

## **Scan-Speak A/S**

N C Madsensvej 1

6920 Videbæk

Central Business Registration No

70977311

## **Annual report 2016**

The Annual General Meeting adopted the annual report on 15.02.2017

### **Chairman of the General Meeting**

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Name: Colleen Lois Hallam

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## Entity details

### Entity

Scan-Speak A/S  
N C Madsensvej 1  
6920 Videbæk

Central Business Registration No: 70977311  
Registered in: Ringkøbing-Videbæk  
Financial year: 01.01.2016 - 31.12.2016

Phone: +45-60405200  
Website: [www.scan-speak.dk](http://www.scan-speak.dk)  
E-mail: [info@scan-speak.dk](mailto:info@scan-speak.dk)

### Board of Directors

Jenq-Lin Liou, Chairman  
Steven Francis Willenborg  
Colleen Lois Hallam

### Executive Board

Colleen Lois Hallam

### Bank

Den Jyske Sparekasse  
Østergade 1  
7430 Ikast

### Lawyer

Spektrum Advokater  
Poulsgade 6-8  
7400 Herning

### Auditors

Deloitte Statsautoriseret Revisionspartnerselskab  
Papirfabrikken 26  
8600 Silkeborg

## Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Scan-Speak A/S for the financial year 01.01.2016 - 31.12.2016.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations for the financial year 01.01.2016 - 31.12.2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Videbæk, 15.02.2017

### Executive Board

Colleen Lois Hallam

### Board of Directors

Jenq-Lin Liou  
Chairman

Steven Francis Willenborg

Colleen Lois Hallam

# Independent auditor's report

## To the shareholders of Scan-Speak A/S

### Opinion

We have audited the financial statements of Scan-Speak A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of 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.

### 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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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:

## Independent auditor's report

- 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

### **Statement on the management commentary**

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

## Independent auditor's report

Based on the work we have performed, we conclude that the management commentary 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 of the management commentary.

Silkeborg, 15.02.2017

### **Deloitte**

Statsautoriseret Revisionspartnerselskab

Central Business Registration No: 33963556

Peter Mølkjær  
State Authorised Public Accountant

Jens-Ole Bøgild  
State Authorised Public Accountant

## Management commentary

### Primary activities

The Company's main activity comprises development, production and sale of quality loudspeaker units.

### Development in activities and finances

This year the Company continued to maintain its market share in the high-end loudspeaker segment that it has historically sold into.

The Company's increased sales in 2016 were the result of a price increase implemented early in the year and that increase along with some operational cost savings and the mix of products sold resulted in the Company ending the year in a profitable position.

In 2016, a significant long-term investment was made in implementing two new production lines, which will offer the Company expanded production capability along with the ability to expand its product range. Additional investment was made in new high tech testing equipment for both the R&D and Production areas.

One of the biggest challenges faced by the Company this year was the retirement of some key employees along with the sudden passing of its most senior R&D Engineer. All of those positions were filled during the year and this has laid the foundation for the next generation of employees of the Company.

Further, the long vacant General Manager position was filled with an experienced Danish GM, which will allow the Company to continue as a Danish managed company with an experienced hand guiding the way.

From a financial standpoint, the Company is more stable than in previous years. Its cash flow continues to be a challenge but has significantly improved over that of the past few years. Careful management of the company's costs along with next year's plan to implement a new ERP system, which will allow for better monitoring of production time and costs, will provide continued improvement.

During the year, the Company paid back the intercompany loan that was funded back in April 2014 when Eastern Asia Technology (HK) Limited ("EAH") became the owner. EAH has made a commitment that the Company may use all its profits to re-invest in the Company itself, which will allow the Company to become even more financially stable and provide additional cash flow relief.

The Company has good support from both its bank and factoring company and its bank and factoring credit lines are now sufficient for its operations. Funding for its long term investments was obtained via a five year term loan from its bank allowing the needed capital investments to be made now.

As the Company operates in a long-established market that is stable with few opportunities for increases in sales volume or market share in the long term, it is crucial that the Company strive to maintain its market share to ensure continued success. Each of the strategic moves taken this year were done with that goal in mind.

### Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.



