IRD Fuel Cells A/S

Emil Neckelmanns Vej 15 A, DK-5220 Odense SØ

Annual Report for 1 January - 31 December 2019

CVR No 14 68 96 05

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 21/08 2020

Xiaodong Wang
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 IRD Fuel Cells A/S for the financial year 1 January - 31 December 2019.

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 2019 of the Company and of the results of the Company operations for 2019.

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

Odense, 21 August 2020

Executive Board

Madeleine Odgaard
CEO

Board of Directors

Xiaodong Wang Chairman	Xiao Li	Jinjun Liu

Independent Auditor's Report

To the Shareholder of IRD Fuel Cells 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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of IRD Fuel Cells A/S for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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 misstate-

ment, 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

Independent Auditor's Report

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.

Aarhus, 21 August 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Thomas Riis
State Authorized Public Accountant
mne32174

Company Information

The Company	IRD Fuel Cells A/S Emil Neckelmanns Vej 15 A DK-5220 Odense SØ CVR No: 14 68 96 05 Financial period: 1 January - 31 December Municipality of reg. office: Odense
Board of Directors	Xiaodong Wang , Chairman Xiao Li Jinjun Liu
Executive Board	Madeleine Odgaard
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Nobelparken Jens Chr. Skous Vej 1 DK-8000 Aarhus C

Financial Highlights

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

	2019	2018	2017	2016	2015
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	-1.487	-5.993	-8.845	-2.479	-3.253
Operating profit/loss	-18.052	-24.502	-19.879	-11.901	-11.841
Net financials	-2.208	-1.699	-1.714	-1.192	-557
Net profit/loss for the year	-20.260	-22.000	-17.294	-8.500	-8.090
Balance sheet					
Balance sheet total	90.422	24.024	35.410	32.331	29.269
Equity	69.915	6.331	-2.477	7.958	2.589
Ratios					
Return on assets	-20,0%	-102,0%	0,0%	0,0%	0,0%
Solvency ratio	77,3%	26,4%	-7,0%	24,6%	8,8%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Key activities

IRD Fuel Cells A/S develops, produces and sells tailor-made fuel cell and flow battery components.

The Company is based on core competencies that cover key fuel cell technologies, which are developed in cooperation with international customers, strategic partners and research groups.

IRD Fuel Cells A/S is one of the world's leading fuel cell and electrolyser components companies and sells fuel cell, electrolysis and flow battery components worldwide.

The Company delivers components for solutions that address climate challenges in the transport sector, backup systems and balancing of renewable energy systems.

99% of the Company's customers are based outside Denmark, primarily in Europe, North America and Asia.

Its primary activities are located in Odense, Denmark, and the Company has a subsidiary, IRD Fuel Cells LLC, in Albuquerque in New Mexico, USA.

Development in the year

The income statement of the Company for 2019 shows a loss of TDKK 20,260, and at 31 December 2019 the balance sheet of the Company shows equity of TDKK 69,915.

As forecasted and by more than doubling revenue in 2019 compared to 2018, IRD Fuel Cells A/S realized significant growth in 2019. Among other due to the significant investments to accommodate this development, the income statement for 2019 shows a loss of DKK 20.3m, which is an improvement compared to 2018. Based on the significant growth and the investments required to facilitate this, the performance is considered satisfactory.

During 2019, the company has invested in particular in increase of the production capacity through an increase in personnel and new machinery. The company plans further investments in production equipment and personnel in order to further increase production capacity and production efficiency in Denmark as well as in the subsidiary IRD Fuel Cells LLC.

In March 2019 FCCT ApS owned by Wuhan Troowin Power System Technology Co. Ltd. sold 66% of the share capital in IRD Fuel Cells A/S to Weifu Holding ApS owned by the Chinese listed company Wuxi Weifu High-technology Group Co., Ltd. During 2019, FCCT ApS and Weifu Holding ApS according to plan injected DKK 83.6m as share capital in order to further support IRD Fuel Cells A/S' significant international growth. As a consequence, as per December 31, 2019, the equity is DKK 69.7m compared to DKK 6.3m as per December 31, 2018.

Management’s Review

Capital resources

Special risks - operating risks and financial risks

Market risks

The Company is dependent on how the market will develop for our customers’ end-users. These again are dependent on the political impact on the market for renewable energy worldwide.

In addition, the development of the novel coronavirus in China in particular and in the rest of the world in general, might pose a threat to development of IRD Fuel Cells A/S in 2020, as the novel coronavirus can reduce business activity in general.

Targets and expectations for the year ahead

The development in the hydrogen and fuel cells market within the transport sector as well as within energy storage is considered volatile in this early stage, however it is expected to further develop attractively on key markets, including China, North America and Europe, which is why the company focus on continuing the momentum within these areas.
Based on the general market development in the world as well as a number of measures and initiatives taken together with key market players through-out 2019, the company management expects revenue to further increase.

