# *SGM Light A/S*

Sommervej 23, DK-8210 Aarhus V

# Annual Report for 1 January - 31 December 2020

CVR No 37 21 91 69

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 25/06 2021

Ulrik Jakobsen
Chairman of the General Meeting

# Contents

# 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 2020.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2020 of the Company and of the results of the Company operations for 2020.

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

Pordenone, 25 June 2021

**Executive Board**

Ulrik Jakobsen

**Board of Directors**

| | | |
|---|---|---|
| Paolo Covre<br>Chairman | Filippo Bortolini | 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 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020 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 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

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

**Statement on Management's Review**
Management is responsible for Management's Review.

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

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

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

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

# 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, 25 June 2021
**PricewaterhouseCoopers**
Statsautoriseret Revisionspartnerselskab
*CVR No 33 77 12 31*

Mads Meldgaard
State Authorised Public Accountant
mne24826

Martin Stenstrup Toft
State Authorised Public Accountant
mne42786

# Company Information

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

# Financial Highlights

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

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR |
| **Key figures** | | | | | |
| **Profit/loss** | | | | | |
| Gross profit/loss | 1,285 | 6,528 | 6,848 | 6,285 | 8,547 |
| Operating profit/loss | -3,482 | 1,059 | 1,187 | 1,494 | 2,068 |
| Net financials | -910 | -584 | -770 | -961 | -621 |
| Net profit/loss for the year | -3,425 | 411 | 326 | 380 | 1,115 |
| **Balance sheet** | | | | | |
| Balance sheet total | 13,597 | 14,841 | 12,645 | 11,706 | 9,522 |
| Equity | 816 | 4,240 | 3,814 | 3,500 | 3,115 |
| Investment in property, plant and equipment | 108 | 558 | -610 | 436 | 1,048 |
| Number of employees | 81 | 98 | 97 | 90 | 83 |
| **Ratios** | | | | | |
| Solvency ratio | 6.0% | 28.6% | 30.2% | 29.9% | 32.7% |
| Return on equity | -135.5% | 10.2% | 8.9% | 11.5% | 71.6% |
| Solvency ratio incl. subordinate loan | 18.6% | 42.0% | 46.0% | 47.0% | 53.7% |

# Management's Review

## 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 2020 shows a loss of EUR 3,424,867, and at 31 December 2020 the balance sheet of the Company shows equity of EUR 816,419.

In the financial year 2020, the company's financial situation was negatively affected by Covid 19. As a result of the forced closure of the company's activities, the company has received financial support in the form of government assistance packages. See note 2 for a further description.

### *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's expectations for the future will be adversely affected by the Covid-19 outbreak and the measures taken by governments in most of the world to mitigate the effects of the outbreak, cf. also note 1 on continued operations

## 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.

## Subsequent events

In the subsequent period, the company's financial situation continued to be negatively affected by Covid-19. In addition, no circumstances have occurred after the balance date that have a material effect on the assessment of the annual report.

# Income Statement 1 January - 31 December

| | Note | 2020 | 2019 |
|---|---|---|---|
| | | EUR | EUR |
| **Gross profit/loss** | | **1,284,893** | **6,528,051** |
| Distribution expenses | | -1,067,997 | -1,055,842 |
| Administrative expenses | 3 | -3,698,605 | -4,413,044 |
| **Operating profit/loss** | | **-3,481,709** | **1,059,165** |
| Other operating expenses | | -2,683 | 0 |
| **Profit/loss before financial income and expenses** | 2 | **-3,484,392** | **1,059,165** |
| Income from investments in subsidiaries | | -61,629 | 62,234 |
| Income from investments in associates | | -66,237 | 124,452 |
| Financial expenses | 4 | -782,067 | -770,286 |
| **Profit/loss before tax** | | **-4,394,325** | **475,565** |
| Tax on profit/loss for the year | 5 | 969,458 | -64,470 |
| **Net profit/loss for the year** | | **-3,424,867** | **411,095** |

