions, it is the objective to have both male and female candidates represented.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement
1 January - 31 December 2016

	Note	Group		Parent Company	
		2016	2014/15 (18 Months)	2016	2014/15 (18 Months)
		kDKK	kDKK	kDKK	kDKK
Revenue	1	**708,924**	**1,171,297**	**0**	**0**
Cost of sales	2	-450,559	-724,898	0	0
Gross profit/loss		**258,365**	**446,399**	**0**	**0**
Distribution expenses	2	-60,300	-163,374	0	0
Development expenditure	2	-61,697	-82,398	-411	-73
Administrative expenses	2	-41,937	-100,826	-12,436	-30,044
Operating profit/loss		**94,431**	**99,801**	**-12,847**	**-30,117**
Other operating income		10,345	33,134	10,345	29,101
Other operating expenses		-2,861	-18,713	-2,861	-18,713
Profit/loss before financial income and expenses		**101,915**	**114,222**	**-5,363**	**-19,729**
Income from investments in subsidiaries	3	0	0	92,309	104,538
Financial income	4	16,757	14,649	6,250	4,798
Financial expenses	5	-19,480	-24,077	-17,224	-15,675
Profit/loss before tax		**99,192**	**104,794**	**75,972**	**73,932**
Tax on profit/loss for the year	6	-19,731	-27,918	3,489	2,944
Net profit/loss for the year		**79,461**	**76,876**	**79,461**	**76,876**

Balance Sheet 31 December 2016

Assets

		Group		Parent Company	
	Note	2016	2015	2016	2015
		kDKK	kDKK	kDKK	kDKK
Completed development projects		57,251	71,975	0	0
Acquired patents		563	952	725	948
Development projects in progress		77,602	43,537	0	0
Software		683	857	3	177
Intangible assets	7	**136,099**	**117,321**	**728**	**1,125**
Other fixtures and fittings, tools and equipment		13,055	18,502	77	191
Leasehold improvements		3,992	4,455	778	990
Property, plant and equipment	8	**17,047**	**22,957**	**855**	**1,181**
Investments in subsidiaries	9	0	0	439,549	356,901
Receivables from group enterprises		0	0	32,787	0
Other receivables		1,970	0	1,970	0
Fixed asset investments		**1,970**	**0**	**474,306**	**356,901**
Fixed assets		**155,116**	**140,278**	**475,889**	**359,207**
Inventories	10	**200,062**	**223,198**	**0**	**0**
Trade receivables		78,241	94,249	0	0
Receivables from group enterprises		0	0	57,534	69,530
Other receivables		4,998	9,282	3,347	0
Deferred tax asset	12	16,014	25,245	1,014	10,939
Corporation tax		0	0	8,110	31,290
Prepayments		300	3,513	300	3,513
Receivables		**99,553**	**132,289**	**70,305**	**115,272**
Current asset investments		**352,714**	**31**	**31**	**31**
Cash at bank and in hand		**561,936**	**76,892**	**63,230**	**20,907**
Currents assets		**1,214,265**	**432,410**	**133,566**	**136,210**
Assets		**1,369,381**	**572,688**	**609,455**	**495,417**

Balance Sheet 31 December 2016

Liabilities and equity

	Note	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
		kDKK	kDKK	kDKK	kDKK
Share capital		157,136	157,136	157,136	157,136
Reserve for net revaluation under the equity method		0	0	22,117	0
Retained earnings		187,955	112,288	165,838	112,288
Equity		**345,091**	**269,424**	**345,091**	**269,424**
Provision for deferred tax	12	22,919	24,734	0	0
Other provisions		12,340	13,336	0	0
Provisions		**35,259**	**38,070**	**0**	**0**
Lease obligations		343	618	0	0
Payables to group enterprises		136,865	101,364	151,812	101,364
Long-term debt	13	**137,208**	**101,982**	**151,812**	**101,364**
Credit institutions		2,581	12,979	0	0
Lease obligations	13	6	67	6	67
Trade payables		38,367	109,293	927	915
Payables to group enterprises	13	780,100	0	108,770	120,848
Corporation tax		3,076	1,031	0	0
Other payables		27,693	39,842	2,849	2,799
Short-term debt		**851,823**	**163,212**	**112,552**	**124,629**
Debt		**989,031**	**265,194**	**264,364**	**225,993**
Liabilities and equity		**1,369,381**	**572,688**	**609,455**	**495,417**

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Statement of Changes in Equity