Research and development

IRD Fuel Cells A/S continues to be deeply involved in research and development to extend useful lives and reduce costs for the next generation of fuel cell components and electrolysers. This work is carried out in cooperation with customers based on the most recent findings from reputable international universities and other research groups.

Our current and potential customers continue to have a strong focus on the development of materials that improve performance and reduce costs, and often for quantities that by far surpass historical levels.

The Company’s research and development activities are also supported by public programmes in Denmark, EU and USA.

External environment

Reporting on the Company’s impact on the external environment and prevention and reduction measures is anchored in the Company. The Company’s environmental impact is deemed insignificant.

Management's Review

Intellectual capital resources

An important part of focusing on components is servicing our customers, constantly optimizing the components they buy for their intended use. Therefore, the Company's employees are typically specialists within the relevant technologies. Production staff are also well-educated and attend long-term in-house training.

Uncertainty relating to recognition and measurement

No uncertainties have been identified in relation to recognition and measurement in the annual report.

Unusual events

The Company's financial position at 31 December 2019 and the results of its activities and cash flows for the financial year 2019 are not affected by unusual circumstances.

Subsequent events

Refer to note 1 for a specification of the subsequent events. It is estimated that subsequent events will not have a material impact on the financial statements.

Income Statement 1 January - 31 December

	Note	2019 TDKK	2018 TDKK
Gross profit/loss		**-1.487**	**-5.993**
Staff expenses	2	-14.675	-16.277
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-1.890	-2.232
Profit/loss before financial income and expenses		**-18.052**	**-24.502**
Income from investments in subsidiaries		-2.405	-1.384
Financial income	3	1.047	1.055
Financial expenses	4	-850	-1.370
Profit/loss before tax		**-20.260**	**-26.201**
Tax on profit/loss for the year	5	0	4.201
Net profit/loss for the year		**-20.260**	**-22.000**

Distribution of profit

Proposed distribution of profit

Retained earnings	-20.260	-22.000
	-20.260	**-22.000**

Balance Sheet 31 December

Assets

	Note	2019	2018
		TDKK	TDKK
Acquired licenses		1.302	246
Intangible assets	6	**1.302**	**246**
Plant and machinery		6.678	6.664
Other fixtures and fittings, tools and equipment		98	44
Leasehold improvements		2.131	3.194
Property, plant and equipment in progress		6.774	454
Property, plant and equipment	7	**15.681**	**10.356**
Investments in subsidiaries	8	0	0
Deposits	9	823	856
Fixed asset investments		**823**	**856**
Fixed assets		**17.806**	**11.458**
Raw materials and consumables		10.664	5.600
Finished goods and goods for resale		2.059	1.266
Inventories		**12.723**	**6.866**
Trade receivables		2.366	1.329
Receivables from group enterprises		43.198	198
Other receivables		13.773	2.193
Prepayments		0	568
Receivables		**59.337**	**4.288**
Cash at bank and in hand		**556**	**1.412**
Currents assets		**72.616**	**12.566**
Assets		**90.422**	**24.024**

Balance Sheet 31 December

Liabilities and equity

	Note	2019	2018
		TDKK	TDKK
Share capital		85.600	2.000
Retained earnings		-15.685	4.331
Equity	10	**69.915**	**6.331**
Provision for deferred tax		0	1
Provisions relating to investments in group enterprises		0	198
Provisions		**0**	**199**
Prepayments received from customers		11.575	8.402
Trade payables		4.801	2.546
Payables to group enterprises		55	3.569
Other payables		4.076	2.977
Short-term debt		**20.507**	**17.494**
Debt		**20.507**	**17.494**
Liabilities and equity		**90.422**	**24.024**
Subsequent events	1		
Contingent assets, liabilities and other financial obligations	11		
Related parties	12		
Accounting Policies	13		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 January	2.000	4.331	6.331
Exchange adjustments	0	244	244
Cash capital increase	83.600	0	83.600
Net profit/loss for the year	0	-20.260	-20.260
Equity at 31 December	**85.600**	**-15.685**	**69.915**

Notes to the Financial Statements

1 Subsequent events

The implications of COVID-19 with many governments across the world deciding to "close down their countries" will have great impact on the global economy. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company.

In consequence, the assessments of impairment indications are based on the future cash flows expected by Management at 31 December 2019, which may differ from the cash flows expected by Management at the time of adoption of the Annual Report, see comments in outlook for the future in Management's Review.

COVID-19 has caused a decline in the Company's revenue. The reason for this is that the Company's customers have postponed a number of existing orders. Management is monitoring developments closely. It is, however, too early yet to give an opinion as to whether and, if so, to what extent COVID-19 will impact revenue and earnings in 2020. Naturally, Management will make an effort to recapture any lost revenue later in the year.

At this time, it is not possible to calculate the size of the negative COVID-19 impact.

Despite the mentioned implications of COVID-19, Management still considers the cash resources reasonable.

Management has not subsequently noted any material changes in the valuation of assets and liabilities.

