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STARCO EUROPE A/S
Sintrupvej 71 B, st. tv.
8220 Brabrand
Business Registration No
14339701

Annual report 2018

The Annual General Meeting adopted the annual report on 25.04.2019

Chairman of the General Meeting

Name: Karsten Ehlig Petersen

Contents

Entity details

Entity
STARCO EUROPE A/S
Sintrupvej 71 B, st. tv.
8220 Brabrand

Central Business Registration No (CVR): 14339701
Registered in: Aarhus
Financial year: 01.01.2018 - 31.12.2018

Board of Directors
Chi-Jen Yang
Ying Ming Yang
Jeffrey Pizzola

Executive Board
Richard Stephen Todd
Karsten Ehlig Petersen

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of STARCO EUROPE A/S for the financial year 01.01.2018 - 31.12.2018.

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 31.12.2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018.

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.

Aarhus, 21.03.2019

Executive Board

Richard Stephen Todd	Karsten Ehlig Petersen

Board of Directors

Chi-Jen Yang	Ying Ming Yang	Jeffrey Pizzola

Independent auditor's report

To the shareholder of STARCO EUROPE A/S

Opinion

We have audited the financial statements of STARCO EUROPE A/S for the financial year 01.01.2018 - 31.12.2018, 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 31.12.2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018 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.

Aarhus, 21.03.2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Henrik Vedel
State Authorised Public Accountant
Identification No (MNE) mne10052

Management commentary

	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000	2014 DKK'000
Financial highlights					
Key figures					
Revenue	110.638	98.341	97.243	91.230	111.092
Gross profit/loss	12.785	18.860	57.691	11.384	21.027
Operating profit/loss	(13.055)	(10.844)	24.566	(10.649)	3.972
Net financials	(9.646)	(27.352)	80.623	(24.401)	(11.562)
Profit/loss for the year	(21.880)	(37.282)	105.291	(34.702)	(6.141)
Total assets	349.230	405.199	461.483	324.857	352.204
Investments in property, plant and equipment	1.901	2.431	9.298	6.549	7.657
Equity	59.002	78.791	120.188	27.403	53.790
Ratios					
Gross margin (%)	11,6	19,2	59,3	12,5	18,9
Net margin (%)	(19,8)	(37,9)	108,3	(38,0)	(5,5)
Return on equity (%)	(31,8)	(37,5)	142,7	(85,5)	(11,2)
Equity ratio (%)	16,9	19,4	26,0	8,4	15,3

Financial highlights are defined and calculated in accordance with the latest "Recommendations & Ratios" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Calculation formula reflects
Gross margin (%)	$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity x 100}}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities
STARCO Europe is the parent company to a number of production and sales & distribution entities. The group is one of Europe's leading suppliers of special tyres and wheels for selected OEM segments. Activities comprise production via own and associated companies in England, Croatia and China and sales & distribution handled by own entities in Europe.

More details about the group's activities and business and market strategies can be found at www.starco.com. The company sets the strategic guidelines for the entire group's product and market development activities.

Development in activities and finances
During 2018 the integration into Kenda, whom acquired STARCO at the end of 2017, continued. Kenda's tyre manufacturing capabilities as well as their financial strength enables STARCO to continue to pursue its growth strategy focusing towards larger multinational OEM customers. In 2018 – and continuing into 2019 – STARCO has invested considerably in further manufacturing capacity as well as automatization and quality improvement in our factories and distribution centers. As part of the strategy the factory in Sri Lanka was divested during the second half of 2018.

In 2018 a Kenda tyre was introduced into the main market segment for STARCO being the trailer and caravan market. This was the first major step towards a wider range of Kenda tyres improving both the profitability and the brand value in STARCO.

The divestment of Sri Lanka and a recall case on certain tyres in the market impacted the income statement negatively by approx. DKK 15 million and the company's income statement for 2018 shows a net loss of DKK 22 million. This is a major improvement to 2017 impacted by strong control of our margins and cost as well as certain efficiency projects carried through.

Despite the negative net result the overall development is in line with the expectations and considered satisfactory.

