

Skybrands A/S

Roskildevej 6, 7100 Vejle
CVR no. 31 34 84 55

Annual report for 2021

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 22.06.22

Søren Bach
Dirigent

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The company

Skybrands A/S
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Danmark
Tel.: 75 72 50 50
Website: www.skybrands.net
E-mail: info@skybrands.net
Registered office: Vejle
CVR no.: 31 34 84 55
Financial year: 01.01 - 31.12

Executive Board

Thomas Larsen
Michael Beck

Board of Directors

Søren Bach, chairman
Hans Nielsen
Stig Løkke Pedersen

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Statement by the Executive Board and Board of Directors on the annual report

We have on this day presented the annual report for the financial year 01.01.21 - 31.12.21 for Skybrands A/S.

The annual report is presented in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position as at 31.12.21 and of the results of the company's activities for the financial year 01.01.21 - 31.12.21.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Vejle, June 22, 2022

Executive Board

Thomas Larsen

Michael Beck

Board of Directors

Søren Bach
Chairman

Hans Nielsen

Stig Løkke Pedersen

To the Shareholder of Skybrands A/S**AUDITORS'S REPORT ON THE FINANCIAL STATEMENTS****Opinion**

We have audited the financial statements of Skybrands A/S for the financial year 01.01.21 - 31.12.21, which comprise the income statement, balance sheet, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31.12.21 and of the results of the company's operations for the financial year 01.01.21 - 31.12.21 in accordance with the the Danish Financial Statements Act (Årsregnskabsloven).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our 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 in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the

planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement regarding the 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 Financial Statements Act.

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

VIOLATION OF THE DANISH COMPANIES ACT

Contrary to section 206 of the Danish Companies Act, the Company has granted a loan to its parent company for the purpose of settling debt incurred for the acquisition of shares in the Company, by which Management may incur liability.

The matter has been rectified before the balance sheet date.

Aarhus, June 22, 2022

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Casper Jensby
State Authorized Public Accountant
MNE-no. mne36181

FINANCIAL HIGHLIGHTS**Key figures**

Figures in DKK '000	2021	2020	2019	2018	2017
<i>Profit/loss</i>					
Operating profit/loss	3,022	-340	-670	5,769	9,271
Total net financials	-8,147	4,679	378	1,707	-4,260
Profit/loss for the year	-5,805	3,416	-225	5,989	4,007
<i>Balance</i>					
Total assets	48,959	55,820	60,499	61,342	46,451
Investments in property, plant and equipment	43	30	16	144	0
Equity	-3,633	18,017	15,408	15,779	9,389

Ratios

	2021	2020	2019	2018	2017
<i>Profitability</i>					
Return on equity	-81%	19%	-1%	48%	14%
<i>Equity ratio</i>					
Solvency ratio	-7%	32%	26%	26%	20%
<i>Liquidity and financing</i>					
Liquidity ratio	93%	146%	132%	132%	123%
<i>Others</i>					
Number of employees (average)	15	14	14	13	15
<i>Ratios definitions</i>					
Return on equity:	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$				
Solvency ratio:	$\frac{\text{Equity, end of year} \times 100}{\text{Total assets}}$				
Liquidity ratio:	$\frac{\text{Current assets} \times 100}{\text{Short-term payables}}$				

Primary activities

The main activity of SkyBrands A/S relates to commercial activities in branded home and apparel textile products. The Group designs, produces (through sub suppliers) and sells branded home and apparel textile products, where brands are licensed from brand-owners such as Warner Bros or Universal.

SkyBrands A/S owns 100% of the shares in the subsidiary SkyBrands GmbH (collectively all companies are referred to as the "Group" or "SkyBrands").

In 2021 a group of investors acquired SkyBrands Holding A/S parent to SkyBrands A/S.

Development in activities and financial affairs

The income statement for the period 01.01.21 - 31.12.21 shows a loss of DKK'000 -5,805 against a profit of DKK'000 3,416 for the period 01.01.20 - 31.12.20. The balance sheet shows equity of DKK'000 -3,633.

Despite difficult market conditions SkyBrands A/S reached an operating profit of DKK'000 3,022 against a loss in 2020 DK'000 340 in 2020 – a result of a significant growth in the order inflow and revenue.