# Balance Sheet 31 December

## Assets

| | Note | 2020 | 2019 |
|---|---|---|---|
| | | EUR | EUR |
| Completed development projects | | 2,398,058 | 2,478,746 |
| Acquired patents | | 0 | 135,244 |
| Acquired trademarks | | 79,839 | 99,392 |
| Development projects in progress | | 238,244 | 25,494 |
| **Intangible assets** | 6 | **2,716,141** | **2,738,876** |
| Other fixtures and fittings, tools and equipment | | 828,888 | 1,213,453 |
| Leasehold improvements | | 77,294 | 0 |
| **Property, plant and equipment** | 7 | **906,182** | **1,213,453** |
| Investments in subsidiaries | 8 | 0 | 0 |
| Investments in associates | 9 | 396,246 | 460,725 |
| **Fixed asset investments** | | **396,246** | **460,725** |
| **Fixed assets** | | **4,018,569** | **4,413,054** |
| **Inventories** | 10 | **7,571,162** | **8,119,947** |
| Receivables from group enterprises | | 0 | 1,042,118 |
| Other receivables | | 570,368 | 467,879 |
| Deferred tax asset | | 432,076 | 0 |
| Corporation tax | | 0 | 124,252 |
| Prepayments | 11 | 50,767 | 197,437 |
| **Receivables** | | **1,053,211** | **1,831,686** |
| **Cash at bank and in hand** | | **954,337** | **475,924** |
| **Currents assets** | | **9,578,710** | **10,427,557** |
| **Assets** | | **13,597,279** | **14,840,611** |

# Balance Sheet 31 December

## Liabilities and equity

| | Note | 2020 | 2019 |
|---|---|---|---|
| | | EUR | EUR |
| Share capital | 12 | 2,000,000 | 2,000,000 |
| Reserve for net revaluation under the equity method | | 57,511 | 119,483 |
| Reserve for development costs | | 1,870,485 | 1,953,307 |
| Retained earnings | | -3,111,577 | 167,351 |
| **Equity** | | **816,419** | **4,240,141** |
| Provision for deferred tax | | 0 | 535,262 |
| Provisions relating to investments in group enterprises | | 213,312 | 185,342 |
| Other provisions | 14 | 496,811 | 651,312 |
| **Provisions** | | **710,123** | **1,371,916** |
| Subordinate loan capital | | 2,000,000 | 2,000,000 |
| Lease obligations | | 149,533 | 214,955 |
| Payables to group enterprises | | 1,900,000 | 1,700,000 |
| **Long-term debt** | 15 | **4,049,533** | **3,914,955** |
| Credit institutions | | 3,755,995 | 47,133 |
| Lease obligations | 15 | 112,174 | 94,142 |
| Trade payables | | 379,889 | 3,450,751 |
| Payables to group enterprises | 15 | 2,627,033 | 718,484 |
| Payables to associates | | 0 | 7,818 |
| Other payables | | 1,146,113 | 995,271 |
| **Short-term debt** | | **8,021,204** | **5,313,599** |
| **Debt** | | **12,070,737** | **9,228,554** |
| **Liabilities and equity** | | **13,597,279** | **14,840,611** |
| Going concern | 1 | | |
| Distribution of profit | 13 | | |
| Contingent assets, liabilities and other financial obligations | 16 | | |
| Related parties | 17 | | |
| Accounting Policies | 18 | | |

# Statement of Changes in Equity

| | Share capital | Reserve for net revaluation under the equity method | Reserve for development costs | Retained earnings | Total |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| Equity at 1 January | 2,000,000 | 119,483 | 1,953,307 | 167,351 | 4,240,141 |
| Exchange adjustments | 0 | 0 | 0 | 1,145 | 1,145 |
| Development costs for the year | 0 | 0 | -82,822 | 0 | -82,822 |
| Net profit/loss for the year | 0 | -61,972 | 0 | -3,280,073 | -3,342,045 |
| **Equity at 31 December** | **2,000,000** | **57,511** | **1,870,485** | **-3,111,577** | **816,419** |