## Income statement for 2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK</u>
<b>Gross profit</b>		<b>10.420.815</b>	<b>9.352.043</b>
Research and development costs		(1.677.630)	(2.173.112)
Distribution costs		(2.347.722)	(2.256.259)
Administrative costs		(3.464.445)	(5.195.510)
<b>Operating profit/loss</b>		<b>2.931.018</b>	<b>(272.838)</b>
Other financial income		82.111	64.434
Other financial expenses		(590.885)	(890.168)
<b>Profit/loss before tax</b>		<b>2.422.244</b>	<b>(1.098.572)</b>
Tax on profit/loss for the year	3	(533.342)	251.661
<b>Profit/loss for the year</b>		<b>1.888.902</b>	<b>(846.911)</b>
<b>Proposed distribution of profit/loss</b>			
Retained earnings		1.888.902	(846.911)
		<b>1.888.902</b>	<b>(846.911)</b>

## Balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK</u>
Completed development projects		2.546.272	2.884.132
Acquired patents		95.600	108.574
Acquired trademarks		426.557	139.572
Goodwill		684.761	989.099
Development projects in progress		971.695	818.686
<b>Intangible assets</b>	4	<b><u>4.724.885</u></b>	<b><u>4.940.063</u></b>
Plant and machinery		2.890.577	2.179.462
Other fixtures and fittings, tools and equipment		674.846	301.344
Leasehold improvements		255.373	218.235
Property, plant and equipment in progress		719.874	1.025.815
<b>Property, plant and equipment</b>	5	<b><u>4.540.670</u></b>	<b><u>3.724.856</u></b>
<b>Fixed assets</b>		<b><u>9.265.555</u></b>	<b><u>8.664.919</u></b>
Raw materials and consumables		8.046.632	8.560.214
Work in progress		1.720.067	1.610.159
Manufactured goods and goods for resale		2.607.093	1.679.976
<b>Inventories</b>		<b><u>12.373.792</u></b>	<b><u>11.850.349</u></b>
Trade receivables		3.467.784	5.224.799
Receivables from group enterprises		5.019	0
Other receivables		213.266	87.844
Prepayments		408.142	595.322
<b>Receivables</b>		<b><u>4.094.211</u></b>	<b><u>5.907.965</u></b>
<b>Cash</b>		<b><u>470.492</u></b>	<b><u>759.398</u></b>
<b>Current assets</b>		<b><u>16.938.495</u></b>	<b><u>18.517.712</u></b>
<b>Assets</b>		<b><u>26.204.050</u></b>	<b><u>27.182.631</u></b>

## Balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK</u>
Contributed capital		1.320.045	1.320.045
Reserve for development expenditure		843.947	0
Retained earnings		<u>5.755.472</u>	<u>4.710.517</u>
<b>Equity</b>		<b><u>7.919.464</u></b>	<b><u>6.030.562</u></b>
Deferred tax	6	<u>1.741.000</u>	<u>1.330.000</u>
<b>Provisions</b>		<b><u>1.741.000</u></b>	<b><u>1.330.000</u></b>
Bank loans		2.388.687	1.994.674
Finance lease liabilities		<u>0</u>	<u>168.628</u>
<b>Non-current liabilities other than provisions</b>	7	<b><u>2.388.687</u></b>	<b><u>2.163.302</u></b>
Current portion of long-term liabilities other than provisions	7	1.508.796	1.172.999
Bank loans		7.050.056	6.946.473
Prepayments received from customers		624.867	423.851
Trade payables		2.170.860	3.802.453
Payables to group enterprises		0	2.283.422
Income tax payable		122.342	0
Other payables		<u>2.677.978</u>	<u>3.029.569</u>
<b>Current liabilities other than provisions</b>		<b><u>14.154.899</u></b>	<b><u>17.658.767</u></b>
<b>Liabilities other than provisions</b>		<b><u>16.543.586</u></b>	<b><u>19.822.069</u></b>
<b>Equity and liabilities</b>		<b><u>26.204.050</u></b>	<b><u>27.182.631</u></b>
Uncertainty relating to recognition and measurement	1		
Staff costs	2		
Unrecognised rental and lease commitments	8		
Contingent liabilities	9		
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## Statement of changes in equity for 2016

	<b>Contributed capital DKK</b>	<b>Reserve for development expenditure DKK</b>	<b>Retained earnings DKK</b>	<b>Total DKK</b>
Equity beginning of year	1.320.045	0	4.710.517	6.030.562
Profit/loss for the year	0	843.947	1.044.955	1.888.902
<b>Equity end of year</b>	<b>1.320.045</b>	<b>843.947</b>	<b>5.755.472</b>	<b>7.919.464</b>

The share capital consists of 1.320.045 shares of a nominal value of DKK 1. No shares carry any special rights.

## Notes

### 1. Uncertainty relating to recognition and measurement

The Company has capitalised intangible assets totalling DKK 4.724.885 at 31.12.2016.

The development projects have been established over a number of years and constitute the basis of the Company's future profit generating activity. The cost of development projects for 2016 only includes indirect development costs to a very limited extent.