2 Staff expenses

Wages and salaries	19.158	15.146
Pensions	1.443	742
Other social security expenses	433	208
Other staff expenses	607	181
	21.641	**16.277**
Transfer to development projects	-6.966	0
	14.675	**16.277**
Average number of employees	**36**	**28**

3 Financial income

Interest received from group enterprises	73	40
Other financial income	71	0
Exchange gains	903	1.015
	1.047	**1.055**

Notes to the Financial Statements

4 Financial expenses

Interest paid to group enterprises	231	229
Other financial expenses	26	29
Exchange loss	593	1.112
	850	**1.370**

5 Tax on profit/loss for the year

Current tax for the year	0	-4.201
	0	**-4.201**

6 Intangible assets

	Acquired licenses TDKK
Cost at 1 January	385
Additions for the year	1.292
Cost at 31 December	1.677
Transfers for the year	0
Revaluations at 31 December	0
Impairment losses and amortisation at 1 January	139
Amortisation for the year	236
Impairment losses and amortisation at 31 December	375
Carrying amount at 31 December	**1.302**

Notes to the Financial Statements

7 Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	12.397	112	6.389	454	19.352
Additions for the year	572	87	0	6.320	6.979
Cost at 31 December	12.969	199	6.389	6.774	26.331
Impairment losses and depreciation at 1 January	5.733	68	3.195	0	8.996
Depreciation for the year	558	33	1.063	0	1.654
Impairment losses and depreciation at 31 December	6.291	101	4.258	0	10.650
Carrying amount at 31 December	**6.678**	**98**	**2.131**	**6.774**	**15.681**

8 Investments in subsidiaries

Cost at 1 January	17.993	17.993
Cost at 31 December	17.993	17.993
Value adjustments at 1 January	-18.191	-16.390
Exchange adjustment	-4	-417
Net profit/loss for the year	-2.405	-1.384
Value adjustments at 31 December	-20.600	-18.191
Equity investments with negative net asset value amortised over receivables	2.607	0
Equity investments with negative net asset value transferred to provisions	0	198
Carrying amount at 31 December	**0**	**0**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
IRD Fuel Cells, LLC	New Mexico, USA	100%	-2.606	-2.412

Notes to the Financial Statements

9 Other fixed asset investments

	Deposits
	TDKK
Cost at 1 January	856
Disposals for the year	-33
Cost at 31 December	823
Impairment losses at 1 January	0
Impairment losses at 31 December	0
Carrying amount at 31 December	**823**

10 Equity

The share capital consists of 85,600 shares of a nominal value of TDKK 1. No shares carry any special rights.

The share capital has developed as follows:

	2019	2018	2017	2016	2015
	TDKK	TDKK	TDKK	TDKK	TDKK
Share capital at 1 January	2.000	2.000	2.000	7.177	7.177
Capital increase	83.600	0	500	2.823	0
Capital decrease	0	0	-500	-8.000	0
Share capital at 31 December	**85.600**	**2.000**	**2.000**	**2.000**	**7.177**

11 Contingent assets, liabilities and other financial obligations

Contingent assets

The company has a tax asset of TDKK 5.116 which is not capitalized

Contingent liabilities

Notes to the Financial Statements

	2019	2018
	TDKK	TDKK

11 Contingent assets, liabilities and other financial obligations (continued)

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

12 Related parties

	Basis
Controlling interest	
Weifu Holding ApS	Parent Company
Other related parties	
FCCT ApS	Associate company

Notes to the Financial Statements

13 Accounting Policies

The Annual Report of IRD Fuel Cells A/S for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

The Financial Statements for 2019 are presented in TDKK.

Changes in accounting policies

In 2019, the presentation of the income statement has changed. In 2019, the income statement is no longer presented by function, but by nature.

Consolidated financial statements

With reference to section 110 of the Danish Financial Statements Act, no consolidated financial statements are prepared.

Recognition and measurement

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.

Translation policies

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. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

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

Notes to the Financial Statements

13 Accounting Policies (continued)

debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

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.

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the contract.

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

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

Notes to the Financial Statements

13 Accounting Policies (continued)

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, expenses for raw materials and consumables 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 intangible assets and property, plant and equipment.

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 gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

The item “Income from investments in subsidiaries” in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

13 Accounting Policies (continued)

Balance Sheet

Intangible assets

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 12 years.

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

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.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

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:

Plant and machinery	5 - 10	years
Other fixtures and fittings, tools and equipment	3 - 8	years
Leasehold improvements	6	years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and 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.

Notes to the Financial Statements

13 **Accounting Policies** (continued)

Investments in subsidiaries

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

The item“Investments in subsidiaries” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to “Reserve for net revaluation under the equity method“ under equity. The reserve is reduced by dividend 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, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour.

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, subscriptions and interest.

Notes to the Financial Statements

13 Accounting Policies (continued)

Current asset investments

Current asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Fair value is determined on the basis of the latest quoted market price.

Investments which are not traded in an active market are measured at the lower of cost and recoverable amount.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

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

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

Notes to the Financial Statements

13 Accounting Policies (continued)

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

Financial Highlights

Explanation of financial ratios

Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$