# Notes to the Financial Statements

## 1 Going concern

The consequences of Covid-19, in which virtually all governments around the world have made the decision to "shut down the countries" will have a major impact on the world economy. The company's earnings will be significantly affected in 2021 due to declining revenue and a number of fixed costs that cannot be adjusted to the same extent. The negative impact applies both during the "closure period" and during the remainder of the financial year. It is difficult to assess the temporal extent of restrictions to combat the spread of Covid-19 in both Europe and the United States, where the company's customers are primarily located. The company's revenue is mainly based on sales abroad, and at the same time a large part of the company's customers are very influenced by Covid-19, as many of the customers are engaged in the entertainment industry, in particular customers who are engaged in concerts and festivals. It is difficult to assess how customers will be affected when it again is possible to hold concerts, etc. and at what pace demand returns to normal levels.

Management had made assessments of these risks and had prepared action plans and new budgets on the assumption that the countries in second half of 2021 slowly will open op for larger crowds to gather again. However, the level of activity in 2021 is expected to be far below initially expected. To address this situation, organization and cost structure have been adjusted and the necessary capital base has been secured.

The company has prepared a budget for the financial year 2021 which shows a liquidity draw that is not significantly different compared to the liquidity need for 2020. The prerequisites for this are that during the roll-out of vaccines, sales will increase due to restrictions being out phased. In addition, it is still expected that the company will continue to utilize the state's assistance packages in the form of compensation for fixed costs and compensation for salary expenses.

Based on the above described, the financial statements of the Company are presented subject to going concern

## 2 Special items

As mentioned in the management report, the company has experienced a decline in activity during 2020 due to Covid-19. The company has therefore received the state's assistance packages in the form of compensation for salary  and compensation for fixed costs for a total of  2.018 T.EUR This ratio differs from what the management considers to be part of the primary operations, and is therefore included in this note.

# Notes to the Financial Statements

| | | 2020 | 2019 |
|---|---|---|---|
| | | EUR | EUR |
| 3 | **Staff** | | |
| | Wages and salaries | 4,455,951 | 5,701,456 |
| | Pensions | 379,480 | 471,036 |
| | Other social security expenses | 83,119 | 96,087 |
| | Other staff expenses | 73,229 | 111,200 |
| | | **4,991,779** | **6,379,779** |
| | **Including remuneration to the Executive and Supervisory Boards** | **121,530** | **201,251** |
| | **Average number of employees** | **81** | **98** |

## 4 Financial expenses

| | 2020 | 2019 |
|---|---|---|
| Interest paid to group enterprises | 658,747 | 686,757 |
| Other financial expenses | 122,611 | 26,846 |
| Exchange loss | 709 | 56,683 |
| | **782,067** | **770,286** |

## 5 Tax on profit/loss for the year

| | 2020 | 2019 |
|---|---|---|
| Current tax for the year | 0 | -124,252 |
| Deferred tax for the year | -969,458 | 188,722 |
| | **-969,458** | **64,470** |

# Notes to the Financial Statements

## 6 Intangible assets

| | Completed development projects | Acquired patents | Acquired trademarks | Development projects in progress |
|---|---|---|---|---|
| | EUR | EUR | EUR | EUR |
| Cost at 1 January | 3,167,710 | 739,317 | 99,799 | 25,597 |
| Additions for the year | 289,982 | 0 | 0 | 212,647 |
| Cost at 31 December | 3,457,692 | 739,317 | 99,799 | 238,244 |
| Impairment losses and amortisation at 1 January | 678,579 | 603,775 | 0 | 0 |
| Amortisation for the year | 381,055 | 135,542 | 19,960 | 0 |
| Impairment losses and amortisation at 31 December | 1,059,634 | 739,317 | 19,960 | 0 |
| **Carrying amount at 31 December** | **2,398,058** | **0** | **79,839** | **238,244** |

The company has development projects with an accounting value per 31 December 2020 of 2.398 TEUR. Which is capitalized in the accounts.
The company has developed 7 products, each of which is specially developed to provide the best form for lighting within, among other things, lighting of architecture and film sets, etc.