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.

Expectations to 2019
The result is very dependent on the results for all subsidiaries of the company and expectation for the Company is a net income close to zero, though positive, for 2019.

Income statement for 2018

	Notes	2018 DKK'000	2017 DKK'000
Revenue		110.638	98.341
Other operating income		31.046	31.025
Cost of sales		(108.290)	(94.634)
Other external expenses		(20.609)	(15.872)
Gross profit/loss		**12.785**	**18.860**
Staff costs	1	(23.341)	(26.357)
Depreciation, amortisation and impairment losses	2	(2.499)	(3.347)
Operating profit/loss		**(13.055)**	**(10.844)**
Income from investments in group enterprises		(8.605)	(12.147)
Income from investments in associates		873	1.252
Other financial income	3	1.580	3.175
Other financial expenses	4	(3.494)	(19.632)
Profit/loss before tax		**(22.701)**	**(38.196)**
Tax on profit/loss for the year	5	821	914
Profit/loss for the year	6	**(21.880)**	**(37.282)**

Balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Acquired patents		33	63
Development projects in progress		5.213	3.732
Intangible assets	7	**5.246**	**3.795**
Other fixtures and fittings, tools and equipment		7.701	8.321
Property, plant and equipment	8	**7.701**	**8.321**
Investments in group enterprises		258.352	236.926
Investments in associates		11.993	11.181
Other receivables		195	195
Fixed asset investments	9	**270.540**	**248.302**
Fixed assets		**283.487**	**260.418**
Manufactured goods and goods for resale		0	5.000
Inventories		**0**	**5.000**
Trade receivables		0	668
Receivables from group enterprises		56.614	136.003
Other receivables		2.286	851
Prepayments	10	1.899	2.258
Receivables		**60.799**	**139.780**
Cash		**4.944**	**1**
Current assets		**65.743**	**144.781**
Assets		**349.230**	**405.199**

Balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Contributed capital		10.320	10.320
Reserve for net revaluation according to the equity method		40.171	40.171
Reserve for development expenditure		4.489	3.334
Retained earnings		4.022	24.966
Equity		**59.002**	**78.791**
Other provisions	11	0	3.323
Provisions		**0**	**3.323**
Subordinate loan capital		53.018	52.829
Payables to group enterprises		148.599	96.039
Non-current liabilities other than provisions	12	**201.617**	**148.868**
Mortgage debt		23	30.471
Trade payables		14.075	11.665
Payables to group enterprises		70.741	120.079
Other payables		3.772	12.002
Current liabilities other than provisions		**88.611**	**174.217**
Liabilities other than provisions		**290.228**	**323.085**
Equity and liabilities		**349.230**	**405.199**

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Statement of changes in equity for 2018

	Contributed capital DKK'000	Reserve for net revaluation according to the equity method DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000
Equity beginning of year	10.320	40.171	3.334	24.966
Exchange rate adjustments	0	0	0	2.091
Profit/loss for the year	0	0	1.155	(23.035)
Equity end of year	**10.320**	**40.171**	**4.489**	**4.022**

	Total DKK'000
Equity beginning of year	78.791
Exchange rate adjustments	2.091
Profit/loss for the year	(21.880)
Equity end of year	**59.002**

Notes

	2018 DKK'000	2017 DKK'000
1. Staff costs		
Wages and salaries	20.243	23.221
Pension costs	1.658	1.783
Other social security costs	1.286	1.376
Other staff costs	154	(23)
	23.341	**26.357**
Average number of employees	**21**	**22**

	Remuneration of management 2018 DKK'000	Remuneration of management 2017 DKK'000
Executive Board	3.658	3.588
Board of Directors	0	608
	3.658	**4.196**

	2018 DKK'000	2017 DKK'000
2. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	30	38
Depreciation of property, plant and equipment	2.506	3.316
Profit/loss from sale of intangible assets and property, plant and equipment	(37)	(7)
	2.499	**3.347**

	2018 DKK'000	2017 DKK'000
3. Other financial income		
Financial income arising from group enterprises	908	2.654
Financial income from associates	0	12
Other interest income	0	64
Exchange rate adjustments	672	445
	1.580	**3.175**

