MUSIC Group Innovation DK A/S

Sindalsvej 34, DK-8240 Risskov

Annual Report for 1 January - 31 December 2016

CVR No 32 56 96 33

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
6 /7 2017

Cheryl S. Saldana - 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 MUSIC Group Innovation DK 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 give a true and fair view of the financial position at 31 December 2016 of the Company and of the results of the Company operations 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 Saldana-De Leon
CEO

Board of Directors

Raul Guevara Gerodias Chairman	Cheryl Saldana-De Leon	Vanessa Raymundo-Uy

Independent Auditor's Report

To the Shareholder of MUSIC Group Innovation DK A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of MUSIC Group Innovation DK 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 ("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 misstatement, whether due to fraud or error.

Independent Auditor's Report

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 in a manner that gives a true and fair view.

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

Independent Auditor's Report

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

Aarhus, 6 July 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Claus Lindholm Jacobsen	Claus Lyngsø Sørensen
State Autohorised Public Accountant	State Autohorised Public Accountant

Company Information

The Company	MUSIC Group Innovation DK A/S Sindalsvej 34 DK-8240 Risskov Telephone: + 45 87 42 70 00 Facsimile: + 45 87 42 70 10 Website: www.music-group.com CVR No: 32 56 96 33 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	Jyske Bank

Financial Highlights

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

	2016	2014/15	2013/14	2012/13	2011/12
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Gross profit/loss	81,037	144,793	78,171	67,247	72,524
Operating profit/loss	38,605	70,054	26,761	23,482	28,501
Net financials	626	-3,506	2,473	748	-3,321
Profit/loss from extraordinary items	0	0	0	24,230	25,180
Net profit/loss for the year	30,633	51,131	22,904	17,276	18,885
Balance sheet					
Balance sheet total	237,183	193,776	180,177	150,508	161,279
Equity	139,320	108,687	71,481	65,877	63,601
Investment in property, plant and equipment	4,707	4,849	848	387	938
Number of employees	92	79	79	75	81
Ratios					
Return on assets	16,3%	36,2%	14,9%	15,6%	17,7%
Solvency ratio	58,7%	56,1%	39,7%	43,8%	39,4%
Return on equity	24,7%	56,8%	33,3%	26,7%	34,9%

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

Key activities

MUSIC Group Innovation DK A/S develops, produces and markets product worldwide for performing artists and for the professional audio market.

The Company's total product range is sold and distributed through 4 affiliated companies.

Development in the year

The income statement of the Company for 2016 shows a profit of DKK 31 million and at 31 December 2016 the balance sheet of the Company shows equity of DKK 139 million.

The profit for the year is considered satisfactory.

Research and development activities

The Company's total expense for research and development amount to DKK 28 million.

New products

The Company focuses on development of products for 'the performing artist' for use both at concerts and in the studio and for the professional audio market. During the financial year significant products have been released within both categories.

Investments

The most important investments made during the year are investments in development activities.

Special risks

MUSIC Group Innovation DK A/S sells and distributes, as mentioned above, the total product range via 4 affiliated companies. The Company's income thus depends on the continued positive development in the international sales and distribution activities of these 4 companies.

Foreign exchange risks

The Company has considerable sales and purchase in USD and EUR, and the Company's income statement is thus affected by the exchange rate movements of these currencies against DKK.

Credit risks

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

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

Management's Review

Liquidity risks

The Company's necessary cash resources are ensured through the cooperation with The TC Group A/S's finance function.

Intellectual capital resources

The Company is intellectual capital intensive. Much competence and much knowledge of technologies and product development have been built up in the Company's development department. Most of the product development activities are carried out by the Compnay's own employees; thus, it is ensured that competences and knowledge are embedded in the Company.

Environment

The Company's production and other activities are not assessed to have adverse environmental impact regards noise, smoke, discharge of waste products and massive use of energy.

On a current basis, the Company monitors that, current environmental regulations are met, including the conditions with sub-suppliers.

Outlook

The Company expects to maintain earnings next year.