2021 has however been a challenging year for SkyBrands A/S due to challenges on the global freight market and shipping delays resulting in high freight cost.

The income statement for the subsidiary SkyBrands GmbH's shows a loss of DKK'000 -7,882. The new ownership and management has adjusted the procedure for write-downs on orders with return rights. In the past losses was recognized at the time of return. In 2021 provisions for orders, returning in 2022, was recognized when the loss is expected. Therefore costs for both returned orders in 2021 and orders returning in 2022 is part of the result in 2021. Freight challenges also had a negative impact on the result.

There are the following major reasons for the change in resultat (DKK'000) compared to 2020:

- Increase in freight cost in SkyBrands A/S	-4.000
- Increase in freight cost in SkyBrands GmbH	-3.000
- Provisions for orders with losses	-4.400
Total	-11.400

Total result for the group after adjusting for the extraordinary costs the profit before tax is DKK'000 6,275.

The apparel department in Germany primarily did orders with return rights. As direct consequence of losses on those orders, the management decided to close down the business unit. Orders with return rights are not part of business model anymore.

Information on going concern

The new management of SkyBrands A/S has made a turnaround of the operation of the company and adjustment of the organization during 2021. Therefore management expects a positive profit and an improvement of the cash position for 2022. The bank has indicated to renew the credit facilities based on the result for 2021 and expectations for 2022.

Management has thus chosen to present the annual report on the assumption of going concern.

Outlook

Despite the adjustment in the organization and closing down a business unit, the group has a strong and record high order backlog for 2022. The reasons are an increase in revenue and margin on existing customers and newly established business collaboration with large international customers.

The group expects to reach a profit before tax in the range of DKK'000 5,000 – 7,000 the coming year.

The management expects to reestablish the negative equity by late summer through own earnings.

Financial risks*Foreign currency risks*

SkyBrands A/S has sales operations across Europe, procurement across Europe and Asia, and reports and pays royalties to brand-owners quarterly. SkyBrands A/S purchases mainly in USD and reports and pays royalties in USD and EUR, while sales is typically in DKK, USD or EUR. This exposes SkyBrands A/S to the risk of currency fluctuations. SkyBrands A/S operates under a defined financial policy, which includes a policy on currency, to manage any currency-related risks. This is primarily effectuated through the use of financial instruments to cover all expected turnover, procurement and royalty cash flows the coming 12 months at any given point in time. SkyBrands A/S does not speculate in currency fluctuations.

Subsequent events

No important events have occurred after the end of the financial year.

Income statement

Note	2021 DKK '000	2020 DKK '000
	14,149	9,819
3 Staff costs	-11,073	-10,086
Depreciation and impairments losses of property, plant and equipment	-54	-73
	3,022	-340
4 Income from equity investments in group enterprises	-7,882	151
5 Financial income	1,690	6,616
Financial expenses	-1,955	-2,088
	-8,147	4,679
	-5,125	4,339
Tax on profit or loss for the year	-680	-923
	-5,805	3,416
Proposed appropriation account		
Extraordinary dividend for the financial year	16,800	0
Retained earnings	-22,605	3,416
	-5,805	3,416

ASSETS		31.12.21	31.12.20
Note		DKK '000	DKK '000
	Other fixtures and fittings, tools and equipment	111	140
7	Total property, plant and equipment	111	140
8	Equity investments in group enterprises	0	1,224
9	Deposits	412	412
	Total investments	412	1,636
	Total non-current assets	523	1,776
	Manufactured goods and goods for resale	10,586	2,993
	Prepayments for goods	0	30
	Total inventories	10,586	3,023
	Trade receivables	11,188	8,896
	Receivables from group enterprises	25,427	41,462
	Deferred tax asset	31	0
	Other receivables	561	573
10	Prepayments	28	65
	Total receivables	37,235	50,996
	Cash	615	25
	Total current assets	48,436	54,044
	Total assets	48,959	55,820