Group

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
	kDKK	kDKK	kDKK	kDKK
Equity at 1 January 2016	157,136	0	112,288	269,424
Exchange adjustments relating to foreign entities	0	0	-6,694	-6,694
Remeasurements of defined benefit plans net of tax	0	0	2,900	2,900
Net profit/loss for the year	0	0	79,461	79,461
Equity at 31 December 2016	**157,136**	**0**	**187,955**	**345,091**

Parent Company

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
Equity at 1 January 2016	157,136	0	112,288	269,424
Exchange adjustments relating to foreign entities	0	0	-6,694	-6,694
Remeasurements of defined benefit plans net of tax	0	2,900	0	2,900
Net profit/loss for the year	0	19,217	60,244	79,461
Equity at 31 December 2016	**157,136**	**22,117**	**165,838**	**345,091**

Cash Flow Statement
1 January - 31 December 2016

	Note	Group 2016	Group 2014/15 (18 Months)
		kDKK	kDKK
Net profit/loss for the year		79,461	76,876
Adjustments	14	77,800	102,227
Change in working capital	15	-37,434	-17,927
Cash flows from operating activities before financial income and expenses		**119,827**	**161,176**
Financial income		2,170	1,768
Financial expenses		-10,839	-12,101
Cash flows from ordinary activities		**111,158**	**150,843**
Corporation tax paid		-8,130	-16,224
Cash flows from operating activities		**103,028**	**134,619**
Purchase of intangible assets		-67,039	-53,910
Purchase of property, plant and equipment		-3,132	-20,008
Cash flows from investing activities		**-70,171**	**-73,918**
Reduction of lease obligations		-336	-526
Loan from group enterprises		815,604	101,364
Cash capital increase		0	76,195
Dividend paid		0	-50,000
Cash flows from financing activities		**815,268**	**127,033**
Change in cash and cash equivalents		**848,125**	**187,734**
Cash and cash equivalents at 1 January 2016		63,944	-125,308
Exchange adjustment of current asset investments		0	1,518
Cash and cash equivalents at 31 December 2016		**912,069**	**63,944**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		561,936	76,892
Current asset investments		352,714	31
Overdraft facility		-2,581	-12,979
Cash and cash equivalents at 31 December 2016		**912,069**	**63,944**

Notes to the Financial Statements

	Group		Parent Company	
	2016	2014/15 (18 Months)	2016	2014/15 (18 Months)
	kDKK	kDKK	kDKK	kDKK
1 Revenue				
Geographical segments				
Europe	234,076	396,910	0	0
North America	350,518	520,584	0	0
Rest of the world	124,330	253,803	0	0
	708,924	**1,171,297**	**0**	**0**
Business segments				
Electronics	477,475	810,352	0	0
Speakers	231,449	360,945	0	0
	708,924	**1,171,297**	**0**	**0**

Notes to the Financial Statements

2 Staff

	Group 2016	Group 2014/15 (18 Months)	Parent Company 2016	Parent Company 2014/15 (18 Months)
	kDKK	kDKK	kDKK	kDKK
Wages and Salaries	106,541	227,740	5,180	14,739
Pensions	9,650	16,110	367	1,043
Other social security expenses	8,177	9,242	23	65
Other staff expenses	1,725	18,635	378	1,078
	126,093	**271,727**	**5,948**	**16,925**
Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:				
Cost of sales	14,675	59,274	0	0
Distribution expenses	36,513	92,158	0	0
Development expenditure	57,376	81,205	0	0
Administrative expenses	17,529	39,090	5,948	16,925
	126,093	**271,727**	**5,948**	**16,925**
Including remuneration to the Executive and Supervisory Boards	**0**	**18,078**	**0**	**18,078**
Average number of employees	**414**	**440**	**20**	**20**

3 Income from investments in subsidiaries

	Parent Company 2016	Parent Company 2014/15 (18 Months)
	kDKK	kDKK
Share of profits of subsidiaries	92,309	104,538
	92,309	**104,538**

Notes to the Financial Statements

	Group		Parent Company	
	2016	2014/15 (18 Months)	2016	2014/15 (18 Months)
	kDKK	kDKK	kDKK	kDKK
4 Financial income				
Interest received from group enterprises	0	0	2,709	4,675
Other financial income	2,170	1,768	20	16
Exchange gains	14,587	12,881	3,521	107
	16,757	**14,649**	**6,250**	**4,798**
5 Financial expenses				
Interest paid to group enterprises	6,569	3,760	8,496	8,458
Other financial expenses	4,270	8,341	515	2,402
Exchange loss	8,641	11,976	8,213	4,815
	19,480	**24,077**	**17,224**	**15,675**
6 Tax on profit/loss for the year				
Current tax for the year	12,315	56,564	-13,414	25,378
Deferred tax for the year	7,416	-28,646	9,925	-28,322
	19,731	**27,918**	**-3,489**	**-2,944**