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	2016 kDKK	2014/15 (18 Months) kDKK
Gross profit/loss		**81,037**	**144,793**
Distribution expenses	1	-5,761	-14,765
Development expenditure	1	-28,258	-49,580
Administrative expenses	1	-8,413	-10,394
Operating profit/loss		**38,605**	**70,054**
Profit/loss before financial income and expenses		**38,605**	**70,054**
Financial income	2	1,009	1,019
Financial expenses	3	-383	-4,525
Profit/loss before tax		**39,231**	**66,548**
Tax on profit/loss for the year	4	-8,598	-15,417
Net profit/loss for the year		**30,633**	**51,131**

Balance Sheet 31 December 2016

Assets

	Note	2016	2015
		kDKK	kDKK
Completed development projects		33,917	36,879
Software		230	394
Development projects in progress		29,861	17,919
Intangible assets	5	**64,008**	**55,192**
Plant and machinery		4,707	4,849
Property, plant and equipment	6	**4,707**	**4,849**
Fixed assets		**68,715**	**60,041**
Inventories	7	**50,807**	**54,482**
Trade receivables		1,076	4,420
Receivables from group enterprises		98,791	68,667
Other receivables		373	924
Prepayments		196	62
Receivables		**100,436**	**74,073**
Cash at bank and in hand		**17,225**	**5,180**
Currents assets		**168,468**	**133,735**
Assets		**237,183**	**193,776**

Balance Sheet 31 December 2016

Liabilities and equity

	Note	2016	2015
		kDKK	kDKK
Share capital		500	500
Reserve for development costs		25,530	0
Retained earnings		113,290	108,187
Equity		**139,320**	**108,687**
Provision for deferred tax	9	13,012	9,147
Other provisions	10	2,398	3,043
Provisions		**15,410**	**12,190**
Trade payables		5,076	33,743
Payables to group enterprises		59,614	3,636
Corporation tax		4,724	24,477
Other payables		13,039	11,043
Short-term debt		**82,453**	**72,899**
Debt		**82,453**	**72,899**
Liabilities and equity		**237,183**	**193,776**
Distribution of profit	8		
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Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	kDKK	kDKK	kDKK	kDKK
Equity at 1 January 2016	500	0	108,187	108,687
Development costs capitalized for the year net of tax	0	25,530	-25,530	0
Net profit/loss for the year	0	0	30,633	30,633
Equity at 31 December 2016	**500**	**25,530**	**113,290**	**139,320**

Notes to the Financial Statements

		2016	2014/15 (18 Months)
		kDKK	kDKK
1	**Staff**		
	Wages and Salaries	48,554	59,553
	Pensions	3,450	4,654
	Other social security expenses	189	232
	Other staff expenses	2,571	3,487
		54,764	**67,926**
	Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
	Cost of sales	16,979	22,687
	Distribution expenses	-1,563	7,295
	Development expenditure	30,668	37,901
	Administrative expenses	8,680	43
		54,764	**67,926**
	Average number of employees	**92**	**79**

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

		2016	2014/15 (18 Months)
2	**Financial income**		
	Interest received from group enterprises	328	583
	Other financial income	5	0
	Exchange gains	676	436
		1,009	**1,019**
3	**Financial expenses**		
	Interest paid to group enterprises	25	0
	Other financial expenses	48	986
	Exchange loss	310	3,539
		383	**4,525**

Notes to the Financial Statements

		2016	2014/15 (18 Months)
		kDKK	kDKK
4	**Tax on profit/loss for the year**		
	Current tax for the year	4,733	13,481
	Deferred tax for the year	3,865	1,936
		8,598	**15,417**

5 **Intangible assets**

	Completed development projects	Software	Development projects in progress	Total
	kDKK	kDKK	kDKK	kDKK
Cost at 1 January 2016	218,732	1,322	17,919	237,973
Additions for the year	0	32	32,731	32,763
Disposals for the year	-582	0	0	-582
Transfers for the year	20,789	0	-20,789	0
Cost at 31 December 2016	238,939	1,354	29,861	270,154
Impairment losses and amortisation at 1 January 2016	181,853	928	0	182,781
Amortisation for the year	23,750	196	0	23,946
Impairment and amortisation of sold assets for the year	-581	0	0	-581
Impairment losses and amortisation at 31 December 2016	205,022	1,124	0	206,146
Carrying amount at 31 December 2016	**33,917**	**230**	**29,861**	**64,008**
Amortised over	3-8 years	3 years		

Development projects relate to the development of products within the Caompany'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 Company’s existing customers.

