Esprit de Corp. Danmark A/S

Digevej 114, DK-2300 København S

Annual Report for 1 July 2021 - 31 December 2021

CVR No 77 14 47 14

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 5 /8 2022

Dorte Hultengren
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 Esprit de Corp. Danmark A/S for the financial year 1 July - 31 December 2021.

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 2021 of the Company and of the results of the Company operations for 2021.

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, 5 August 2022

Executive Board

Dorte Hultengren
Executive Officer

Board of Directors

Mike Frenzel	Man Yi Yip	Dorte Hultengren

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 31 December 2021 and of the results of the Company's operations for the financial year 1 July - 31 December 2021 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 - 31 December 2021, 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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.

- 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, 5 August 2022
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Flemming Eghoff	Maj-Britt Nørskov Nannestad
State Authorised Public Accountant	State Authorised Public Accountant
mne30221	mne32198

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 - 31 December Municipality of reg. office: København
Board of Directors	Mike Frenzel Man Yi Yip Dorte Hultengren
Executive Board	Dorte Hultengren
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:

	2021*	2020/21	2019/20	2017/18	2016/17
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	8.485	16.146	10.825	35.580	37.333
Profit/loss before financial income and expenses	701	-547	-7.169	3.541	3.350
Net financials	-3.772	-540	-59.705	1.787	730
Net profit/loss for the year	-1.451	-1.087	-70.283	4.877	3.965
Balance sheet					
Balance sheet total	33.106	24.776	46.114	96.764	105.273
Equity	-2.909	-5.174	-4.085	65.452	60.871
Investment in property, plant and equipment	0	0	152	1.155	2.152
Number of employees	35	33	34	60	73
Ratios					
Return on assets	2,1%	-2,2%	-15,5%	3,7%	3,2%
Solvency ratio	-8,8%	-20,9%	-8,9%	67,6%	57,8%
Return on equity	35,9%	23,5%	-229,1%	7,7%	6,6%

*In 2021 the company changed their accounting year. The current financial year 2021 is therefore shortened and the profit/loss figures in the financial highlights only include 6 months compared to the 12 months in four comparative periods.

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

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.

Development in the year

The income statement of the Company for 2021 shows a loss of TDKK 1,451, and at 31 December 2021 the balance sheet of the Company shows negative equity of TDKK 2,909.

In the shortened fiscal year 1 July 2021 to 31 December the result is only slightly impacted by Covid-19 directly on revenue. Sales for the year increased as compared to last year. But especially in Finland revenue takes longer to reach level before Covid-19.

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

The results are in line with the expectations as expressed in the Annual Report for 2020/21.

Capital resources

Due to the significant loss in 2019/20, the equity is negative at 31 December 2021. Management has taken actions to improve profitability and expect that probability in future year can cover completely or partially the negative equity. Capital tDKK 3.719 was injected in august 2021. For more information please see note 1

Targets and expectations for the year ahead

The Company is expected to show a profit in the interval of tDKK 0 - tDKK 3.000 for next year.

External environment

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

Management’s Review

Statement of corporate social responsibility

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 four members – one man and three women who meet the intended target of 33% representation of women in senior management levels.

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

Uncertainty relating to recognition and measurement

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

Unusual events

The financial position at 31 December 2021 and the results of the activities and cash flows for the financial year for the shorthand fiscal year 2021 have not been affected by any unusual events.

Subsequent events

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

Income Statement 1 July - 31 December

	Note	2021 6 months TDKK	2020/21 12 months TDKK
Gross profit/loss		**8.485**	**16.146**
Staff expenses	2	-7.701	-16.526
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-83	-167
Profit/loss before financial income and expenses	4	**701**	**-547**
Result from investments in subsidiaries after tax		-3.718	0
Financial income	5	1	43
Financial expenses	6	-55	-583
Profit/loss before tax		**-3.071**	**-1.087**
Tax on profit/loss for the year	7	1.620	0
Net profit/loss for the year		**-1.451**	**-1.087**

Balance Sheet 31 December

Assets

	Note	2021 31 December TDKK	2021 30 June TDKK
Other fixtures and fittings, tools and equipment		0	0
Leasehold improvements		274	357
Property, plant and equipment	8	**274**	**357**
Investments in subsidiaries	9	0	0
Fixed assets		**274**	**357**
Inventories		**5.019**	**3.749**
Trade receivables		9.501	8.471
Receivables from group enterprises		1.109	888
Other receivables		629	816
Deferred tax asset	13	1.620	0
Prepayments	10	3.331	2.652
Receivables		**16.190**	**12.827**
Cash at bank and in hand		**11.623**	**7.843**
Currents assets		**32.832**	**24.419**
Assets		**33.106**	**24.776**

Balance Sheet 31 December

Liabilities and equity

	Note	2021 31 December TDKK	2021 30 June TDKK
Share capital	11	12.000	12.000
Retained earnings		-14.909	-17.174
Equity		**-2.909**	**-5.174**
Other provisions	14	2.099	2.359
Provisions		**2.099**	**2.359**
Payables to group enterprises		13.270	13.374
Long-term debt	15	**13.270**	**13.374**
Trade payables		4.904	3.778
Payables to group enterprises	15	8.439	2.117
Other payables		7.303	8.322
Short-term debt		**20.646**	**14.217**
Debt		**33.916**	**27.591**
Liabilities and equity		**33.106**	**24.776**

Significant uncertainty regarding continued operation	1
Distribution of profit	12
Contingent assets, liabilities and other financial obligations	16
Related parties	17
Accounting Policies	18

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
2021			
6 months			
Equity at 1 July	12.000	-17.174	-5.174
Cash Contribution	0	3.716	3.716
Net profit/loss for the year	0	-1.451	-1.451
Equity at 31 December	**12.000**	**-14.909**	**-2.909**
2020/21			
12 months			
Equity 1. juli	12.000	-16.085	-4.085
Exchange adjustments	0	-2	-2
Net profit/loss for the year	0	-1.087	-1.087
Equity at 30 June	**12.000**	**-17.174**	**-5.174**

Notes to the Financial Statements

1 Significant uncertainty regarding continued operation

The Group has in the shortened fiscal year 2021 realized a loss and the equity is negative at 31 December 2021, following the significant loss in 2019/2020 that affected the equity drastically.

