Esprit de Corp. Danmark A/S

Digevej 114, DK-2300 København S

Annual Report for 1 July 2019 - 30 June 2020

CVR No 77 14 47 14

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 11/12 2020

Dorte Hultengren
Chairman of the General Meeting

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Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Esprit de Corp. Danmark A/S for the financial year 1 July 2019 - 30 June 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 30 June 2020 of the Company and of the results of the Company operations for 2019/20.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Copenhagen, 11 December 2020

Executive Board

Lina Erika Selin
Executive Officer

Board of Directors

Anders Christian Kristiansen Chairman	Dorte Hultengren	Lina Erika Selin

Independent Auditor's Report

To the Shareholder of Esprit de Corp. Danmark A/S

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 30 June 2020 and of the results of the Company's operations for the financial year 1 July 2019 - 30 June 2020 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Esprit de Corp. Danmark A/S for the financial year 1 July 2019 - 30 June 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.

Significant uncertainty regarding continued operation
Without qualifying our opinion, we draw your attention to note 1 where significant uncertainty to continued operations is described, which indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter. The uncertainty especially concerns whether the company will be able to realise a future profitable operation with adequate financing of the operations, but also in particular whether the Group, if needed, will be able to provide the necessary financing according to the Letter of Support from the Group.

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.

Independent Auditor's Report

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

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

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

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Hellerup, 11 December 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Flemming Eghoff State Authorised Public Accountant mne30221	Jan Boje Andreassen State Authorised Public Accountant mne2338

Company Information

The Company	Esprit de Corp. Danmark A/S Digevej 114 DK-2300 København S Telephone: + 45 3264 6200 Facsimile: + 45 3264 6201 CVR No: 77 14 47 14 Financial period: 1 July - 30 June Municipality of reg. office: København
Board of Directors	Anders Christian Kristiansen, Chairman Dorte Hultengren Lina Erika Selin
Executive Board	Lina Erika Selin
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

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

	2019/20	2018/19	2017/18	2016/17	2015/16
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	10.825	35.580	37.333	43.815	49.630
Profit/loss before financial income and expenses	-7.169	3.541	3.350	3.715	4.171
Net financials	-59.705	1.787	730	2.128	-2.896
Net profit/loss for the year	-70.283	4.877	3.965	6.432	-2.497
Balance sheet					
Balance sheet total	46.114	96.764	105.273	165.624	247.463
Equity	-4.085	65.452	60.871	59.443	140.666
Investment in property, plant and equipment	152	1.155	2.152	55	1.183
Number of employees	34	60	73	77	90
Ratios					
Return on assets	-15,5%	3,7%	3,2%	2,2%	1,7%
Solvency ratio	-8,9%	67,6%	57,8%	35,9%	56,8%
Return on equity	-229,1%	7,7%	6,6%	6,4%	-1,8%

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 Esprit de Corp. Danmark A/S for 2019/20 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 activity consists of purchasing and selling Esprit's own production of clothes and accessories, both wholesale and retail.

Moreover, the Company is represented by a branch in Finland. The Company’s decision previous year to close down its own retail stores in Denmark is now finalized since last retail store closed in August 2018.

Development in the year

The income statement of the Company for 2019/20 shows a loss of TDKK 70,283, and at 30 June 2020 the balance sheet of the Company shows negative equity of TDKK 4,085.

In 2019/20 the material loss is mainly attributable to losses on intercompany receivables and suspension of transfer pricing agreements arising from German Group companies entering into a Protective Shield Proceedings. Furthermore, the result is impacted by Covid-19 directly on revenue. Sales for the year decreased as compared to last year. The sales decrease is due to decreasing wholesale and retail sales in both Finland and Denmark. This is mainly related to Covid-19 since the retail stores in Finland were closed during a longer period. Equally wholesale customers had the same challenges.

The results of Esprit Sweden AB and Esprit AS have been incorporated into the Company’s Annual Report and aggregate a total loss of TDKK 38,729 after tax.

Share of the underrepresented sex and CSR policy

Esprit's strategy is a more balanced split between the current split M / F of 10/90. This should be done through education and targeted recruitment, however, professional and personal skills are prioritized in relation to the position to be filled.

At present, the Board of directors consists of three members – one man and two women who meet the intended target of 33% representation of women in senior management levels.

At present, the management team consists of 1 man and 5 women. Again, Esprit's strategy is a more balanced split – however professional and personal skills of each member are main priority.

Management's Review

Capital resources

Due to the significant loss in 2019/20, the equity is negative at 30 June 2020.

