SGM Light A/S

Sommervej 23, DK-8210 Aarhus V

Annual Report for 1 January - 31 December 2018

CVR No 37 21 91 69

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 21/5 2019

Paolo Covre
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 SGM Light A/S for the financial year 1 January - 31 December 2018.

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 2018 of the Company and of the results of the Company operations for 2018.

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

Aarhus, 21 May 2019

Executive Board

Peter Johansen

Board of Directors

Paolo Covre Chairman	Peter Johansen	Massimo Covre

Independent Auditor's Report

To the Shareholder of SGM Light 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 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of SGM Light A/S for the financial year 1 January - 31 December 2018, 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 Financial 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.

Independent Auditor's Report

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.

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.

Independent Auditor's Report

- 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.

Aarhus, 21 May 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Mads Meldgaard	Tina Østerby Najbjerg
State Authorised Public Accountant	State Authorised Public Accountant
mne24826	mne33802

Company Information

The Company	SGM Light A/S Sommervej 23 DK-8210 Aarhus V CVR No: 37 21 91 69 Financial period: 1 January - 31 December Municipality of reg. office: Aarhus
Board of Directors	Paolo Covre, Chairman Peter Johansen Massimo Covre
Executive Board	Peter Johansen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Nobelparken Jens Chr. Skous Vej 1 DK-8000 Aarhus C

Financial Highlights

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

	2018	2017	2016
	EUR'000	EUR'000	EUR'000 14 months
Key figures			
Profit/loss			
Gross profit/loss	6,848	6,285	8,547
Operating profit/loss	1,187	1,494	2,068
Net financials	-770	-961	-621
Net profit/loss for the year	326	380	1,115
Balance sheet			
Balance sheet total	12,645	11,706	9,522
Equity	3,814	3,500	3,115
Investment in property, plant and equipment	611,051	436,233	1,048,609
Number of employees	97	90	83
Ratios			
Solvency ratio	30.2%	29.9%	32.7%
Return on equity	8.9%	11.5%	71.6%
Solvency ratio incl. subordinate loan	46.0%	47.0%	53.7%

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 SGM Light A/S for 2018 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 Company's key activities comprise the development and sale of professional lighting products based on advanced LED technology for the entertainment lighting and the architectural lighting business. The Company is represented globally and sells its products to more than 50 countries.

Development in the year

The income statement of the Company for 2018 shows a profit of EUR 326k, and at 31 December 2018 the balance sheet of the Company shows equity of EUR 3,814k.

Revenue for the year and gross profit is below budget, and, therefore, profit before tax for the year does not meet expectations. According to expectations, profit before tax for the year was to account EUR 1 million, and the realised profit before tax of EUR 418k is therefore considered unsatisfactory.

The results for the year are positively affected by an adjustment of the provision.

Foreign exchange risks

It is an ongoing focal point for the Company to identify and reduce significant risks, including foreign exchange fluctuations.

The Company is operating in different currencies. Changes in currencies other than Euro will effect the operation.

Targets and expectations for the year ahead

The Company expects a satisfactory development for the next financial year and expects to realise results in the range of approx. EUR 1 million. It is the Company's expectation that it is possible to realise results in this range.

Research and development

The Company incurs significant costs on a regular basis for further development of existing products.

External environment

The Company does not believe that it has significant environmental impacts.

Management's Review

Uncertainty relating to recognition and measurement

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

Unusual events

The financial position at 31 December 2018 of the Company and the results of the activities of the Company for financial year 2018 have not been affected by any unusual events.

Income Statement 1 January - 31 December

	Note	2018 EUR	2017 EUR
Gross profit/loss		**6,848,173**	**6,284,580**
Distribution expenses		-1,264,621	-1,162,546
Administrative expenses	1	-4,396,202	-3,628,055
Operating profit/loss		**1,187,350**	**1,493,979**
Income from investments in subsidiaries		-104,124	-131,480
Income from investments in associates		50,088	2,370
Financial expenses	2	-715,559	-831,558
Profit/loss before tax		**417,755**	**533,311**
Tax on profit/loss for the year	3	-91,477	-153,148
Net profit/loss for the year		**326,278**	**380,163**