Notes to the Financial Statements

5 Intangible assets (continued)

	2016	2014/15 (18 Months)
	kDKK	kDKK
Amortisation and impairment of intangible assets are recognised in the following items*:*		
Development expenditure	23,946	36,434
	23,946	**36,434**

6 Property, plant and equipment

	Plant and machinery
	kDKK
Cost at 1 January 2016	6,752
Additions for the year	1,364
Disposals for the year	-57
Cost at 31 December 2016	8,059
Impairment losses and depreciation at 1 January 2016	1,903
Depreciation for the year	1,449
Impairment losses and depreciation at 31 December 2016	3,352
Carrying amount at 31 December 2016	**4,707**
Depreciated over	3-5 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	1,177	826
Distribution expenses	113	104
Development expenditure	159	266
	1,449	**1,196**

Notes to the Financial Statements

	2016	2015
	kDKK	kDKK

7 Inventories

Raw materials and consumables	1,764	7,723
Work in progress	64	1,246
Finished goods and goods for resale	48,979	45,513
	50,807	**54,482**

8 Distribution of profit

Retained earnings	30,633	51,131
	30,633	**51,131**

9 Provision for deferred tax

Provision for deferred tax at 1 January 2016	9,147	7,211
Amounts recognised in the income statement for the year	3,865	1,936
Provision for deferred tax at 31 December 2016	**13,012**	**9,147**

10 Other provisions

The Company provides warranties on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions of kDKK 2.398 (2015: kDKK 3.043) have been recognised for expected warranty claims.

Other provisions	2,398	3,043
	2,398	**3,043**

Notes to the Financial Statements

	2016	2015
	kDKK	kDKK

11 Contingent assets, liabilities and other financial obligations

Charges and security

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

	2016	2015
As security for the Group's balance with Jyske Bank the Company has given floating charge of DKK 100,000k as security secured on unsecured claims, inventories, operating equipment and rights with a carrying amount of DKK 56.963k at 31 December 2016. Debt to credit institutions is DKK 0 at 31 December 2016.	100,000	100,000
As security for the Company's balance with Jyske Bank the Company has given floating charge of DKK 7,000k as security secured on unsecured claims, inventories, operating equipment and rights with a carrying amount of DKK 56.963 at 31 December 2016. Debt to credit institutions is DKK 0 at 31 December 2016.	7,000	7,000

Rental and lease obligations

	2016	2015
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	196	147
Between 1 and 5 years	41	149
	237	**296**

Other contingent liabilities

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

12 Related parties

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

Notes to the Financial Statements

12 Related parties (continued)

Transactions

	2016
	kDKK
Transactions with other related parties	
Sales of goods and services	225.581
Handling fee paid to other related parties	1.022
Purchases of electronic equipment from related parties	5.121
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)	98.791
Current payables (purchases of goods and services)	59.614
Loans to other related parties	
Interest income on receivables	328
Interest expenses	25

Terms and conditions
The interest rate on loans between related parties was 4% during the year while loans totalling kDKK 29.865 to a company in Bermuda did not carry any interests.

Consolidated Financial Statements

The Company is included in the Consolidated Financial Statements of The TC Group A/S.

Name	Place of registered office
The TC Group A/S	Aarhus, Denmark

Notes to the Financial Statements

13 Accounting Policies

The Annual Report of MUSIC Group Innovation DK A/S for 2016 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 2016 are presented in kDKK.

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 The TC Group A/S, the Company has not prepared a cash flow statement.

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.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Notes to the Financial Statements

13 Accounting Policies (continued)

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 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

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.

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.

Income Statement

Gross profit/loss

With reference to section 81 and 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

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.

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

Notes to the Financial Statements

13 Accounting Policies (continued)

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.

Development expenditure

Development expenditure comprise costs, including depreciation and wages and salaries, for research and development projects.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Financial income and expenses

Financial income and expenses comprise interest, realised and unrealised exchange adjustments.

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 other 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

Costs of development projects comprise salaries, amortisation and other expenses directly or indirectly attributable to the Company's development activities.

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 enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are re-

Notes to the Financial Statements

13 Accounting Policies (continued)

cognised 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 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 straight-line basis over the period of the expected economic benefit from the development work. The amortisation period is 3-8 years.

Patents and licences are measured at cost less accumulated amortisation and less any accumulated impairment losses or at a lower value in use.

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.

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:

Plant and machinery	3-5 years

Depreciation period and residual value are reassessed annually.

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

Notes to the Financial Statements

13 Accounting Policies (continued)

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.

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.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance etc.

Deferred tax assets and liabilities

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised in respect of temporary differences concerning goodwill not deductible for tax purposes and other items - apart from business acquisitions - where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income.

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. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is

Notes to the Financial Statements

13 Accounting Policies (continued)

measured 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.

Deferred tax assets and liabilities are offset within the same legal tax entity.

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.

Current tax receivables and liabilities

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

Financial debts

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

Financial Highlights

Explanation of financial ratios

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	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$