The losses in 2019/20 have mainly been related to unusual events including losses on intercompany receivables and suspension of transfer pricing agreements arising from German Group companies entering into a Protective Shield Proceedings.

Management has taken actions to reduce costs and to improve profitability, but a loss is still expected for 2020/21.

The company has received a Letter of Support from the Group, according to which the Group states it will provide the necessary financing of the Company's operations for a period of 12 months after 30 June 2020.

However, due to the financial situation in the Group, which is further described below, there is also significant uncertainty regarding the Group's ability to provide necessary financing if such support is needed. For more information please see note 1

The past year and follow-up on development expectations from last year

As noted above, the result for 2019/20 has been significantly affected by some unusual and unexpected events, and accordingly the expected profit mentioned in last year's expectations has changed to a significant loss.

External environment

The Company has not prepared a written local CSR policy. The Company complies with the internationalCSR policy of the Parent Company, which is presented in the Annual Report of Esprit Holding Limited.

Management's Review

Outlook for 2020/2021

The losses in 2019/20 have mainly been related to unusual events including losses on intercompany receivables and suspension of transfer pricing agreements arising from German Group companies entering into a Protective Shield Proceedings.

Management has taken actions to reduce costs and to improve profitability, but a loss is still expected for 2020/21.

The company has received a Letter of Support from the Group, according to which the Group states it will provide the necessary financing of the Company's operations for a period of 12 months after 30 June 2020. However, due to the financial situation in the Group, which is further described below, there is also significant uncertainty regarding the Group's ability to provide necessary financing if such support is needed. For more information please see note 1.

Unusual events

On 30 January 2020, the International Health Regulations Emergency Committee of the World Health Organization (WHO) declared the outbreak of Coronavirus a 'Public Health Emergency of International Concern.

Based on Management's assessment, the situation relating to the spread of the COVID-19 pandemic remains uncertain. Currently Management cannot assess the full impact on the future financial situation. As mentioned above, the Company has received a letter of support from the Group to provide adequate financial support to the Company to ensure the development of its activities and its ability to continue operating as a going concern in a foreseeable future i.e. until the date of the next general meeting approving the financial statements for the year ending 30 June 2021.

Management is monitoring the consequences of the Covid-19 virus outbreak for the Company closely.

Subsequent events

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

Income Statement 1 July - 30 June

	Note	2019/20	2018/19
		TDKK	TDKK
Gross profit/loss		**10.825**	**35.580**
Staff expenses	2	-16.383	-30.548
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-1.611	-1.491
Profit/loss before financial income and expenses		**-7.169**	**3.541**
Result from investments in subsidiaries after tax		-38.729	1.557
Financial income	4	100	472
Financial expenses	5	-21.076	-242
Profit/loss before tax		**-66.874**	**5.328**
Tax on profit/loss for the year	6	-3.409	-451
Net profit/loss for the year		**-70.283**	**4.877**

Balance Sheet 30 June

Assets

	Note	2020	2019
		TDKK	TDKK
Other fixtures and fittings, tools and equipment		0	56
Leasehold improvements		524	1.899
Property, plant and equipment	7	**524**	**1.955**
Investments in subsidiaries	8	0	38.543
Fixed asset investments		**0**	**38.543**
Fixed assets		**524**	**40.498**
Inventories		**4.041**	**4.474**
Trade receivables		12.003	15.630
Receivables from group enterprises		0	19.487
Other receivables		402	719
Deferred tax asset		0	3.409
Prepayments	9	5.225	4.864
Receivables		**17.630**	**44.109**
Cash at bank and in hand		**23.919**	**7.683**
Currents assets		**45.590**	**56.266**
Assets		**46.114**	**96.764**

Balance Sheet 30 June

Liabilities and equity

	Note	2020	2019
		TDKK	TDKK
Share capital		12.000	12.000
Retained earnings		-16.085	53.452
Equity	10	**-4.085**	**65.452**
Other provisions	12	3.141	2.654
Provisions		**3.141**	**2.654**
Trade payables		7.721	5.828
Payables to group enterprises		25.585	5.539
Other payables		13.752	17.291
Short-term debt		**47.058**	**28.658**
Debt		**47.058**	**28.658**
Liabilities and equity		**46.114**	**96.764**
Significant uncertainty regarding continued operation	1		
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Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 July	12.000	53.452	65.452
Exchange adjustments	0	746	746
Net profit/loss for the year	0	-70.283	-70.283
Equity at 30 June	**12.000**	**-16.085**	**-4.085**

Notes to the Financial Statements

1 Significant uncertainty regarding continued operation

The company has in 2019/20 realised a significant loss and the equity is negative at 30 June 2020. The loss in 2019/20 is attributable to material losses on intercompany receivables and suspension of transfer pricing agreements arising from German Group companies entering into a Protective Shield Proceedings. The result is also negatively affected by Covid-19 with negative effect on sales from close down of shops and increased cost to debtor losses.