Notes

	2018 DKK'000	2017 DKK'000
4. Other financial expenses		
Financial expenses from group enterprises	1.620	8.512
Financial expenses from associates	0	260
Other interest expenses	1.083	7.609
Exchange rate adjustments	791	3.251
	3.494	**19.632**

	2018 DKK'000	2017 DKK'000
5. Tax on profit/loss for the year		
Current tax	(821)	0
Change in deferred tax	0	(914)
	(821)	**(914)**

In 2017, the company applied for payment of the tax value of the part of its loss arising from research and development activities. This application has been approved and the current tax for the year is affected positively by this payment.

	2018 DKK'000	2017 DKK'000
6. Proposed distribution of profit/loss		
Retained earnings	(21.880)	(37.282)
	(21.880)	**(37.282)**

Notes

	Acquired patents DKK'000	Development projects in progress DKK'000
7. Intangible assets		
Cost beginning of year	565	3.732
Additions	0	1.481
Cost end of year	**565**	**5.213**
Amortisation and impairment losses beginning of year	(502)	0
Amortisation for the year	(30)	0
Amortisation and impairment losses end of year	**(532)**	**0**
Carrying amount end of year	**33**	**5.213**

Development projects

Development projects relate to the industrial customers. The capitalised costs comprise mainly of internal salary costs as well as externally purchased material. All costs are registered in the internal project module. The booked value is DKK 5,213k. The project is expected to be finished in Q2-Q3 2019; sale and marketing will start hereafter. The executive management expects further costs during 2019 on this project.

In 2018, Management performed an impairment test of the carrying amount of ongoing development projects. It is assessed that the recoverable amount in the form of the value in use exceeds the carrying amount. The value in use is computed based on expected net cash flows on the basis of forecast for the years 2019-2022.

Notes

	Other fixtures and fittings, tools and equipment DKK'000
8. Property, plant and equipment	
Cost beginning of year	26.842
Additions	1.901
Disposals	(429)
Cost end of year	**28.314**
Depreciation and impairment losses beginning of year	(18.521)
Depreciation for the year	(2.506)
Reversal regarding disposals	414
Depreciation and impairment losses end of year	**(20.613)**
Carrying amount end of year	**7.701**

Notes

	Investments in group enterprises DKK'000	Investments in associates DKK'000	Other receivables DKK'000
9. Fixed asset investments			
Cost beginning of year	217.561	12.753	195
Additions	76.814	0	0
Disposals	6.047	0	0
Cost end of year	**300.422**	**12.753**	**195**
Revaluations beginning of year	19.365	(1.572)	0
Exchange rate adjustments	2.158	(61)	0
Share of profit/loss for the year	(3.667)	873	0
Adjustment of intra-group profits	(1.390)	0	0
Dividend	(49.212)	0	0
Investments with negative equity value depreciated over receivables	(581)	0	0
Investments with negative equity value transferred to provisions	(8.743)	0	0
Revaluations end of year	**(42.070)**	**(760)**	**0**
Carrying amount end of year	**258.352**	**11.993**	**195**

	Registered in	Corporate form	Equity interest %
Investments in group enterprises comprise:			
STARCO GB Ltd.	UK	Ltd.	100,0
STARCO GmbH	Germany	GmbH	100,0
STARCO Polska s.p.z.o.o	Poland	Sp.zoo	100,0
STARCO NV	Belgium	NV	100,0
STARCO GS AG	Switzerland	AG	100,0
STARCO SAS	France	SAS	100,0
STARCO Baltic OÜ	Estonia	Oü	100,0
STARCO Beli Manastir D.O.O.	Croatia	D.O.O.	100,0
STARCO DML Ltd.	UK	Ltd.	100,0
Jelshøj Imovina D.O.O.	Croatia	D.O.O.	100,0
W.M. SARL	France	SARL	100,0
S.L.S.A SARL	France	SARL	100,0

Notes

	Registered in	Corpo-rate form	Equity inte-rest %
Investments in associates comprise:			
STARCO Huanmei	China	Ltd.	33,0

10. Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

11. Other provisions

Other provisions comprise anticipated costs of commitments entered into behalf of subsidiaries.