Management has high expectations for the use of the products and has not found any indication of impairment in relation to the carrying amount

Development projects in progress include the development and testing of new lighting systems. The costs essentially consist of internal costs in the form of direct salaries as well as purchased material. The carrying amount is per. 31 December 2020 a total of 238 TEUR. The system is expected to be completed during 2021, after which marketing and sales can begin.

Management has high expectations for the use of the products and has not found any indication of impairment in relation to the carrying amount

# Notes to the Financial Statements

## 7 Property, plant and equipment

| | Other fixtures and fittings, tools and equipment | Leasehold improvements |
|---|---|---|
| | EUR | EUR |
| Cost at 1 January | 2,487,794 | 167,353 |
| Additions for the year | 64,862 | 42,756 |
| Disposals for the year | 0 | -16,491 |
| Cost at 31 December | 2,552,656 | 193,618 |
| Impairment losses and depreciation at 1 January | 1,357,211 | 92,353 |
| Depreciation for the year | 366,557 | 30,283 |
| Impairment and depreciation of sold assets for the year | 0 | -6,312 |
| Impairment losses and depreciation at 31 December | 1,723,768 | 116,324 |
| **Carrying amount at 31 December** | **828,888** | **77,294** |
| Including assets under finance leases amounting to | 321,467 | 0 |

## 8 Investments in subsidiaries

| | 2020 EUR | 2019 EUR |
|---|---|---|
| Cost at 1 January | 291,862 | 291,956 |
| Exchange adjustment | 0 | -94 |
| Additions for the year | 20,000 | 0 |
| Cost at 31 December | 311,862 | 291,862 |
| Value adjustments at 1 January | -291,862 | -291,956 |
| Exchange adjustment | 25,365 | 6,351 |
| Net profit/loss for the year | -438,903 | 47,670 |
| Other adjustments | 0 | 8,388 |
| Reversals for the year of revaluations in previous years | 180,226 | -247,657 |
| Transferred to provisions | 213,312 | 185,342 |
| Value adjustments at 31 December | -311,862 | -291,862 |
| **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

## 9 Investments in associates

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Cost at 1 January | 49,380 | 49,545 |
| Exchange adjustment | 0 | -165 |
| Disposals for the year | -22,507 | 0 |
| Cost at 31 December | 26,873 | 49,380 |
| Value adjustments at 1 January | 411,345 | 286,837 |
| Disposals for the year | -36,990 | 0 |
| Exchange adjustment | 0 | -179 |
| Net profit/loss for the year | -9,276 | 76,487 |
| Other adjustments | 4,294 | 48,200 |
| Value adjustments at 31 December | 369,373 | 411,345 |
| **Carrying amount at 31 December** | **396,246** | **460,725** |

Investments in associates are specified as follows:

| Name | Place of registered office | Votes and ownership |
|---|---|---|
| SGM Deutchland GmbH | Germany | 26% |
| SGM Japan Co. Ltd. | Japan | 33% |

# Notes to the Financial Statements

## 10 Inventories

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Raw materials and consumables | 3,040,073 | 2,959,396 |
| Work in progress | 600,105 | 891,288 |
| Finished goods and goods for resale | 3,930,984 | 4,269,263 |
| | **7,571,162** | **8,119,947** |

## 11 Prepayments

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

## 12 Equity

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

## 13 Distribution of profit

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Reserve for net revaluation under the equity method | -61,972 | 119,483 |
| Transfer for the year to other reserves | -82,822 | 0 |
| Retained earnings | -3,280,073 | 291,612 |
| | **-3,424,867** | **411,095** |

## 14 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 T.EUR 482 (2019: T.EUR 466) have been recognised for expected warranty claims.