Balance Sheet 31 December

Assets

	Note	2018	2017
		EUR	EUR
Completed development projects		1,064,053	610,102
Acquired other similar rights		285,508	437,273
Development projects in progress		640,256	127,256
Intangible assets	4	**1,989,817**	**1,174,631**
Other fixtures and fittings, tools and equipment		1,016,234	668,718
Property, plant and equipment	5	**1,016,234**	**668,718**
Investments in subsidiaries	6	0	0
Investments in associates	7	336,382	286,428
Fixed asset investments		**336,382**	**286,428**
Fixed assets		**3,342,433**	**2,129,777**
Inventories	8	**7,215,942**	**7,590,381**
Trade receivables		51,726	0
Receivables from group enterprises		0	1,297,237
Other receivables		234,500	239,681
Corporation tax		133,600	0
Prepayments	9	204,399	141,205
Receivables		**624,225**	**1,678,123**
Cash at bank and in hand		**1,462,366**	**307,956**
Currents assets		**9,302,533**	**9,576,460**
Assets		**12,644,966**	**11,706,237**

Balance Sheet 31 December

Liabilities and equity

	Note	2018	2017
		EUR	EUR
Share capital		2,000,000	2,000,000
Reserve for development costs		1,331,119	575,140
Retained earnings		483,367	924,872
Equity	10	**3,814,486**	**3,500,012**
Provision for deferred tax	12	346,652	105,535
Provisions relating to investments in group enterprises		247,657	138,408
Other provisions	13	657,266	930,785
Provisions		**1,251,575**	**1,174,728**
Subordinate loan capital		2,000,000	2,000,000
Lease obligations		63,571	71,623
Payables to group enterprises		1,700,000	1,700,000
Long-term debt	14	**3,763,571**	**3,771,623**
Credit institutions		11,973	14,641
Lease obligations	14	69,494	70,198
Trade payables		2,276,488	1,620,525
Payables to group enterprises	14	714,199	359,625
Corporation tax		0	400,238
Other payables		743,180	794,647
Short-term debt		**3,815,334**	**3,259,874**
Debt		**7,578,905**	**7,031,497**
Liabilities and equity		**12,644,966**	**11,706,237**

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Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	EUR	EUR	EUR	EUR
Equity at 1 January	2,000,000	575,140	924,872	3,500,012
Exchange adjustments	0	0	-11,804	-11,804
Development costs for the year	0	755,979	-755,979	0
Net profit/loss for the year	0	0	326,278	326,278
Equity at 31 December	**2,000,000**	**1,331,119**	**483,367**	**3,814,486**

Notes to the Financial Statements

		2018	2017
		EUR	EUR
1	**Staff**		
	Wages and salaries	5,322,367	4,303,003
	Pensions	446,030	407,945
	Other social security expenses	97,478	79,046
	Other staff expenses	138,877	164,690
		6,004,752	**4,954,684**
	Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
	Cost of sales	2,259,165	2,101,695
	Administrative expenses	3,745,587	2,852,989
		6,004,752	**4,954,684**
	Average number of employees	**97**	**90**

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

2	**Financial expenses**		
	Interest paid to group enterprises	667,342	597,809
	Other financial expenses	27,052	35,988
	Exchange loss	21,165	197,761
		715,559	**831,558**

3	**Tax on profit/loss for the year**		
	Current tax for the year	-149,956	-225
	Deferred tax for the year	241,433	153,373
		91,477	**153,148**

Notes to the Financial Statements

4 Intangible assets

	Completed development projects	Acquired other similar rights	Development projects in progress
	EUR	EUR	EUR
Cost at 1 January	665,181	747,525	127,256
Exchange adjustment	-1,995	-2,242	-382
Additions for the year	511,308	0	640,256
Transfers for the year	126,874	0	-126,874
Cost at 31 December	1,301,368	745,283	640,256
Transfers for the year	0	0	0
Revaluations at 31 December	0	0	0
Impairment losses and amortisation at 1 January	55,079	310,252	0
Exchange adjustment	-124	-699	0
Amortisation for the year	182,360	150,222	0
Impairment losses and amortisation at 31 December	237,315	459,775	0
Carrying amount at 31 December	**1,064,053**	**285,508**	**640,256**

Development projects relate to the development of new products and new versions of the Company's existing products. All pending projects are expected to be completed in 2019, and the marketing will be initiated in the same period. The projects are progressing according to plan through the use of the resources allocated by Management to the development. The new products are primary expected to be sold in the present markets. Prior to the initiation of the projects, the Company inquired of its customers as to the need for the new products, which was well received.