EQUITY AND LIABILITIES		31.12.21	31.12.20
Note		DKK '000	DKK '000
11	Share capital	1,000	1,000
	Cash flow hedging reserve	170	-786
	Retained earnings	-4,803	17,803
	Total equity	-3,633	18,017
12	Provisions for deferred tax	0	78
	Total provisions	0	78
13	Other payables	662	675
	Total long-term payables	662	675
	Payables to other credit institutions	33,584	21,072
	Prepayments received from customers	0	71
	Trade payables	14,693	10,720
	Payables to group enterprises	0	832
	Income taxes	1,059	930
	Other payables	2,594	3,425
	Total short-term payables	51,930	37,050
	Total payables	52,592	37,725
	Total equity and liabilities	48,959	55,820
14	Fair value information		
15	Derivative financial instruments		
16	Contingent liabilities		
17	Charges and security		
18	Related parties		

Statement of changes in equity

Figures in DKK '000	Share capital	Cash flow hedging reserve	Retained earnings	Total equity
Statement of changes in equity for 01.01.21 - 31.12.21				
Balance as at 01.01.21	1,000	-786	17,803	18,017
Fair value adjustment of hedging instruments	0	1,225	0	1,225
Extraordinary dividend paid	0	0	-16,800	-16,800
Other changes in equity	0	0	-1	-1
Tax on changes in equity	0	-269	0	-269
Net profit/loss for the year	0	0	-5,805	-5,805
Balance as at 31.12.21	1,000	170	-4,803	-3,633

1. Information as regards going concern

The new management of SkyBrands A/S has made a turnaround of the operation of the company and adjustment of the organization during 2021. Therefore management expects a positive profit and an improvement of the cash position for 2022. The bank has indicated to renew the credit facilities based on the result for 2021 and expectations for 2022.

Management has thus chosen to present the annual report on the assumption of going concern.

2. Special items

Special items are income and expenses that are special due to their size and nature. The following special items were recorded in the financial year:

Special items:	Recognised in the income statement in:	2021 DKK '000	2020 DKK '000
Remission of debt	Financial income	457	0
Total		457	0

	2021	2020
	DKK '000	DKK '000

3. Staff costs

Wages and salaries	10,134	9,632
Pensions	347	217
Other social security costs	125	102
Other staff costs	467	135
Total	11,073	10,086

Average number of employees during the year	15	14
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Remuneration for the management:

Total remuneration for the Executive Board	1,478	1,435
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Remuneration for the Board of Directors	146	664
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4. Income from equity investments in group enterprises

Share of profit or loss of group enterprises	-7,882	151
Total	-7,882	151

5. Financial income

Interest, group enterprises	1,186	6,010
Other financial income	504	606
Total	1,690	6,616

	2021 DKK '000	2020 DKK '000
6. Proposed appropriation account		
Extraordinary dividend for the financial year	16,800	0
Retained earnings	-22,605	3,416
Total	-5,805	3,416

7. Property, plant and equipment

Figures in DKK '000	Other fixtures and fittings, tools and equipment
Cost as at 01.01.21	1,720
Additions during the year	43
Disposals during the year	-765
Cost as at 31.12.21	998
Depreciation and impairment losses as at 01.01.21	-1,581
Depreciation during the year	-54
Depreciation of and impairment losses on disposed assets for the year	748
Depreciation and impairment losses as at 31.12.21	-887
Carrying amount as at 31.12.21	111

8. Equity investments in group enterprises

Figures in DKK '000	Equity invest- ments in group enterprises
Cost as at 01.01.21	1,750
Foreign currency translation adjustment of foreign enterprises	-1
Cost as at 31.12.21	1,749
Depreciation and impairment losses as at 01.01.21	-526
Net profit/loss from equity investments	-7,882
Negative equity value impaired in receivables	6,659
Depreciation and impairment losses as at 31.12.21	-1,749
Carrying amount as at 31.12.21	0
Positive balances ascertainable on initial recognition of equity investments measured at equity value	0
Name and registered office:	Ownership interest
Subsidiaries:	
SkyBrands GmbH, Tyskland	100%

9. Other non-current financial assets

Figures in DKK '000	Deposits
Cost as at 01.01.21	412
Cost as at 31.12.21	412
Carrying amount as at 31.12.21	412

	31.12.21	31.12.20
	DKK '000	DKK '000

10. Prepayments

Other prepayments	28	65
Total	28	65

Prepayments consist of prepaid expenses concerning insurance premiums and subscriptions.

