
Change of Scandinavia A/S

Farum Gydevej 73, DK-3520 Farum

Annual Report for 1 July 2019 - 30 June 2020

CVR No 28 71 13 28

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
27/11 2020

Tom Deichmann
Chairman of the General
Meeting



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Change of Scandinavia A/S for the financial year 1 July 2019 - 30 June 2020.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 30 June 2020 of the Company and of the results of the Company operations for 2019/20.

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.

Farum, 27 November 2020

Executive Board

Claus Walther Jensen
Executive Officer

Board of Directors

Claus Walther Jensen

Gitte Breil

Julie Breil

Independent Auditor's Report

To the Shareholder of Change of Scandinavia A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 30 June 2020 and of the results of the Company's operations for the financial year 1 July 2019 - 30 June 2020 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Change of Scandinavia A/S for the financial year 1 July 2019 - 30 June 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

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

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

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

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstate-

Independent Auditor's Report

ment, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events

Independent Auditor's Report

in a manner that gives a true and fair view.

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

Hillerød, 27 November 2020

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Henrik Aslund Pedersen

statsautoriseret revisor

mne17120

Michael Blom

statsautoriseret revisor

mne32797

Company Information

The Company

Change of Scandinavia A/S
Farum Gydevej 73
DK-3520 Farum

CVR No: 28 71 13 28
Financial period: 1 July - 30 June
Incorporated: 12 May 2005
Financial year: 16th financial year
Municipality of reg. office: Furesø

Board of Directors

Claus Walther Jensen
Gitte Breil
Julie Breil

Executive Board

Claus Walther Jensen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Milnersvej 43
DK-3400 Hillerød

Financial Highlights

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

	2019/20	2018/19	2017/18	2016/17	2015/16
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	73.127	79.188	63.520	40.977	56.656
Operating profit/loss	32.110	44.269	27.882	13.911	12.946
Profit/loss before financial income and expenses	11.398	21.682	9.017	0	0
Net financials	1.891	1.450	-3.785	-64	986
Net profit/loss for the year	10.505	18.024	4.104	10.344	11.027
Balance sheet					
Balance sheet total	275.894	328.970	280.069	268.982	238.535
Equity	77.947	167.590	146.440	139.370	132.696
Investment in property, plant and equipment	1.177	819	5.270	20.425	22.373
Number of employees	37	29	31	41	76
Ratios					
Return on assets	4,1%	6,6%	3,2%	0,0%	0,0%
Solvency ratio	28,3%	50,9%	52,3%	51,8%	55,6%
Return on equity	8,6%	11,5%	2,9%	7,6%	8,6%

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.

Management's Review

Financial Statements of Change of Scandinavia A/S for 2019/20 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Annual Report has been prepared under the same accounting policies as last year.

Key activities

The primary activities of the Company are design, production management and distribution of lingerie, swimwear, nightwear and other associated products.

Development in the year

The income statement of the Company for 2019/20 shows a profit of DKK 10,504,542, and at 30 June 2020 the balance sheet of the Company shows equity of DKK 77,946,682.

Management consider the result as satisfactory.

The past year and follow-up on development expectations from last year

Profit for the year has been improved compared to last year and fulfils the expectations for the year.

Market risks

It is assessed that the Company is not exposed to any special business or financial risks apart from risks common to the industry.

Foreign exchange risks

The Company is exposed to general currency risks as regards its operations, however the risk mainly relates to CNY. The majority part of the Company's purchasing of goods and material is done in CNY while the Company invoices in DKK, SEK, NOK, EUR, PLN and CAD.

Targets and expectations for the year ahead

The Company expects increases in both revenue and profit for the 2019/20, as the customer base is expected to increase.

Research and development

The Company's intellectual capital resources are related to the development of products and future sales activities. Good quality, production of new products and the right market approach is sufficient to ensure return on the research and development activities.

Management's Review

External environment

The Company's environmental impact on its surroundings is very limited. The Company strives to improve and optimize its energy consumption.

Uncertainty relating to recognition and measurement

The measurement of certain assets and liabilities are based on accounting estimates performed by Management. The estimates are performed in accordance with the accounting policies applied and are based on assumptions and experiences considered realistic and reasonable by Management.

Unusual events

The result of the year has been affected by the Covid-19 pandemic as many of the company's customers had to close retail stores during the spring and early summer due to governmental restrictions in the various markets.

The financial position at 30 June 2020 of the Company and the results of the activities of the Company for the financial year for 2019/20 have not been affected by any other unusual events.

