



## STARCO Europe A/S

Sintrupvej 71 B, st.  
8220 Brabrand  
CVR No. 14339701

## Annual report 2019

The Annual General Meeting adopted the  
annual report on 04.06.2020

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**Richard Stephen Todd**  
Chairman of the General Meeting

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# Entity details

## Entity

STARCO Europe A/S

Sintrupvej 71 B, st.

8220 Brabrand

CVR No.: 14339701

Registered office: Aarhus

Financial year: 01.01.2019 - 31.12.2019

## Board of Directors

Jeffrey Pizzola

Ying Ming Yang

Chi-Jen Yang

## Executive Board

Richard Stephen Todd

## Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

City Tower, Værkmestergade 2

8000 Aarhus C

# Statement by Management

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 01.01.2019 - 31.12.2019.

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 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019.

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, 04.06.2020

## Executive Board

**Richard Stephen Todd**

## Board of Directors

**Jeffrey Pizzola**

**Ying Ming Yang**

**Chi-Jen Yang**

# Independent auditor's report

## To the shareholders of STARCO Europe A/S

### Opinion

We have audited the financial statements of STARCO Europe A/S for the financial year 01.01.2019 - 31.12.2019, 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 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 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:

- 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.

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, 04.06.2020

**Deloitte**

Statsautoriseret Revisionspartnerselskab  
CVR No. 33963556

**Henrik Vedel**

State Authorised Public Accountant  
Identification No (MNE) mne10052

# Management commentary

## Financial highlights

	2019 DKK'000	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000
<b>Key figures</b>					
Revenue	90,446	110,638	98,341	97,243	91,230
Gross profit/loss	(5,752)	12,785	18,860	57,691	11,384
Operating profit/loss	(32,991)	(13,055)	(10,844)	(24,566)	(10,649)
Net financials	(1,344)	(9,646)	(27352)	(80,623)	(24,401)
Profit/loss for the year	(28,480)	(21,880)	(37,282)	106,796	(34,702)
Total assets	355,074	349,230	405,199	461,483	324,857
Investments in property, plant and equipment	(594)	1,901	2,431	9,298	6,549
Equity	34,511	59,002	78,791	120,188	27,403
<b>Ratios</b>					
Gross margin (%)	(6.36)	11.56	19.18	59.33	12.48
Net margin (%)	(31.49)	(19.78)	(37.91)	109.82	(38.04)
Return on equity (%)	(60.91)	(31.76)	(37.47)	144.72	(85.5)
Equity ratio (%)	9.72	16.89	19.45	26.04	8.44

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the CFA Society Denmark.

### Gross margin (%):

$\frac{\text{Gross profit/loss} * 100}{\text{Revenue}}$

Revenue

### Net margin (%):

$\frac{\text{Profit/loss for the year} * 100}{\text{Revenue}}$

Revenue

### Return on equity (%):

$\frac{\text{Profit/loss for the year} * 100}{\text{Average equity}}$

Average equity

### Equity ratio (%):

$\frac{\text{Equity} * 100}{\text{Total assets}}$

Total assets



### 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](http://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 2019 the integration into Kenda continued. Kenda's tyre manufacturing capabilities as well as their financial strength enables STARCO to continue to pursue its growth strategy focusing on larger multinational OEM customers in target segments. During the last years STARCO has invested considerably in further manufacturing capacity as well as automatization and quality improvements in our factories and distribution centers.

In 2019 STARCO continued to invest in the largest manufacturing facility in Croatia, driving efficiency levels, capacity and flexibility. Also, a significant step was taken with the expansion of the Polish Distribution Centre. The doubling of capacity is to support growth in Eastern Europe whilst also being crucial to having the right long-term distribution set-up.

2019 had lower market activity levels for several key segments compared to 2018. The majority of this reduction was offset with the introduction of new business. STARCO will continue to focus significant resources on strengthening new customer and new product pipelines as the outlook for the European economy remains uncertain.

Despite the negative net result the overall development is in line with the long-term strategy.

### Outlook

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 2020.

The Corona virus (COVID-19) and the effects from that since end of February 2020 can have a negative impact on the expectations to the 2020 result. It is not possible for the time being to estimate the full year financial impact.

### Events after the balance sheet date

The outbreak and spread of COVID-19 at the beginning of 2020 has resulted in a reduction of the company's turnover in the period January - april 2020 by approx. 23% in relation to expectations at the beginning of the year.

This decrease is mainly due to negative impact on the company's subsidiaries caused by customers closing down and canceling orders. To offset lower activity levels in the short term, a raft of cost reduction actions are in place which are aligned to governmental support initiatives in the countries where there are subsidiaries.

The company has obtained a statement of support from the ultimate parent company, the Kenda Group. The parent company has agreed to support Starco Europe A/S with any needed liquidity in a period of 12 months.

In addition, no circumstances have occurred after the balance sheet date that distort the assessment of the annual report.