Goodwill has been acquired in connection with the takeover of operating activities in 2009. Goodwill comprises a wide range of customers as well as experience and knowhow accumulated before the takeover in 2009.

The Company Management assesses that the recognised value of intangible assets is appropriate.

	<u>2016</u>	<u>2015</u>
<b>2. Staff costs</b>		
Average number of employees	<u>45</u>	<u>43</u>

	<u>2016</u>	<u>2015</u>
	<u>DKK</u>	<u>DKK</u>
<b>3. Tax on profit/loss for the year</b>		
Tax on current year taxable income	122.342	0
Change in deferred tax for the year	<u>411.000</u>	<u>(251.661)</u>
	<u><b>533.342</b></u>	<u><b>(251.661)</b></u>

## Notes

	<b>Completed develop- ment projects DKK</b>	<b>Acquired patents DKK</b>	<b>Acquired trademarks DKK</b>	<b>Goodwill DKK</b>
<b>4. Intangible assets</b>				
Cost beginning of year	4.756.090	162.814	171.486	3.043.382
Transfers	315.274	0	0	0
Additions	377.078	0	323.638	0
Disposals	(197.504)	0	0	0
<b>Cost end of year</b>	<b>5.250.938</b>	<b>162.814</b>	<b>495.124</b>	<b>3.043.382</b>
Amortisation and impairment losses beginning of year	(1.871.958)	(54.240)	(31.914)	(2.054.283)
Amortisation for the year	(1.030.212)	(12.974)	(36.653)	(304.338)
Reversal regarding disposals	197.504	0	0	0
<b>Amortisation and impairment losses end of year</b>	<b>(2.704.666)</b>	<b>(67.214)</b>	<b>(68.567)</b>	<b>(2.358.621)</b>
<b>Carrying amount end of year</b>	<b>2.546.272</b>	<b>95.600</b>	<b>426.557</b>	<b>684.761</b>
				<b>Develop- ment projects in progress DKK</b>
<b>4. Intangible assets</b>				
Cost beginning of year				818.686
Transfers				(315.274)
Additions				468.283
Disposals				0
<b>Cost end of year</b>				<b>971.695</b>
Amortisation and impairment losses beginning of year				0
Amortisation for the year				0
Reversal regarding disposals				0
<b>Amortisation and impairment losses end of year</b>				<b>0</b>
<b>Carrying amount end of year</b>				<b>971.695</b>

## Notes

### Development projects in progress

The Company's development projects consist of a number of customised projects for which the completed project has already been or is expected to be commercially used within a period of 1 to 2 years. The commercial use takes place through the sale of products based on development projects to OEM customers in the high-end audio market.

	<b>Plant and machinery DKK</b>	<b>Other fixtures and fittings, tools and equipment DKK</b>	<b>Leasehold improve- ments DKK</b>	<b>Property, plant and equipment in progress DKK</b>
<b>5. Property, plant and equipment</b>				
Cost beginning of year	5.972.417	1.093.832	338.053	1.025.815
Transfers	1.645.275	177.155	0	(1.822.430)
Additions	86.079	384.351	110.739	1.516.489
Disposals	(173.844)	0	0	0
<b>Cost end of year</b>	<b>7.529.927</b>	<b>1.655.338</b>	<b>448.792</b>	<b>719.874</b>
Depreciation and impairment losses beginning of the year	(3.792.955)	(792.488)	(119.818)	0
Depreciation for the year	(1.020.239)	(188.004)	(73.601)	0
Reversal regarding disposals	173.844	0	0	0
<b>Depreciation and impairment losses end of the year</b>	<b>(4.639.350)</b>	<b>(980.492)</b>	<b>(193.419)</b>	<b>0</b>
<b>Carrying amount end of year</b>	<b>2.890.577</b>	<b>674.846</b>	<b>255.373</b>	<b>719.874</b>

## Notes

	<b>2016</b>	<b>2015</b>
	<b>DKK</b>	<b>DKK</b>
	<u>          </u>	<u>          </u>
<b>6. Deferred tax</b>		
Intangible assets	1.040.000	1.086.800
Property, plant and equipment	91.700	49.500
Inventories	582.300	535.000
Liabilities other than provisions	27.000	27.300
Tax losses carried forward	0	(368.600)
	<u><b>1.741.000</b></u>	<u><b>1.330.000</b></u>

	<b>Instalments</b>	<b>Instalments</b>	<b>Instalments</b>
	<b>within 12</b>	<b>within 12</b>	<b>beyond 12</b>
	<b>months</b>	<b>months</b>	<b>months</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<b>DKK</b>	<b>DKK</b>	<b>DKK</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>7. Liabilities other than provisions</b>			
Bank loans	1.340.755	966.771	2.388.687
Finance lease liabilities	168.041	206.228	0
	<u><b>1.508.796</b></u>	<u><b>1.172.999</b></u>	<u><b>2.388.687</b></u>