Subsequent events

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

Income Statement 1 July - 30 June

	Note	2019/20 DKK	2018/19 DKK
Gross profit/loss		73.126.595	79.187.681
Staff expenses	1	-19.524.053	-17.245.845
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-8.205.768	-7.104.131
Other operating expenses		<u>-33.998.335</u>	<u>-33.155.806</u>
Profit/loss before financial income and expenses		11.398.439	21.681.899
Financial income	3	4.980.337	4.174.238
Financial expenses	4	<u>-3.089.641</u>	<u>-2.724.055</u>
Profit/loss before tax		13.289.135	23.132.082
Tax on profit/loss for the year	5	<u>-2.784.593</u>	<u>-5.108.402</u>
Net profit/loss for the year		<u>10.504.542</u>	<u>18.023.680</u>

Balance Sheet 30 June

Assets

	Note	2019/20 DKK	2018/19 DKK
Completed development projects		3.487.487	2.911.000
Acquired licenses		20.551.670	15.257.598
Acquired other similar rights		303.896	393.573
Development projects in progress		6.272.768	9.125.766
Intangible assets	6	30.615.821	27.687.937
Other fixtures and fittings, tools and equipment		2.186.320	2.003.264
Leasehold improvements		683.331	932.055
Property, plant and equipment	7	2.869.651	2.935.319
Receivables from group enterprises		7.463.240	7.766.742
Other investments		0	30.000
Deposits		1.695.361	1.680.568
Other receivables		625.401	935.247
Fixed asset investments	8	9.784.002	10.412.557
Fixed assets		43.269.474	41.035.813
Inventories	9	52.125.507	48.226.064
Trade receivables		2.020.258	2.650.607
Receivables from group enterprises		152.458.061	223.353.649
Other receivables		10.234.949	7.270.561
Prepayments	10	1.807.513	2.233.848
Receivables		166.520.781	235.508.665
Cash at bank and in hand		13.977.848	4.199.639
Currents assets		232.624.136	287.934.368
Assets		275.893.610	328.970.181

Balance Sheet 30 June

Liabilities and equity

	Note	2019/20 DKK	2018/19 DKK
Share capital		500.000	500.000
Reserve for development costs		2.720.240	2.270.580
Retained earnings		74.726.442	64.819.749
Proposed dividend for the year		0	100.000.000
Equity	11	77.946.682	167.590.329
Provision for deferred tax	13	1.483.172	1.586.760
Other provisions	14	3.544.780	5.412.042
Provisions		5.027.952	6.998.802
Lease obligations		376.764	0
Deposits		223.782	0
Other payables		1.330.256	0
Long-term debt	15	1.930.802	0
Credit institutions		95.173.989	52.346.248
Lease obligations	15	190.822	3.592.853
Trade payables		5.428.613	6.491.682
Payables to group enterprises		71.713.162	75.325.188
Payables to group enterprises relating to corporation tax		12.453.440	9.349.196
Other payables	15,16	4.613.096	4.173.678
Deferred income	17	1.415.052	3.102.205
Short-term debt		190.988.174	154.381.050
Debt		192.918.976	154.381.050
Liabilities and equity		275.893.610	328.970.181
Distribution of profit	12		
Contingent assets, liabilities and other financial obligations	18		
Related parties	19		
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Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK	DKK
Equity at 1 July	500.000	2.270.580	64.819.749	100.000.000	167.590.329
Ordinary dividend paid	0	0	0	-100.000.000	-100.000.000
Fair value adjustment of hedging instruments, beginning of year	0	0	875.375	0	875.375
Fair value adjustment of hedging instruments	0	0	-808.643	0	-808.643
Tax on adjustment of hedging instruments for the year	0	0	-14.681	0	-14.681
Other equity movements	0	0	-200.240	0	-200.240
Development costs for the year	0	2.720.240	-2.720.240	0	0
Depreciation, amortisation and impairment for the year	0	-2.270.580	2.270.580	0	0
Net profit/loss for the year	0	0	10.504.542	0	10.504.542
Equity at 30 June	500.000	2.720.240	74.726.442	0	77.946.682

Notes to the Financial Statements

	2019/20	2018/19
	DKK	DKK
1 Staff expenses		
Wages and salaries	16.908.218	14.824.564
Pensions	1.420.829	1.230.211
Other social security expenses	300.794	191.843
Other staff expenses	894.212	999.227
	19.524.053	17.245.845
Average number of employees	37	29
<p>Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.</p>		
2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	6.995.358	5.740.070
Depreciation of property, plant and equipment	1.210.410	1.364.061
	8.205.768	7.104.131
3 Financial income		
Interest received from group enterprises	2.226.178	4.023.157
Other financial income	46.912	151.081
Exchange adjustments	2.707.247	0
	4.980.337	4.174.238
4 Financial expenses		
Interest paid to group enterprises	1.151.020	0
Other financial expenses	1.938.621	2.452.088
Exchange adjustments, expenses	0	271.967
	3.089.641	2.724.055