# Income statement for 2019

	Notes	2019 DKK'000	2018 DKK '000
Revenue		90,446	110,638
Other operating income		5,343	31,046
Cost of sales		(86,685)	(108,290)
Other external expenses		(14,856)	(20,609)
<b>Gross profit/loss</b>		<b>(5,752)</b>	<b>12,785</b>
Staff costs	1	(25,208)	(23,341)
Depreciation, amortisation and impairment losses	2	(2,031)	(2,499)
<b>Operating profit/loss</b>		<b>(32,991)</b>	<b>(13,055)</b>
Income from investments in group enterprises		5,956	(8,605)
Income from investments in associates		633	873
Other financial income	3	1,611	1,580
Other financial expenses	4	(2,955)	(3,494)
<b>Profit/loss before tax</b>		<b>(27,746)</b>	<b>(22,701)</b>
Tax on profit/loss for the year	5	(734)	821
<b>Profit/loss for the year</b>	6	<b>(28,480)</b>	<b>(21,880)</b>

# Balance sheet at 31.12.2019

## Assets

	Notes	2019 DKK'000	2018 DKK'000
Acquired intangible assets		2,564	2,278
Acquired patents		19	33
Development projects in progress	8	5,499	5,213
<b>Intangible assets</b>	7	<b>8,082</b>	<b>7,524</b>
Other fixtures and fittings, tools and equipment		4,000	5,423
<b>Property, plant and equipment</b>	9	<b>4,000</b>	<b>5,423</b>
Investments in group enterprises		267,759	258,352
Investments in associates		12,707	11,993
Other receivables		199	195
<b>Other financial assets</b>	10	<b>280,665</b>	<b>270,540</b>
<b>Fixed assets</b>		<b>292,747</b>	<b>283,487</b>
Receivables from group enterprises		58,204	56,614
Other receivables		2,467	2,286
Prepayments	11	1,656	1,899
<b>Receivables</b>		<b>62,327</b>	<b>60,799</b>
<b>Cash</b>		<b>0</b>	<b>4,944</b>
<b>Current assets</b>		<b>62,327</b>	<b>65,743</b>
<b>Assets</b>		<b>355,074</b>	<b>349,230</b>

**Equity and liabilities**

	<b>Notes</b>	<b>2019 DKK'000</b>	<b>2018 DKK'000</b>
Contributed capital		10,320	10,320
Reserve for net revaluation according to the equity method		30,511	37,272
Reserve for development expenditure		5,175	4,489
Retained earnings		(11,495)	6,921
<b>Equity</b>		<b>34,511</b>	<b>59,002</b>
Other provisions	12	1,193	0
<b>Provisions</b>		<b>1,193</b>	<b>0</b>
Subordinate loan capital		53,035	53,018
Payables to group enterprises		173,446	148,599
<b>Non-current liabilities other than provisions</b>	13	<b>226,481</b>	<b>201,617</b>
Bank loans		25,782	23
Trade payables		4,156	14,075
Payables to group enterprises		59,181	70,741
Other payables		3,770	3,772
<b>Current liabilities other than provisions</b>		<b>92,889</b>	<b>88,611</b>
<b>Liabilities other than provisions</b>		<b>319,370</b>	<b>290,228</b>
<b>Equity and liabilities</b>		<b>355,074</b>	<b>349,230</b>
Contingent liabilities	14		
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# Statement of changes in equity for 2019

	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	Total DKK'000
Equity beginning of year	10,320	25,015	4,489	19,178	59,002
Exchange rate adjustments	0	0	0	3,989	3,989
Transfer to reserves	0	0	686	(686)	0
Profit/loss for the year	0	5,496	0	(33,976)	(28,480)
<b>Equity end of year</b>	<b>10,320</b>	<b>30,511</b>	<b>5,175</b>	<b>(11,495)</b>	<b>34,511</b>

# Notes

## 1 Staff costs

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Wages and salaries	21,598	20,243
Pension costs	1,637	1,658
Other social security costs	1,381	1,286
Other staff costs	592	154
	<b>25,208</b>	<b>23,341</b>
Average number of full-time employees	<b>20</b>	<b>21</b>

	<b>Remuneration of management 2019</b>	<b>Remuneration of management 2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Executive Board	4,732	3,658
	<b>4,732</b>	<b>3,658</b>

## 2 Depreciation, amortisation and impairment losses

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Amortisation of intangible assets	14	30
Depreciation of property, plant and equipment	1,951	2,506
Profit/loss from sale of intangible assets and property, plant and equipment	66	(37)
	<b>2,031</b>	<b>2,499</b>

## 3 Other financial income

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Financial income from group enterprises	1,197	908
Exchange rate adjustments	414	672
	<b>1,611</b>	<b>1,580</b>

#### 4 Other financial expenses

	2019 DKK'000	2018 DKK'000
Financial expenses from group enterprises	2,115	1,620
Other interest expenses	840	1,083
Exchange rate adjustments	0	791
	<b>2,955</b>	<b>3,494</b>