Management has taken actions to reduce costs and to improve profitability, but a loss is still expected for 2020/21.

The company has received a Letter of Support from the Group, according to which the Group states it will provide the necessary financing of the Company's operations for a period of 12 months after 30 June 2020. However, due to the financial situation in the Group, which is further described below, there is also significant uncertainty regarding the Group's ability to provide necessary financing if such support is needed.

With reference to the Group consolidated statements issued on 4 November 2020 summarised, the significant uncertainty to the Group's continued operation is summarised below.

The outbreak of COVID-19 (the "Pandemic") at the beginning of 2020, which also resulted in lockdown of stores and the Group's revenues declined and the Group came into a loss making situation. It was for the German subsidiaries, which is the largest market for the Group to enter into Protective Shield Proceedings at the insolvency court of Düsseldorf in Germany. In the creditors' assemblies during 29 and 30 October 2020, a vast majority of the creditors voted for and approved all the insolvency plans of the German Subsidiaries, and it is expected that final approval will be made in December 2020. Consequently, the Group is expected to be relieved of significant debts. At the same time, the Group is implementing restructuring plans and measures to close loss-making stores, renegotiate rents for the remaining stores, reduce headcount and other discretionary spending. The PSP has been successful subsequent to the balance sheet date, thus enabling the Group to better face the challenges of continued uncertainties from the Pandemic. The Group is aware of the uncertainties around the future development of the Pandemic and that new temporary lockdowns or other isolation measures could be imposed by governments in major markets where the Group operates. Strict lockdown measures including retail stores for longer periods may negatively affect the economic situation of the Group. These circumstances and uncertainties may cast a significant doubt over the Group's ability to continue as a going concern. In view of such circumstances and the uncertainties relating to the possible impact of the Pandemic, the Group's cash flow forecast prepared by management covering a period of twelve months from 30 June 2020, which has already assumed the approved PSP waiver of debts. The management are of the opinion that, after taking into consideration of the following plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from 30 June 2020: (i) The Group remains cautious and management is closely monitoring the latest developments of the Pandemic, including the emergence of further lockdown measures, which may adversely impact revenues in the major markets that the Group operates in. In such eventuality, the Group will reassess the impact of the Pandemic on the Group's operations and to adjust its strategies for the Group's business accordingly in order to generate sufficient cash from its operations and to further preserve cash levels; (ii) The Group will finalize the process to optimize the cost base of its business and implement cost reduction measures, including negotiating

Notes to the Financial Statements

1 Significant uncertainty regarding continued operation (continued)

with landlords on loss-making store closures, rent reductions on remaining stores, reducing headcount and other discretionary spending; (iii) The Group will continue to work on its Strategic Plan to strengthen the Group's brand identity and improve product offering and pricing to restore the Group's profitability. Notwithstanding the above, significant uncertainties exist which may result in adverse implications on the Group's operations. Whether the Group will be able to continue as a going concern would depend upon the following: (i) the Group's ability to successfully adjust its strategies to mitigate the implications of these uncertainties and further impacts from the Pandemic, including the emergence of further lockdown measures in the major markets that the Group operates in, in order to generate sufficient cash from its operations and to further preserve cash levels; (ii) the successful implementation of the Group's costs optimization and reduction measures, including negotiating with landlords on loss-making stores closures, rent reductions on remaining stores, reducing headcount and other discretionary spending; (iii) the successful implementation of Group's Strategic Plan to strengthen the Group's brand identity and improving product offering and pricing to restore the Group's profitability. Should the Group be unable to achieve the above mentioned plans and measures and operate as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

	2019/20	2018/19
	TDKK	TDKK

2 Staff expenses

	2019/20 TDKK	2018/19 TDKK
Wages and salaries	13.472	27.100
Pensions	2.385	2.995
Other social security expenses	526	453
	16.383	**30.548**
Average number of employees	**34**	**60**

3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

	2019/20 TDKK	2018/19 TDKK
Depreciation of property, plant and equipment	1.547	1.491
Gain and loss on disposal	64	0
	1.611	**1.491**

Notes to the Financial Statements

4 Financial income

Interest received from group enterprises	91	100
Other financial income	9	372
	100	**472**

5 Financial expenses

Loss on intercompany recievables	21.006	0
Other financial expenses	60	226
Exchange loss	10	16
	21.076	**242**