11. Share capital

The share capital consists of:

	Quantity	Total nominal value
Share capital	1,000,000	1,000,000

	31.12.21	31.12.20
	DKK '000	DKK '000

12. Deferred tax

Provisions for deferred tax as at 01.01.21	-78	-314
Deferred tax recognised in the income statement	109	236
Provisions for deferred tax as at 31.12.21	31	-78

Deferred tax is recognized in the balance sheet as:

Deferred tax asset	31	0
Provisions for deferred tax	0	-78
Total	31	-78

Deferred tax is distributed as below:

Property, plant and equipment	22	49
Receivables	-6	-134
Liabilities	15	7
Total	31	-78

As at 31.12.21, the company has recognised a deferred tax asset of DKK 31k, which can primarily be attributed to property, plant and equipment. The deferred tax asset is recognised on the basis of expectations of positive operating results for the coming years.

13. Long-term payables

Figures in DKK '000	Outstanding debt after 5 years	Total payables at 31.12.21	Total payables at 31.12.20
Other payables	662	662	675
Total	662	662	675

14. Fair value information

Figures in DKK '000	Derivative financial instruments	Total
Fair value as at 31.12.21	217	217
Unrealised changes of fair value recognised in equity for the year	217	217

15. Derivative financial instruments

The Board of Directors lays down the framework for the conclusion of contracts for derivative financial instruments. The company concludes contracts for the sole purpose of hedging the currency risk on the future purchase and sale of goods in foreign currency. At the end of a 2021, a future purchase of goods of USD 5.175k and a future sale of goods of EUR 1.059k was secured for a period of up to 108 days. The fair value of the forward exchange contracts amounts to DKK 217k as at 31.12.21, and the unrealised net gain before tax recognised in equity as at 31.12.21 constitutes DKK 1.225k. Forward exchange contracts are only concluded with counterparties (Danish banks) with a good credit score from a reputable credit rating agency.

16. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of up to 34 months, a total of DKK 964k.

Guarantee commitments

The company has provided a guarantee of USD 173k and a guarantee of EUR 317k to foreign suppliers of goods. The guarantees are provided as import letters of credit through credit institutions.

Other contingent liabilities

The company is taxed jointly with the other Danish companies in the group and has joint, several and unlimited liability for income taxes and any obligations to withhold tax at source on interest, royalties and dividends for the jointly taxed companies. The total tax liability for the jointly taxed companies at the balance sheet date has not yet been determined. For further information, please see the financial statements of the management company Skybrands Holding A/S.

17. Charges and security

The company has provided a company charge of DKK 10.000k as security for debt to credit institutions. As at 31.12.21, the company charge comprises the following assets with the following carrying amounts:

- Other plant, fixtures and fittings, tools and equipment, DKK 111k
- Inventories, DKK 10,586k
- Trade receivables, DKK 11,188k

The company has provided a charge over shares in Skybrands GmbH, nominal value EUR 40k, as security for debt to credit institutions of Skybrands A/S and group companies. At the balance sheet date, debt to credit institutions amounts to DKK 33.584k and group companies DKK 2.250k. The carrying amount of the charged assets totals DKK 0k.

The company's receivables from subsidiary enterprise has been provided as security for debt to credit institutions. The carrying amount of the asset provided as security totals DKK 25.366k.

18. Related parties

Controlling influence	Basis of influence
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Skybrands Holding A/S, Vejle	Ownership
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Transactions	Relation	2021 DKK '000
Remission of debt to CC SKY Invest ApS	Parent Enterprise	457

Information is only provided on transactions with related parties that have not been made on an arm's length basis.

Remuneration for the management is specified in note 3. Staff costs.

The company is included in the consolidated financial statements of the parent Skybrands Holding A/S, Vejle.

19. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for medium-sized enterprises in reporting class C.

The accounting policies have been applied consistently with previous years.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation, impairment losses and write-downs, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

BUSINESS COMBINATIONS

Newly acquired or newly founded enterprises are recognised as from the date of acquisition and the date of foundation, respectively. The date of acquisition is the date at which control of the enterprise is obtained. Divested or discontinued enterprises are recognised until the date of divestment or discontinuation. The date of discontinuation is the date at which control of the enterprise passes to a third party.