	<b>2016</b>	<b>2015</b>
	<b>DKK</b>	<b>DKK</b>
	<u>          </u>	<u>          </u>
<b>8. Unrecognised rental and lease commitments</b>		
Hereof liabilities under rental or lease agreements until maturity in total	<u><b>6.501.006</b></u>	<u><b>7.736.106</b></u>

Of the above commitments as of 31.12.2016, DKK 1.444.668 is due within 12 months.

### 9. Contingent liabilities

There are provided usual warranties on products.



## Notes

### **10. Mortgages and securities**

Bank debt is secured by way of a letter of indemnity of DKK 10.500.000 nominal from the company's owner, Eastern Asia Technology (HK) Limited and company's mortgage deed of DKK 9.900.000 nominal, providing security in goodwill and over other fixtures and fittings, tools and equipment.

Bank debt is secured by way of a letter of indemnity of DKK 13.500.000 providing a floating charge in inventories, goodwill, over other fixtures and fittings, tools and equipment and rights under section 47c under the Danish Land Registration Act.

Factoring credit is secured by carrying amount of trade receivables and a negative pledge has been registered in respect of unsecured claims from the sale of goods and services.

### **11. Group relations**

Name and registered office of the Parent preparing consolidated financial statements for the smallest group: Eastern Technologies Holding Limited, Cayman Island

## Accounting policies

### Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies are as a result of changes to the Danish Financial Statements Act changed regarding reserve for development expenditure in Equity, as described below. The accounting policies are in addition to this consistent with those applied last year.

The annual report is presented in DKK.

### True and fair view

The Entity has in the year chosen to present the annual report in the functional report form for the profit and loss statement to adapt to the reporting requirements of the group.

The change has not affected the result and the comparative figures in the profit and loss statement have been adapted.

### Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of historical data that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

### Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

## Accounting policies

### Income statement

#### Gross profit or loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the annual report.

#### Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

#### Production costs

Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary write-down of inventories.

#### Cost of sales

Cost of sales comprises cost of sales for the financial year measured at standard cost.

#### Research and development costs

Research and development costs include research costs, costs of development projects that do not meet the criteria for recognition in the balance sheet.

#### Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc.

#### Administrative costs

Administrative expenses comprise expenses incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationary and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

#### Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities, including gains on sale of intangible assets and property, plant and equipment.

#### Other financial income

Other financial income comprises interest income, etc.

#### Other financial expenses

Other financial expenses comprise interest expenses, etc.

## Accounting policies

### Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

### Balance sheet

#### Goodwill

Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. The amortisation period is assessed at 10 years.

Goodwill is written down to the lower of recoverable amount and carrying amount.

#### Intellectual property rights etc

Intellectual property rights, etc. is comprised of development projects completed and acquired intellectual property rights.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred.

The cost of development projects comprises costs such as salaries and indirect production costs that are directly attributable to the development projects.

Completed development projects are amortised on a straight-line basis using the estimated useful lives of the assets. The amortisation period is 4-8 years. Development projects are written down to the lower of recoverable amount and carrying amount.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents and Trade-marks are amortised over their remaining duration, but over no more than 20 years.

Intellectual property rights, etc. are written down to the lower of recoverable amount and carrying amount.

#### Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

## Accounting policies

Plant and machinery	3-5 years
Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	Contract period

The carrying amounts of 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 the lower of recoverable amount and carrying amount.

### Inventories

Inventory values are measured at the lower of standard cost and net realisable value.

Cost of raw materials, consumables and goods for resale consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation on and impairment losses relating to machinery, equipment and development projects applied for the manufacturing process as well as costs of factory administration and management.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale in the process of normal operations. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales sum.

### Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

### Prepayments

Prepayments comprise incurred costs relating to subsequent financial years, e.g. insurance premiums and subscriptions, etc. Prepayments are measured at cost.

### Cash

Cash comprises cash in hand and bank deposits.

### Equity, Reserve for development expenditure

As to development expenditure recognised in the balance sheet, an amount equal to development expenditure less deferred tax recognised after 01.01.2016 is recognised in 'Reserve for development expenditure' under equity. The reserve is reduced by the current amortisation after tax.

### Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

## Accounting policies

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

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 change in deferred tax due to change to tax rates are recognised in the income statement.

### Finance lease liabilities

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

### Operating leases

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

### Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

### Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

### Income tax receivable or payable

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.