Notes to the Financial Statements

7 Intangible assets

Group

	Completed development projects	Acquired patents	Development projects in progress	Software	Total
	kDKK	kDKK	kDKK	kDKK	kDKK
Cost at 1 January 2016	458,800	23,259	43,537	9,732	535,328
Exchange adjustment	-6,320	0	0	0	-6,320
Additions for the year	0	198	66,841	0	67,039
Disposals for the year	-1,221	0	0	0	-1,221
Transfers for the year	32,776	0	-32,776	0	0
Cost at 31 December 2016	484,035	23,457	77,602	9,732	594,826
Impairment losses and amortisation at 1 January 2016	386,825	22,307	0	8,875	418,007
Amortisation for the year	41,594	587	0	174	42,355
Impairment and amortisation of sold assets for the year	-1,635	0	0	0	-1,635
Impairment losses and amortisation at 31 December 2016	426,784	22,894	0	9,049	458,727
Carrying amount at 31 December 2016	**57,251**	**563**	**77,602**	**683**	**136,099**
Amortised over	3-8 years	3-8 years		3-5 years	

Development projects relate to the development of products within the group's core business. The projects are progressing according to plan through the use of the resources allocated by Management to the development. The products are expected to be sold in the present market to the group's existing customers.

	2016	2014/15 (18 Months)
	kDKK	kDKK
Amortisation and impairment of intangible assets are recognised in the following items:		
Cost of sales	73	2,825
Distribution expenses	108	797
Development expenditure	42,008	82,286
Administrative expenses	166	2,480
	42,355	**88,388**

Notes to the Financial Statements

Parent Company

	Acquired patents	Software
	kDKK	kDKK
Cost at 1 January 2016	10,623	2,656
Additions for the year	166	0
Cost at 31 December 2016	10,789	2,656
Impairment losses and amortisation at 1 January 2016	9,675	2,479
Amortisation for the year	389	174
Impairment losses and amortisation at 31 December 2016	10,064	2,653
Carrying amount at 31 December 2016	**725**	**3**
Amortised over	3-8 years	3-5 years

	2016	2014/15 (18 Months)
	kDKK	kDKK
Amortisation and impairment of intangible assets are recognised in the following items:		
Development expenditure	388	655
Administrative expenses	175	747
	563	**1,402**

Notes to the Financial Statements

8 Property, plant and equipment

Group

	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
	kDKK	kDKK	kDKK
Cost at 1 January 2016	102,589	14,637	117,226
Additions for the year	1,364	1,276	2,640
Disposals for the year	-57	0	-57
Cost at 31 December 2016	103,896	15,913	119,809
Impairment losses and depreciation at 1 January 2016	84,097	10,182	94,279
Exchange adjustment	648	446	1,094
Depreciation for the year	6,153	1,293	7,446
Reversal of impairment and depreciation of sold assets	-57	0	-57
Impairment losses and depreciation at 31 December 2016	90,841	11,921	102,762
Carrying amount at 31 December 2016	**13,055**	**3,992**	**17,047**
Depreciated over	3-5 years	3-10 years	

	2016	2014/15 (18 Months)
	kDKK	kDKK
Depreciation and impairment of property, plant and equipment are recognised in the following items:		
Cost of sales	339	376
Distribution expenses	3,028	106
Development expenditure	2,960	10,943
Administrative expenses	1,119	330
	7,446	**11,755**

Notes to the Financial Statements

8 Property, plant and equipment (continued)

Parent Company

	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
	kDKK	kDKK	kDKK
Cost at 1 January 2016	2,554	1,758	4,312
Additions for the year	0	29	29
Kostpris at 31 December 2016	2,554	1,787	4,341
Impairment losses and depreciation at 1 January 2016	2,363	768	3,131
Depreciation for the year	114	241	355
Impairment losses and depreciation at 31 December 2016	2,477	1,009	3,486
Carrying amount at 31 December 2016	**77**	**778**	**855**
Depreciated over	3-5 years	3-10 years	

	2016	2014/15 (18 Months)
	kDKK	kDKK
Depreciation and impairment of property, plant and equipment are recognised in the following items:		
Administrative expenses	355	667
	355	**667**