Acquired enterprises are recognised in accordance with the acquisition method, according to which the identifiable assets and liabilities of the newly acquired enterprises are measured at fair value at the date of acquisition.

The cost of the equity investments in the acquired enterprises is offset against the proportionate share of the fair value of the enterprises' net assets at the acquisition date.

On acquisition of subsidiaries, goodwill is recognised on a proportionate basis based on the actual ownership interest in the acquired equity investments.

19. Accounting policies - continued -

The goodwill (positive difference) determined at the date of acquisition is recognised under equity investments in subsidiaries in the balance sheet. Goodwill from acquired enterprises is adjusted until 12 months after the acquisition date.

CURRENCY

The annual report is presented in Danish kroner (DKK).

On initial recognition, transactions denominated in foreign currencies are translated using the exchange rates applicable at the transaction date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment are recognised in the income statement as a financial item. Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rates applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised under financial income or expenses in the income statement. Fixed assets, inventories and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

On recognition of independent foreign entities, the income statements are translated at the exchange rates applicable at the transaction date or approximate average exchange rates. The balance sheet items are translated using the exchange rates applicable at the balance sheet date. Foreign currency translation adjustments arising from the translation of equity at the beginning of the year using the exchange rates applicable at the balance sheet date and from the translation of income statements from average exchange rates to the exchange rates applicable at the balance sheet date are recognised directly in equity under the reserve for net revaluation according to the equity method in respect of investments measured according to the equity method, and otherwise under the foreign currency translation reserve.

Translation adjustments of intercompany balances with independent foreign entities, measured using the equity method and where the balance is considered to be part of the overall investment, are recognised directly in equity under the foreign currency translation reserve. On the divestment of foreign entities, accumulated exchange differences are recognised in the income statement.

DERIVATIVE FINANCIAL INSTRUMENTS

On initial recognition, derivative financial instruments are measured at cost. Subsequently, they are measured at fair value and recognised under other receivables and other payables, respectively.

19. Accounting policies - continued -

Fair value adjustment of derivative financial instruments classified as and meeting the criteria for hedging future cash flows (cash flow hedging) are recognised in equity under the cash flow hedging reserve. In the event that the hedged transaction results in the recognition of an asset or a liability, the accumulated fair value adjustment of the hedging instrument, which was previously recognised in equity, will be included in the cost of the asset or the liability. In the event that the hedged transaction results in the recognition of an income or an expense, the accumulated fair value adjustment of the hedging instrument, which was previously recognised in equity, will be recognised together with the hedged income or expense.

If the hedged transaction is no longer expected to occur, the cash flow hedging treatment is discontinued, and the accumulated fair value adjustment of the hedging instrument is transferred to other net financials in the income statement. If the hedged transaction is still expected to occur, but the criteria for cash flow hedging are no longer met, the hedging treatment is discontinued, and the accumulated fair value adjustment of the hedging instrument remains in equity until the transaction occurs.

Fair value adjustments of derivative financial instruments that do not meet the criteria for hedge accounting treatment are recognised under other net financials in the income statement on an ongoing basis.

LEASES

Lease payments relating to operating leases are recognised in the income statement on a straight-line basis over the lease term.

INCOME STATEMENT**Gross profit**

Gross profit comprises revenue, other operating income and cost of sales and other external expenses.

Revenue

Income from the sale of goods is recognised in the income statement if delivery has taken place and the risk has passed to the buyer before the end of the financial year and where the selling price can be determined reliably and is expected to be paid. Revenue is measured at fair value and is determined exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

19. Accounting policies - continued -**Other operating income**

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including rental income, negative goodwill and gains on the sale of intangible assets and property, plant and equipment.

Cost of sales

Cost of sales comprises cost of sales for the year measured at cost plus any changes in inventories, including write-downs to the extent that these do not exceed normal write-downs.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises and bad debts to the extent that these do not exceed normal write-downs.

Staff costs

Staff costs comprise wages and salaries as well as other staff-related costs.