	DKK'000
Provision beginning of year	3.323
Disposials	-3.323
Provision end of year	**0**

	Outstanding after 5 years DKK'000
12. Liabilities other than provisions	
Subordinate loan capital	53.018
Payables to group enterprises	119.477
	172.495

	2018 DKK'000	2017 DKK'000
13. Contingent liabilities		
Recourse and non-recourse guarantee commitments	745	1.105
Contingent liabilities in total	**745**	**1.105**
Recourse and non-recourse guarantee commitments	25.549	31.228
Contingent liabilities to group enterprises	**25.549**	**31.228**

Notes

14. Assets charged and collateral

The Company has issued a guarantee for Jyske Bank's bank loans to the following subsidiaries: STARCO Baltic, STARCO GmbH and STARCO DML Ltd. The loans totalled EUR 6,227 thousand.

The Company has issued a guarantee to ING bank for credit facilities for EUR 4,500 thousand.

The Company has issued a guarantee to RBS bank for credit facilities for GBP 4,500 thousand.

15. Related parties with controlling interest
Kenda Rubber Ind. Co. LTd., Taiwan

16. Transactions with related parties

Only related party transactions not conducted on an arm's length basis are disclosed in the annual report. No such transactions have been conducted in the financial year.

17. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Kenda Rubber Ind. Co., Ltd., Taiwan
Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Kenda Rubber Ind. Co., Ltd., Taiwan

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

Consolidated financial statements

Referring to section 112(2) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event 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 rate 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.

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates as well as out of the translation of income statements from average rates to the exchange rates at the balance sheet date are classified directly as equity.

Exchange adjustments of outstanding accounts with independent foreign subsidiaries, which are considered part of the total investment in the subsidiary in question, are classified directly as equity.

Accounting policies

Income statement

Revenue

Revenue from the sale of goods for resale and finished goods, somprising of sales of tyres and wheels, 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.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity’s primary activities.

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory writedowns.

Other external expenses

Other external expenses include expenses relating to the Entity’s ordinary activities, including expenses for distribution, sale, administration, premises, lease payments under operating leases, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff. Refunds received from public authorities are deducted from staff costs.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses relating to property, plant and equipment and intangible assets comprise depreciation, amortisation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises’ profit/loss after full elimination of intra-group profits or losses.

Income from investments in associates

Income from investments in associates comprises the pro rata share of the individual associates’ profit/loss after elimination of intra-group profits or losses.

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Accounting policies

Other financial expenses
Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

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
Intellectual property rights etc
Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

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. When recognising development projects as intangible assets, an amount equalling the costs incurred is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

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

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. The amortisation periods used are 5-10 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, however not exceeding 5 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. For self-constructed assets, cost comprises direct and indirect costs of materials, components, subsuppliers and labour costs.

Accounting policies

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:

Other fixtures and fittings, tools and equipment	3-10 years

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises
Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value.

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation is imminent, a provision is recognised that is measured at present value of the costs deemed necessary to incur to settle the obligation.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Investments in associates
Investments in associates are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the associates' equity value.

Associates with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant associate, and it is probable that such obligation is imminent, a provision is recognised that is measured at present value of the costs deemed necessary to incur to settle the obligation.

Upon distribution of profit or loss, net revaluation of investments in associates is transferred to Reserve for net revaluation according to the equity method under equity.

Investments in associates are written down to the lower of recoverable amount and carrying amount.

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

Accounting policies

Inventories
Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost 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 of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash
Cash comprises cash in hand and bank deposits.

Other provisions
Other provisions comprise anticipated costs of commitments entered into behalf of subsidiaries.

Mortgage debt
At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

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.

Cash flow statement
In accordance with The Danish Financial Statements Act § 86, litra 4, the Company has not prepared a cash flow statement as the cash flow statement is included in the ultimate parent company, Kenda Rubber Ind. Co., Ltd.