Notes to the Financial Statements

	2019/20	2018/19
	DKK	DKK
5 Tax on profit/loss for the year		
Current tax for the year	3.104.244	5.943.850
Deferred tax for the year	-319.651	-835.448
	2.784.593	5.108.402

6 Intangible assets

	Completed development projects	Acquired licenses	Acquired other similar rights	Development projects in progress	Total
	DKK	DKK	DKK	DKK	DKK
Cost at 1 July	2.911.000	50.220.500	656.374	9.125.765	62.913.639
Additions for the year	3.487.487	162.988	0	6.272.768	9.923.243
Disposals for the year	-2.911.000	0	0	0	-2.911.000
Transfers for the year	0	9.125.765	0	-9.125.765	0
Cost at 30 June	<u>3.487.487</u>	<u>59.509.253</u>	<u>656.374</u>	<u>6.272.768</u>	<u>69.925.882</u>
Impairment losses and amortisation at 1 July	0	34.962.902	262.801	0	35.225.703
Amortisation for the year	2.911.000	3.994.681	89.677	0	6.995.358
Reversal of amortisation of disposals for the year	-2.911.000	0	0	0	-2.911.000
Impairment losses and amortisation at 30 June	<u>0</u>	<u>38.957.583</u>	<u>352.478</u>	<u>0</u>	<u>39.310.061</u>
Carrying amount at 30 June	<u>3.487.487</u>	<u>20.551.670</u>	<u>303.896</u>	<u>6.272.768</u>	<u>30.615.821</u>

Finalized development projects relate to the development of the Company's existing products and new collections for sale in the next financial year. The development projects are finalized or is expected to be finalized in time to go to market with the products according to the marketing plan. The projects are progressing according to plan, and sufficient resources is allocated by Management to the development. The new products are expected to be sold in the present market and through the Company's existing stores and web sales.

Notes to the Financial Statements

7 Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
	DKK	DKK	DKK
Cost at 1 July	6.576.205	2.570.734	9.146.939
Additions for the year	1.119.464	57.198	1.176.662
Disposals for the year	-475.000	0	-475.000
Cost at 30 June	<u>7.220.669</u>	<u>2.627.932</u>	<u>9.848.601</u>
Impairment losses and depreciation at 1 July	4.572.941	1.638.679	6.211.620
Depreciation for the year	904.486	305.922	1.210.408
Reversal of impairment and depreciation of sold assets	-443.078	0	-443.078
Impairment losses and depreciation at 30 June	<u>5.034.349</u>	<u>1.944.601</u>	<u>6.978.950</u>
Carrying amount at 30 June	<u>2.186.320</u>	<u>683.331</u>	<u>2.869.651</u>
Including assets under finance leases amounting to	<u>582.710</u>	<u>0</u>	<u>582.710</u>

8 Fixed asset investments

	Receivables from group enterprises	Other investments	Deposits	Other receiv- ables
	DKK	DKK	DKK	DKK
Cost at 1 July	7.766.742	30.000	1.680.568	1.285.287
Additions for the year	0	0	14.793	48.000
Disposals for the year	-303.502	-30.000	0	-372.130
Transfers for the year	0	0	0	-335.756
Cost at 30 June	<u>7.463.240</u>	<u>0</u>	<u>1.695.361</u>	<u>625.401</u>
Carrying amount at 30 June	<u>7.463.240</u>	<u>0</u>	<u>1.695.361</u>	<u>625.401</u>

Notes to the Financial Statements

	<u>2019/20</u>	<u>2018/19</u>
	DKK	DKK
9 Inventories		
Finished goods and goods for resale	52.125.507	48.219.688
Prepayments for goods	<u>0</u>	<u>6.376</u>
	<u>52.125.507</u>	<u>48.226.064</u>

10 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums and subscriptions.

11 Equity

The share capital consists of 10 shares of a nominal value of DKK 50,000. No shares carry any special rights.

12 Distribution of profit

Proposed dividend for the year	0	100.000.000
Retained earnings	<u>10.504.542</u>	<u>-81.976.320</u>
	<u>10.504.542</u>	<u>18.023.680</u>

13 Provision for deferred tax

Provision for deferred tax at 1 July	1.586.760	1.540.428
Amounts recognised in the income statement for the year	-319.651	-835.448
Amounts recognised in equity for the year	<u>216.063</u>	<u>881.780</u>
Provision for deferred tax at 30 June	<u>1.483.172</u>	<u>1.586.760</u>