The result is negatively affected by Covid-19 which has a negative effect on sales from shopping restrictions and increased cost to debtor losses.

The company expects to restore the equity via the ongoing profits and capital injections from the Dutch Parent Company. In august 2021 the company received a capital injection of EUR 500,000 (DKK 3,718,550).

Further, the transfer pricing agreement is no longer suspended, and management expects no further significant losses will occur.

The company's ability to continue its ongoing operations are still affected by the events that occurred in 2019/2020, where the German entities entered into protective shield proceedings, which resulted in material losses on intercompany receivables and suspension of the transfer pricing agreements. Further the group was affected by the negative implications Covid-19 had on the retail business with lockdowns and shopping restrictions.

To ensure the ongoing operations, The company will continue to work on its Strategic Plan to strengthen the Company's brand identity and improve product offering and pricing to restore the Company's profitability.

Notwithstanding the above, significant uncertainties exist which may result in adverse implications on the Company's operations.

The budgets and forecasts prepared by management show that the company has sufficient liquidity to continue as a going concern at least 1 year after the balance sheet date

Whether the Group will be able to continue as a going concern after the period assessed by management, as described above, 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 financial statements.

Notes to the Financial Statements

		2021 6 months TDKK	2020/21 12 months TDKK
2	**Staff expenses**		
	Wages and salaries	6.432	14.217
	Pensions	939	1.723
	Other social security expenses	330	586
		7.701	**16.526**
	Average number of employees	**35**	**33**

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

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

Depreciation of property, plant and equipment	83	167
	83	**167**

4 Special items

COVID-19 Compensation	598	3.885
	598	**3.885**

5 Financial income

Other financial income	0	2
Exchange adjustments	1	41
	1	**43**

Notes to the Financial Statements

		2021 6 months TDKK	2020/21 12 months TDKK
6	**Financial expenses**		
	Loss on intercompany recievables	0	144
	Other financial expenses	47	439
	Exchange loss	8	0
		55	**583**

7	**Tax on profit/loss for the year**		
	Current tax for the year	0	0
	Deferred tax for the year, net	-1.620	0
		-1.620	**0**

8 Property, plant and equipment

	Other fixtures and fittings, tools and equipment TDKK	Leasehold improvements TDKK
Cost at 1 July	3.903	19.054
Cost at 31 December	3.903	19.054
Impairment losses and depreciation at 1 July	3.903	18.697
Depreciation for the year	0	83
Impairment losses and depreciation at 31 December	3.903	18.780
Carrying amount at 31 December	**0**	**274**
Depreciated over	3-5 years	5 years

Notes to the Financial Statements

	2021 31 December TDKK	2021 30 June TDKK
9 Investments in subsidiaries		
Cost at 1 July	39.115	39.115
Additions for the year	3.718	0
Cost at 31 December	42.833	39.115
Value adjustments at 1 July	-39.115	-39.115
Net profit/loss for the year	-3.718	0
Value adjustments at 31 December	-42.833	-39.115
Carrying amount at 31 December	**0**	**0**

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

10 Prepayments

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

11 Equity

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

12 Distribution of profit

	2021 6 months TDKK	2020/21 12 months TDKK
Retained earnings	-1.451	-1.087
	-1.451	**-1.087**

13 Deferred tax asset

	2021 31 December TDKK	2021 30 June TDKK
Deferred tax asset at 1 July	0	0
Amounts recognised in the income statement for the year	1.620	0
Deferred tax asset at 31 December	**1.620**	**0**

The Company has a deferred tax asset of DKK 12,789k, where of DKK 1,620k has been recognised at 31 December 2021 based on assessed realisable value. The recognition is based on future annual profits for the coming 5 years, as a result of the Company's group structure and transfer pricing setup. However, due to the length of the period, recognition and measurement of the fax asset are subject to uncertainty

Notes to the Financial Statements

	2021 31 December TDKK	2021 30 June TDKK

14 Other provisions

Customer discounts	913	1.180
Provision for rebuilding	1.186	1.179
	2.099	**2.359**
The provisions are expected to mature as follows:		
Within 1 year	913	1.180
Between 1 and 5 years	1.186	1.179
	2.099	**2.359**

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:

Payables to group enterprises

Between 1 and 5 years	13.270	13.374
Long-term part	13.270	13.374
Other short-term debt to group enterprises	8.439	2.117
	21.709	**15.491**

16 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:		
Within 1 year	12.234	13.364
Between 1 and 5 years	35.228	41.626
	47.462	**54.990**

Notes to the Financial Statements

17 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 Holding Limited	Hong Kong
Esprit Europe B.V.	Netherlands

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

18 Accounting Policies

The Annual Report of Esprit de Corp. Danmark A/S for 2021 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 2021 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

18 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

18 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, other operating income, 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, including Government grants such as COVID-19 compensation. Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

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.

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

The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

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

Notes to the Financial Statements

18 Accounting Policies (continued)

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 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.

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 elimi-

Notes to the Financial Statements

18 Accounting Policies (continued)

nation in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

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

Financial debts

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

Financial Highlights

Explanation of financial ratios

Return on assets	$\dfrac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\dfrac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\dfrac{\text{Net profit for the year x 100}}{\text{Average equity}}$