#### 5 Tax on profit/loss for the year

	2019 DKK'000	2018 DKK'000
Current tax	0	(821)
Adjustment concerning previous years	734	0
	<b>734</b>	<b>(821)</b>

#### 6 Proposed distribution of profit and loss

	2019 DKK'000	2018 DKK'000
Retained earnings	(28,480)	(21,880)
	<b>(28,480)</b>	<b>(21,880)</b>

#### 7 Intangible assets

	Acquired intangible assets DKK'000	Acquired patents DKK'000	Development projects in progress DKK'000
Cost beginning of year	11,344	565	5,213
Additions	880	0	880
Disposals	(235)	0	(235)
<b>Cost end of year</b>	<b>11,989</b>	<b>565</b>	<b>5,858</b>
Amortisation and impairment losses beginning of year	(9,066)	(532)	0
Impairment losses for the year	0	0	(582)
Amortisation for the year	(582)	(14)	0
Reversal regarding disposals	223	0	223
<b>Amortisation and impairment losses end of year</b>	<b>(9,425)</b>	<b>(546)</b>	<b>(359)</b>
<b>Carrying amount end of year</b>	<b>2,564</b>	<b>19</b>	<b>5,499</b>

#### 8 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 5,512k. The project is expected to be finished in Q2-Q3 2020; sale and marketing will start hereafter. The executive management expects further costs during 2020 on this project.

In 2019, 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.

## 9 Property, plant and equipment

	<b>Other fixtures and fittings, tools and equipment DKK'000</b>
Cost beginning of year	16,970
Additions	(594)
Disposals	(1,509)
<b>Cost end of year</b>	<b>14,867</b>
Depreciation and impairment losses beginning of year	(11,547)
Depreciation for the year	(787)
Reversal regarding disposals	1,467
<b>Depreciation and impairment losses end of year</b>	<b>(10,867)</b>
<b>Carrying amount end of year</b>	<b>4,000</b>

## 10 Financial assets

	<b>Investments in group enterprises DKK'000</b>	<b>Investments in associates DKK'000</b>	<b>Other receivables DKK'000</b>
Cost beginning of year	300,422	12,753	195
Additions	172	162	4
<b>Cost end of year</b>	<b>300,594</b>	<b>12,915</b>	<b>199</b>
Revaluations beginning of year	(42,070)	(760)	0
Exchange rate adjustments	4,070	(81)	0
Share of profit/loss for the year	5,956	633	0
Adjustment of intra-group profits	(1,984)	0	0
Investments with negative equity value transferred to provisions	1,193	0	0
<b>Revaluations end of year</b>	<b>(32,835)</b>	<b>(208)</b>	<b>0</b>
<b>Carrying amount end of year</b>	<b>267,759</b>	<b>12,707</b>	<b>199</b>



<b>Investments in subsidiaries</b>	<b>Registered in</b>	<b>Corporate form</b>	<b>Equity interest %</b>
STARCO GB Ltd.	UK	Ltd.	100
STARCO GmbH	Germany	GmbH	100
STARCO Polska s.p.z.o.o	Poland	Sp.zoo	100
STARCO NV	Belgium	NV	100
STARCO GS AG	Switzerland	AG	100
STARCO SAS	France	SAS	100
STARCO Baltic OÜ	Estonia	Oü	100
STARCO Beli Manastir D.O.O.	Croatia	D.O.O.	100
STARCO DML Ltd.	UK	Lt.d	100
Jelshøj Imovina D.O.O.	Croatia	D.O.O.	100

<b>Investments in associates</b>	<b>Registered in</b>	<b>Corporate form</b>	<b>Equity interest %</b>
STARCO Huanmei	China	L.t.d	33

### 11 Prepayments

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

### 12 Other provisions

Investments with negative equity value transferred to provisions relate to Starco SAS.

### 13 Non-current liabilities other than provisions

	<b>Due after more than 12 months 2019 DKK'000</b>
Subordinate loan capital	53,035
Payables to group enterprises	173,446
	<b>226,481</b>

#### 14 Contingent liabilities

	2019 DKK'000	2018 DKK'000
Recourse and non-recourse guarantee commitments	4,172	745
<b>Contingent liabilities</b>	<b>4,172</b>	<b>745</b>
Recourse and non-recourse guarantee commitments	15,057	25,549
<b>Contingent liabilities to group enterprises</b>	<b>15,057</b>	<b>25,549</b>

#### 15 Assets charged and collateral

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

The company has issued a guarantee in the form of a rental obligation of DKK 345 thousand.

#### 16 Related parties with controlling interest

Kenda Rubber Ind. Co. LTd., Taiwan

#### 17 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.

#### 18 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 prepared 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 nonmonetary 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.

## **Income statement**

### **Revenue**

Revenue from the sale of goods for resale and finished goods, comprising 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.

### **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.

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
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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.

**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.

**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.