Notes to the Financial Statements

	<u>2019/20</u>	<u>2018/19</u>
	DKK	DKK
14 Other provisions		
Other provisions include a provision for buyback commitments.		
The Company provides the customers a possibility to return products. Based on previous experience in respect of the level of prior returned products and already returned products other provisions of kDKK 3,545 (2019: kDKK 5,412) have been recognised for expected returned goods.		
Other provisions	3.544.780	5.412.042
	<u>3.544.780</u>	<u>5.412.042</u>

15 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:

	<u>2019/20</u>	<u>2018/19</u>
	DKK	DKK
Lease obligations		
Between 1 and 5 years	376.764	0
Long-term part	<u>376.764</u>	<u>0</u>
Within 1 year	190.822	3.592.853
	<u>567.586</u>	<u>3.592.853</u>
Deposits		
Between 1 and 5 years	223.782	0
Long-term part	<u>223.782</u>	<u>0</u>
Within 1 year	0	0
	<u>223.782</u>	<u>0</u>
Other payables		
Between 1 and 5 years	1.330.256	0
Long-term part	<u>1.330.256</u>	<u>0</u>
Other short-term payables	4.613.096	4.173.678
	<u>5.943.352</u>	<u>4.173.678</u>

Notes to the Financial Statements

16 Derivative financial instruments

Derivative financial instruments contracts in the form of forward exchange contracts have been concluded. At the balance sheet date, the fair value of derivative financial instruments amounts to:

	<u>2019/20</u> DKK	<u>2018/19</u> DKK
Liabilities	808.643	875.375

Forward exchange contracts have been concluded to hedge future sale of goods in USD. At the balance sheet date fair value of the forward exchange contract amounts to DKK 809k (liability). The forward exchange contracts have termination within 2-13 months.

17 Deferred income

Deferred income comprises payments received in respect of sale and leaseback arrangement within the Group.

18 Contingent assets, liabilities and other financial obligations

Charges and security

The following assets have been placed as security with bankers:

Bank debts of the Company and the affiliate, Change of Scandinavia Retail A/S subsidiary are secured by way of a company charge of kDKK 60,000 thousand nominal value. The book value of the assets secured are:

85.610.979	78.849.320
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Other contingent liabilities

Rental or lease agreements until expiry in total	1.664.605	1.437.322
Here of liabilities under rental agreements or leases with group enterprises until expiry	824.475	827.083
Rent and payment guarantees for rental agreements in subsidiaries	14.593.976	14.424.246

Notes to the Financial Statements

18 Contingent assets, liabilities and other financial obligations (continued)

Change of Scandinavia A/S has issued an bail to Sydbank and Nykredit for loans issued to the parent companies Change of Scandinavia Holding A/S and Asian Import A/S.

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Asian import ApS, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

19 Related parties

Basis

Controlling interest

Asian Import ApS

Ultimative Parent

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act.

Consolidated Financial Statements

The Company is included in the Consolidated accounts for the parent Company

Name

Place of registered office

Asian Import ApS

Farum Gydevej 73, 3520 Farum

Change of Scandinavia Holding A/S

Farum Gydevej 73, 3520 Farum

Notes to the Financial Statements

20 Accounting Policies

The Annual Report of Change of Scandinavia A/S for 2019/20 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2019/20 are presented in DKK.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Asian Import ApS and Change of Scandinavia Holding A/S, the Company has not prepared a cash flow statement.

Recognition and measurement

The Financial Statements have been prepared under the historical cost method.

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.

Leases

Leases in terms of which the Company 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 Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the inte-

Notes to the Financial Statements

20 Accounting Policies (continued)

rest 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

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.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as "Other receivables" and "Other payables", respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting, see below.

Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item

Notes to the Financial Statements

20 Accounting Policies (continued)

as the hedged transaction.

Changes in the fair values of financial instruments that are designated and qualify as hedges of net investments in independent foreign subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is recognised in the income statement.

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 Company.

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 Company. 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.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, work on own account recognised in assets, other operating income, expenses for raw materials and consumables and other external expenses.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Notes to the Financial Statements

20 Accounting Policies (continued)

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

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 and foreign group Companies. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 5 - 20 years.

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 3 - 20 years.

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

Property, plant and equipment

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

Notes to the Financial Statements

20 Accounting Policies (continued)

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

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 - 8 years
Leasehold improvements	5 - 8 years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 14,100 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.

Fixed asset investments

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

Other fixed asset investments

Other fixed asset investments consist of loan and financial lease to third parties franchise owners.

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 equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and di-

Notes to the Financial Statements

20 Accounting Policies (continued)

rect labour.

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.

Prepayments

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

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company 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 of 1-5. Provisions are measured and recognised based on experience with guarantee work.

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.

Notes to the Financial Statements

20 Accounting Policies (continued)

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 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.

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.

Notes to the Financial Statements

20 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

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