Depreciation and impairment losses

The depreciation of property, plant and equipment aim at systematic depreciation over the expected useful lives of the assets. Assets are depreciated according to the straight-line method based on the following expected useful lives and residual values:

	Useful life, year	Residual value DKK '000
Other plant, fixtures and fittings, tools and equipment	5	0

The basis of depreciation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Property, plant and equipment are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

19. Accounting policies - continued -**Income from equity investments in group enterprises**

For equity investments in equity investments in subsidiaries, measured using the equity method, the share of the enterprises' profit or loss is recognised in the income statement after elimination of unrealised intercompany profits and losses and less any goodwill amortisation and impairment losses.

Income from equity investments in equity investments in subsidiaries also comprises gains and losses on the sale of equity investments.

Other net financials

Interest income and interest expenses, foreign exchange gains and losses on transactions denominated in foreign currencies etc. are recognised in other net financials.

Tax on profit/loss for the year

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

The company is jointly taxed with Danish consolidated enterprises.

In connection with the settlement of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed enterprises in proportion to their taxable incomes. This means that enterprises with a tax loss receive joint taxation contributions from enterprises which have been able to use this loss to reduce their own taxable profit.

BALANCE SHEET**Property, plant and equipment**

Property, plant and equipment comprise other fixtures and fittings, tools and equipment.

Property, plant and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. Interest on loans arranged to finance production is not included in the cost.

19. Accounting policies - continued -

Property, plant and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation and impairment losses' section.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

Equity investments in group enterprises

Equity investments in subsidiaries are recognised and measured according to the equity method. For equity investments in subsidiaries, the equity method is considered a measurement method.

Accounting policies for the acquisition of subsidiaries are stated in the 'Business combinations' section.

On initial recognition, equity investments measured according to the equity method are measured at cost. Transaction costs directly attributable to the acquisition are recognised in the cost of equity investments.

Under subsequent recognition and measurement of equity investments according to the equity method, equity investments are measured at the proportionate share of the enterprises' equity value, determined according to the accounting policies of the parent, adjusted for the remaining value of goodwill and gains and losses on transactions with the enterprises in question. Equity investments, where information for recognition according to the equity method is not known, are measured at cost.

Equity investments with a negative carrying amount are measured at DKK 0. Receivables that are considered part of the combined investment in the enterprises in question are impaired by any remaining negative equity value. Other receivables from such enterprises are impaired to the extent that such receivables are considered uncollectible. Provisions to cover the remaining negative equity value are recognised to the extent that the company has a legal or constructive obligation to cover the liabilities of the enterprise in question.

Gains or losses on disposal of equity investments are determined as the difference between the disposal consideration and the carrying amount of net assets at the time of sale, including non-amortised goodwill, as well as the expected costs of divestment or discontinuation. Gains and losses are recognised in the income statement under income from equity investments.

19. Accounting policies - continued -**Impairment losses on fixed assets**

The carrying amount of fixed assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist.

Inventories

Inventories are measured at cost calculated according to the FIFO-method. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and the expected development in the selling price.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

19. Accounting policies - continued -

Deposits recognised under assets comprise deposits paid to the lessor under leases entered into by the company.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

Cash

Cash includes deposits in bank accounts as well as operating cash.

Equity

The net revaluation of equity investments measured according to the equity method is recognized in the net revaluation reserve in equity according to the equity method to the extent that the carrying amount exceeds the cost.

Unrealised gains and losses on financial instruments classified as and meeting the criteria for hedging of future cash flows (cash flow hedging) are recognised in equity under the cash flow hedging reserve. The reserve is measured less deferred tax. The reserve is dissolved when the hedged transaction occurs, or it is no longer expected to occur.

Current and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Joint taxation contributions payable and receivable are recognised as income tax under receivables or payables in the balance sheet.

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

19. Accounting policies - continued -

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

Payables

Long-term payables are measured at cost at the time of contracting such liabilities (raising of the loan). The payables are subsequently measured at amortised cost where capital losses and loan expenses are recognised in the income statement as a financial expense over the term of the payable on the basis of the calculated effective interest rate in force at the time of contracting the liability.

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to the time and date of delivery of the agreed product or completion of the agreed service.

CASH FLOW STATEMENT

Referring to section 86(4) of the Danish Financial Statements Act a cash flow statement has not been prepared as the enterprise is included in the consolidated cash flow statement.