Notes to the Financial Statements

	Parent Company	
	2016	2015
	kDKK	kDKK
9 Investments in subsidiaries		
Cost at 1 January 2016	423,299	415,640
Additions for the year	0	7,659
Disposals for the year	-5,867	0
Cost at 31 December 2016	417,432	423,299
Value adjustments at 1 January 2016	-66,398	-157,444
Exchange adjustment	-6,694	957
Net profit/loss for the year	92,309	104,538
Dividend to the Parent Company	0	-15,524
Remeasurements of defined benefit plans	2,900	0
Transfers for the year	0	1,075
Value adjustments at 31 December 2016	22,117	-66,398
Carrying amount at 31 December 2016	**439,549**	**356,901**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
MUSIC Group Commercial DK A/S	Risskov, Denmark	3.081 TDKK	100%
MUSIC Group Innovation DK A/S	Risskov, Denmark	500 TDKK	100%
TGI Ltd.	Havant, United Kingdom	0 TGBP	100%
Virtual Designs Ltd.	Kitchener, Canada	200 TUSD	100%
MUSIC Group Innovation CA Inc.	Victoria, Canada	457 TCAD	100%
MUSIC Group Innovation SC Ltd.	Havant, United Kingdom	0 TGBP	100%
MUSIC Group Innovation SE AB	Kungsbacka, Sweden	500 TSEK	100%
MUSIC Group Commercial CA Inc.	Kitchener, Canada	16.158 TCAD	100%
TC Deutschland GmbH	Germany	26 TEUR	100%
TC Works GmbH	Germany	150 TEUR	100%
TC (Beijing) Trading Company Ltd.	Beijing, China	1.907 CNY	100%

Notes to the Financial Statements

10 Inventories

	Group 2016 kDKK	Group 2015 kDKK	Parent Company 2016 kDKK	Parent Company 2015 kDKK
Raw materials and consumables	32,758	40,631	0	0
Work in progress	4,545	3,594	0	0
Finished goods and goods for resale	162,759	178,973	0	0
	200,062	**223,198**	**0**	**0**

11 Distribution of profit

	Parent Company 2016 kDKK	Parent Company 2014/15 (18 Months) kDKK
Extraordinary dividend paid	0	40,000
Reserve for net revaluation under the equity method	19,217	0
Retained earnings	60,244	36,876
	79,461	**76,876**

12 Provision for deferred tax

	Group 2016 kDKK	Group 2015 kDKK	Parent Company 2016 kDKK	Parent Company 2015 kDKK
Provision for deferred tax at 1 January 2016	-511	28,135	-10,939	17,383
Amounts recognised in the income statement for the year	7,416	-28,646	9,925	-28,322
Provision for deferred tax at 31 December 2016	**6,905**	**-511**	**-1,014**	**-10,939**

Notes to the Financial Statements

13 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	Group		Parent Company	
	2016	2015	2016	2015
	kDKK	kDKK	kDKK	kDKK
Lease obligations				
Between 1 and 5 years	343	618	0	0
Long-term part	343	618	0	0
Within 1 year	6	67	6	67
	349	**685**	**6**	**67**
Payables to group enterprises				
Between 1 and 5 years	136,865	101,364	151,812	101,364
Long-term part	136,865	101,364	151,812	101,364
Other short-term debt to group enterprises	780,100	0	108,770	120,848
	916,965	**101,364**	**260,582**	**222,212**

14 Cash flow statement - adjustments

	Group	
	2016	2014/15 (18 Months)
	kDKK	kDKK
Financial income	-16,757	-14,649
Financial expenses	19,480	24,077
Depreciation, amortisation and impairment losses, including losses and gains on sales	49,975	64,881
Tax on profit/loss for the year	19,731	27,918
Other adjustments	5,371	0
	77,800	**102,227**

Notes to the Financial Statements

15 Cash flow statement - change in working capital

	Group	
	2016	2014/15 (18 Months)
	kDKK	kDKK
Change in inventories	23,138	-56,174
Change in receivables	23,503	24,634
Change in other provisions	-996	5,966
Change in trade payables, etc	-83,079	7,647
	-37,434	**-17,927**

Notes to the Financial Statements

	Group		Parent Company	
	2016	2015	2016	2015
	kDKK	kDKK	kDKK	kDKK

16 Contingent assets, liabilities and other financial obligations

Charges and security

The following assets have been placed as security with mortgage credit institutes:

	2016	2015	2016	2015
As security for the Group's balance with Jyske Bank the Company has given floating charge of DKK 307,000k as security secured on unsecured claims, inventories, operating equipment and rights with a carrying amount of DKK 85.004k at 31 December 2016. Debt to Jyske Bank is DKK 0 at 31 December 2016.	307,000	307,000	100,000	100,000

Rental and lease obligations

	2016	2015	2016	2015
Lease obligations under operating leases. Total future lease payments:				
Within 1 year	9,083	10,522	2,385	2,281
Between 1 and 5 years	19,280	30,623	7,553	8,990
After 5 years	3,985	4,654	0	382
	32,348	**45,799**	**9,938**	**11,653**

Other contingent liabilities

The Company is jointly and severally liable for corporate income tax according to the Danish joint taxation in the group.