Notes to the Financial Statements

5 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	EUR
Cost at 1 January	1,483,361
Exchange adjustment	-4,450
Additions for the year	611,051
Cost at 31 December	2,089,962
Impairment losses and depreciation at 1 January	814,643
Exchange adjustment	-2,444
Depreciation for the year	261,529
Impairment losses and depreciation at 31 December	1,073,728
Carrying amount at 31 December	**1,016,234**
Including assets under finance leases amounting to	156,363

Notes to the Financial Statements

		2018	2017
		EUR	EUR
6	**Investments in subsidiaries**		
	Cost at 1 January	282,804	87
	Exchange adjustment	-848	0
	Additions for the year	10,000	282,717
	Cost at 31 December	291,956	282,804
	Value adjustments at 1 January	-282,804	-87
	Exchange adjustment	-4,278	5,381
	Net profit/loss for the year	-153,771	-131,480
	Other adjustments	39,647	0
	Reversals for the year of revaluations in previous years	-138,407	-295,025
	Transferred to provisions	247,657	138,407
	Value adjustments at 31 December	-291,956	-282,804
	Carrying amount at 31 December	**0**	**0**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership
SGM Italy Srl.	Italy	100%
SGM Lighting Inc.	USA	100%
SGM Entertainment PTE Ltd.	Singapore	100%

Notes to the Financial Statements

7 Investments in associates

	2018	2017
	EUR	EUR
Cost at 1 January	49,583	27,093
Exchange adjustment	-38	0
Additions for the year	0	22,490
Cost at 31 December	49,545	49,583
Value adjustments at 1 January	236,845	235,199
Disposals for the year	-13,100	0
Exchange adjustment	-96	-724
Net profit/loss for the year	70,867	2,370
Other adjustments	-7,679	0
Value adjustments at 31 December	286,837	236,845
Carrying amount at 31 December	**336,382**	**286,428**

Investments in associates are specified as follows:

Name	Place of registered office	Votes and ownership
SGM Deutchland GmbH	Germany	26%
SGM bfl	Belgium	30%
SGM Japan Co. Ltd.	Japan	33%

Notes to the Financial Statements

8 Inventories

	2018	2017
	EUR	EUR
Raw materials and consumables	2,832,162	4,217,472
Work in progress	678,419	781,596
Finished goods and goods for resale	3,705,361	2,591,313
	7,215,942	**7,590,381**

9 Prepayments

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

10 Equity

The share capital consists of 2,000,000 shares of a nominal value of EUR 1. No shares carry any special rights.

The share capital has developed as follows:

	2018	2017	2015/16	Opening balance at 10 November 2015
	EUR	EUR	EUR	EUR
Share capital at 1 January	2,000,000	2,000,000	68,000	68,000
Capital increase	0	0	1,932,000	0
Capital decrease	0	0	0	0
Share capital at 31 December	**2,000,000**	**2,000,000**	**2,000,000**	**68,000**

11 Distribution of profit

	2018	2017
	EUR	EUR
Retained earnings	326,278	380,163
	326,278	**380,163**

Notes to the Financial Statements

12 Provision for deferred tax

	2018	2017
	EUR	EUR
Provision for deferred tax at 1 January	105,535	-180,943
Amounts recognised in the income statement for the year	241,433	153,373
Transfer to current tax	-316	133,105
Provision for deferred tax at 31 December	**346,652**	**105,535**

13 Other provisions

The Company provides warranties of 2 years on its products and is therefore obliged to repair or replace goods with defects. Based on previous experience in respect of the level of repairs and returns, other provisions of EUR 357k (2017: EUR 317k) have been recognised for expected warranty claims.