6 Tax on profit/loss for the year

	2019/20 TDKK	2018/19 TDKK
Current tax for the year	0	0
Deferred tax for the year, net	3.409	447
Adjustment of tax concerning previous years	0	4
	3.409	**451**

7 Property, plant and equipment

	Other fixtures and fittings, tools and equipment TDKK	Leasehold improvements TDKK
Cost at 1 July	5.323	22.319
Additions for the year	0	152
Disposals for the year	-1.420	-3.417
Cost at 30 June	3.903	19.054
Impairment losses and depreciation at 1 July	5.267	20.420
Depreciation for the year	56	1.491
Reversal for the year of previous years' impairment losses	-1.420	-3.381
Impairment losses and depreciation at 30 June	3.903	18.530
Carrying amount at 30 June	**0**	**524**

Notes to the Financial Statements

7 Property, plant and equipment (continued)

	Other fixtures and fittings, tools and equipment	Leasehold improvements
	TDKK	TDKK
Depreciated over	3-5 years	5 years

8 Investments in subsidiaries

Cost at 1 July	39.115	39.115
Cost at 30 June	39.115	39.115
Value adjustments at 1 July	-572	-1.794
Exchange adjustment	186	-353
Net profit/loss for the year	-48.288	1.575
Other adjustments	9.559	0
Value adjustments at 30 June	-39.115	-572
Carrying amount at 30 June	**0**	**38.543**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Esprit Sweden AB	Stockholm, Sverige	500.000 (SEK)	100%
Esprit AS, Norge	Oslo, Norge	21.800.000 (NOK)	100%

All foreign subsidiaries are recognised and measured as separate entities.

Notes to the Financial Statements

9 Prepayments

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

10 Equity

The share capital consists of 120 shares of a nominal value of TDKK 100. No shares carry any special rights.

	2019/20	2018/19
	TDKK	TDKK

11 Distribution of profit

Retained earnings	-70.283	4.877
	-70.283	**4.877**

12 Other provisions

Customer discounts	1.972	1.645
Provision for rebuilding	1.169	1.009
	3.141	**2.654**
The provisions are expected to mature as follows:		
Within 1 year	1.972	1.645
Between 1 and 5 years	1.169	1.009
	3.141	**2.654**

13 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:		
Within 1 year	15.227	15.491
Between 1 and 5 years	32.822	48.235
	48.049	**63.726**

Notes to the Financial Statements

14 Related parties

	Basis
Controlling interest	
Esprit Holdings Ltd., Hong Kong	Ultimate parent company

Consolidated Financial Statements

The Company is consolidated in the Group Annual Report for the Parent and Ultimate Parent Companies

Name	Place of registered office
Esprit Europe Holdings BV	Holland
Esprit Holdings Ltd.	Hong Kong

Group Annual Reports for the above Companies, can be obtained by written contact to Esprit de Corp. Danmark A/S.

Notes to the Financial Statements

15 Accounting Policies

The Annual Report of Esprit de Corp. Danmark A/S for 2019/20 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

Except for reclassifications in the income statement that have no monetary effect on profit or equity, the accounting policies applied remain unchanged compared to last year.

The Financial Statements for 2019/20 are presented in TDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Esprit Holdings Ltd., Hong Kong, 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 Esprit Holdings Ltd., Hong Kong, the Company has not prepared a cash flow statement.

Recognition and measurement

The Financial Statements have been prepared under the historical cost method.

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

15 Accounting Policies (continued)

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

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

Translation policies

Danish kroner 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.

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.

The income statements, of foreign subsidiaries of the Company, are translated at average exchange rates, wheras balance sheet items are translated at the exchange rates at the balance sheet date.

Exchange adjustments arising on the translation of the opening equity of foreign enterprises and exchange adjustments arising from the translation at average exchange rates of the income statements of foreign enterprises are recognised directly in equity.

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

15 Accounting Policies (continued)

Cost of goods sold

Cost of sales comprise costs of finished goods and goods for resale to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

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 goods sold and other external expenses.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of property, plant and equipment as well as gains and losses from current replacement of fixed assets.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company.

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes 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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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

Balance Sheet

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	3-5	years
Leasehold improvements	5	years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 14,100 are expensed in the year of acquisition.

Impairment of fixed assets

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 its lower recoverable amount.

Investments in subsidiaries

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

The item"Investments in subsidiaries" 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 with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend

Notes to the Financial Statements

15 Accounting Policies (continued)

distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 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 goods for resale equals landed cost.

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 rent, insurance premiums, and subscriptions.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

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 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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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.

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