The Parent Company has granted security to pension fund in the UK, totalling GBP 3,000k.

Notes to the Financial Statements

17 Related parties

	Basis
Controlling interest	
MUSIC Group Limited, Bermuda	Controlling shareholder of The TC Group A/S
DTOS Trustees, Ltd., Mauritius	Controlling shareholder of MUSIC Group Limited

Transactions

	Group	Parent Company
	2016	2016
	kDKK	kDKK
Transactions with other related parties		
Sales of goods and services	3.424	0
Handling fee paid to other related parties	11.170	
Outstanding balances arising from sales/purchases of goods and services		
The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:		
Current receivables (sale of goods and services)	0	90.321
Current payables (purchases of goods and services)	916.965	260.582
Loans to other related parties		
Interest income on payable	0	2.515
Interest expense	1.910	0

Terms and conditions

The interest rate on loans between related parties in The TC Group was 4% during the year while loans totalling kDKK 777.158 to the group's parent company in Bermuda did not carry any interests. The remaining loan between the TC Group A/S and MUSIC Group Macao Commercial Offshore Limited with a outstanding debt on kDKK 139.123 bears an interest rate of 2%.

Notes to the Financial Statements

18 Fee to auditors appointed at the general meeting

	Group		Parent Company	
	2016	2014/15 (18 Months)	2016	2014/15 (18 Months)
	kDKK	kDKK	kDKK	kDKK
Audit fee to PricewaterhouseCoopers	954	1,000	223	223
Other assurance engagements	0	463	0	224
Tax advisory services	1,087	1,627	441	1,163
Other services	678	2,293	642	2,247
	2,719	**5,383**	**1,306**	**3,857**

Notes to the Financial Statements

19 Accounting Policies

The Annual Report of The TC Group A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

The Consolidated and Parent Company Financial Statements for 2016 are presented in kDKK.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, The TC Group A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Notes to the Financial Statements

19 Accounting Policies (continued)

Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Group.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Danish kroner is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Revenue

Information on business segments and geographical segments based on the Group´s risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Notes to the Financial Statements

19 Accounting Policies (continued)

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Group.

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Group. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to distribution activities.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to administrative activities.

Development expenditure

Development expenditure indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Notes to the Financial Statements

19 Accounting Policies (continued)

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Group.

Income from investments in subsidiaries

The item “Income from investments in subsidiaries” in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with Danish companies in the group. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Development projects, patents and licences

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 8 years.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the Group can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount. An amount corresponding to the recognised development costs

Notes to the Financial Statements

19 Accounting Policies (continued)

is allocated to the equity item “Reserve for development costs”. The reserve comprises only development costs recognised in financial years beginning on or after 1 January 2016. The reserve is reduced by amortisation of and impairment losses on the development projects on a continuing basis.

As of the date of completion, capitalised development costs are amortised on a degressive basis over the period of the expected economic benefit from the development work. The amortisation period is 3-8 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment	3-5	years
Leasehold improvements	3-10	years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 12,900 are expensed in the year of acquisition.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item “Investments in subsidiaries” in the balance sheet include the proportionate ownership share of

Notes to the Financial Statements

19 Accounting Policies (continued)

the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to “Reserve for net revaluation under the equity method“ under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Current asset investments

Current asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Fair value is determined on the basis of the latest quoted market price.

Investments which are not traded in an active market are measured at the lower of cost and recoverable amount.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Notes to the Financial Statements

19 Accounting Policies (continued)

Equity

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period. Provisions are measured and recognised based on experience with guarantee work.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the

Notes to the Financial Statements

19 Accounting Policies (continued)

loan made over the term of the loan at the date of raising the loan.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Cash Flow Statement

The cash flow statement shows the Group´s cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group´s cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise ”Cash at bank and in hand” and ”Overdraft facilities”.

The cash flow statement cannot be immediately derived from the published financial records.

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$

Notes to the Financial Statements

19 Accounting Policies (continued)

Profit margin	$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$