Warranties	357,266	317,246
Other provisions	300,000	613,539
	657,266	**930,785**

Notes to the Financial Statements

14 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:

	2018	2017
	EUR	EUR
Subordinate loan capital		
Between 1 and 5 years	2,000,000	2,000,000
Long-term part	2,000,000	2,000,000
Within 1 year	0	0
	2,000,000	**2,000,000**
Lease obligations		
Between 1 and 5 years	63,571	71,623
Long-term part	63,571	71,623
Within 1 year	69,494	70,198
	133,065	**141,821**
Payables to group enterprises		
Between 1 and 5 years	1,700,000	1,700,000
Long-term part	1,700,000	1,700,000
Other short-term debt to group enterprises	714,199	359,625
	2,414,199	**2,059,625**

Notes to the Financial Statements

	2018	2017
	EUR	EUR

15 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

	2018	2017
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	15,803	9,105
Between 1 and 5 years	13,841	12,890
	29,644	**21,995**
Rent obligations, period of non-terminability of up to 7 years (8 years)	2,826,948	3,322,277

Other contingent liabilities

The Company has entered into a factoring agreement with the group enterprise SGM Finance ApS. Under the agreement, all significant debtor risks, including commercial risks and credit risks are transferred to SGM Light A/S in case of claims and outstanding payments. At December 2018, debtor balances taken over totalled EUR 6,133.

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 P.L.I. Professional Lighting International 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.

Notes to the Financial Statements

16 Related parties

	Basis
Controlling interest	
P.L.I. Professional Lighting International ApS, Sommervej 23, DK-8210 Aarhus V	Parent Company

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 Group Annual Report of the Parent Company.

Name	Place of registered office
P.L.I. Professional Lighting International ApS, CVR no. 37 20 77 64	Aarhus

The Group Annual Report of P.L.I. Professional Lighting International ApS, CVR no. 37 20 77 64 may be obtained at the following address:

P.L.I. Professional Lighting International ApS
Sommervej 23
DK8210 Aarhus V

17 Subsequent events

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

Notes to the Financial Statements

18 Accounting Policies

The Annual Report of SGM Light A/S for 2018 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 2018 are presented in EUR.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of P.L.I. Professional Lighting International ApS, the Company has not prepared consolidated financial statements.

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 P.L.I. Professional Lighting International ApS, CVR no. 37 20 77 64, 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.

Notes to the Financial Statements

18 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

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

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

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

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

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.

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

18 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.

Cost of sales also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue and cost of sales.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as depreciation, etc.

Administrative expenses

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

Income from investments in subsidiaries and associates

The items “Income from investments in subsidiaries” and “Income from investments in associates” in the income statement include the proportionate share of the profit for the year.

Financial income and expenses

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

Tax on profit/loss for the year

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

The Company is jointly taxed with P.L.I. Professional Lighting International ApS. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

18 Accounting Policies (continued)

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 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.

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition. On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation is usually 5 years.

Property, plant and equipment

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

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

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	2-5	years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

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

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

Investments in subsidiaries and associates

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

Notes to the Financial Statements

18 Accounting Policies (continued)

The items “Investments in subsidiaries” and “Investments in associates” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition.

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

Subsidiaries and associates with a negative net asset value are recognised at EUR 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

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 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. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company’s experience from previous years.

Prepayments

Prepayments comprise prepaid expenses concerning subsequent financial reporting years.

Notes to the Financial Statements

18 Accounting Policies (continued)

Provisions

Provisions comprise anticipated expenses relating to warranty commitments and other provisions. Provisions are recognised when the Company has a legal or constructive obligation at the balance sheet date as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at net realisable value or at fair value if the obligation is expected to be settled far into the future.

Warranty commitments include expenses for remedial action in respect of the contract work within the warranty period of 2 years. Provisions for warranty commitments are measured at net realisable value and recognised based on past experience. Provisions that are expected to mature more than one year after the balance sheet date are discounted at average bond yields.

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, including the tax base of tax loss carry-forwards, 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.

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

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

Notes to the Financial Statements

18 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Return on assets	$\dfrac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\dfrac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\dfrac{\text{Net profit for the year x 100}}{\text{Average equity}}$
Solvency ratio incl. subordinate loan	$\dfrac{\text{(Equity at year end + subordinate loan) x 100}}{\text{Total assets at year end}}$