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Warranties | 482,172 | 465,569 |
| Other Provisions | 14,639 | 185,743 |
| | **496,811** | **651,312** |

# Notes to the Financial Statements

## 15 Long-term debt

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

The debt falls due for payment as specified below:

**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 | 149,533 | 214,955 |
| Long-term part | 149,533 | 214,955 |
| Within 1 year | 112,174 | 94,142 |
| | **261,707** | **309,097** |

**Payables to group enterprises**

| | | |
|---|---|---|
| Between 1 and 5 years | 1,900,000 | 1,700,000 |
| Long-term part | 1,900,000 | 1,700,000 |
| Other short-term debt to group enterprises | 2,627,033 | 718,484 |
| | **4,527,033** | **2,418,484** |

# Notes to the Financial Statements

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| **16 Contingent assets, liabilities and other financial obligations** | | |

**Charges and security**

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

**Rental and lease obligations**

| | 2020 | 2019 |
|---|---|---|
| Rent obligations, period of non-terminability is 6 years | 2,056,581 | 2,440,339 |

**Other contingent liabilities**

As security for bank debt, a corporate mortgage has been issued in the company's trade recaivables. Other fixtures and fittings, tools and equipment, inventories and intellectual property right.  The value of these assets as of 31st of December 2020 constitutes 10.930.788 EUR

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  31st of December 2020, debtor balances taken over totalled TEUR 3.426.

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.

During the financial year, the company recognized subsidies as income from the Covid-19 assistance packages. As the Danish Business Authority has not yet carried out the final inspection of the basis for the subsidy / subsidies, it cannot be ruled out that a share of the recognized subsidy will be rejected. If this goes against management's expectations, it will result in a cost in the following financial year. It is not possible to calculate the exact amount, but the support received and recognized amounts to a total of 2.018 TEUR, cf. note 2

# Notes to the Financial Statements

## 17 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

# Notes to the Financial Statements

## 18 Accounting Policies

The Annual Report of SGM Light A/S for 2020 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 2020 are presented in EUR.

### Changes in accounting estimates

The Company has changed the accounting estimate regarding the estimated useful life of development projects. Projects were previously estimated to have a useful life of 5 years which is now estimated to be between 5-8 years depending on an individual assessment on each project. The impact on the income statement for 2020 is a reduction of amortisation costs of 321 TEUR.

The impact on intangible assets is an increased carrying amount of 321 TEUR.

### 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

# Notes to the Financial Statements

**18 Accounting Policies** (continued)

described for each item below.

**Leases**

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

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

# Notes to the Financial Statements

**18 Accounting Policies** (continued)

discounts relating to sales.

### Cost of sales

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

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, cost of sales, other operating income.

### 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.

### Other operating income and expenses

Public subsidies, e.g. assistance packages, are recognized when it is reasonably certain that the company will comply with the conditions for receiving the subsidy, and it is reasonably certain that the company will receive the subsidy. The subsidy is systematically recognized in the income statement over the period to which it relates or immediately conditional on the incurrence of future costs or investments. Government grants are recognized as other operating income, or in the balance sheet, if the grant is given for investment in an asset.

### 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.

# Notes to the Financial Statements

**18 Accounting Policies** (continued)

**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.

# Balance Sheet

**Intangible assets**

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 5-8 years.

The total net revaluation of development projects is transferred upon distribution of profit to "Reserve for development costs". The reserve is reduced with the applicable tax rate

**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 |

# Notes to the Financial Statements

**18 Accounting Policies** (continued)

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.

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.

## Notes to the Financial Statements

**18 Accounting Policies** (continued)

### 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.

### 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.

# Notes to the Financial Statements

**18 Accounting Policies** (continued)

### Current tax receivables and liabilities

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

### Financial debts

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 | $\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$ |
| Solvency ratio incl. subordinate loan | $\frac{\text{(Equity at year end + subordinate loan) x 100}}{\text{Total assets at year end}}$ |