

LABFLEX HOLDING ApS

Hjortevej 3

7800 Skive

Central Business Registration

No 37128112

Annual report 2019

The Annual General Meeting adopted the annual report on 28.08.2020

Chairman of the General Meeting

Name: Ivar Malte Foghsgaard

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Entity details

Entity

LABFLEX HOLDING ApS
Hjortevej 3
7800 Skive

Central Business Registration No (CVR): 37128112
Registered in: Skive
Financial year: 01.01.2019 - 31.12.2019

Board of Directors

Lars Foghsgaard, chairman
Ivar Malte Foghsgaard
Johan Caspar Foghsgaard

Executive Board

Lars Foghsgaard

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 København 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 LABFLEX HOLDING ApS 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 Group's and the Parent's financial position at 31.12.2019 and of the results of the Group and the Parent's operations and cash flows for the Group 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.

Skive, 25.07.2020

Executive Board

Lars Foghsgaard

Board of Directors

Lars Foghsgaard
chairman

Ivar Malte Foghsgaard

Johan Caspar Foghsgaard

Independent auditor's report

To the shareholders of LABFLEX HOLDING ApS

Opinion

We have audited the consolidated financial statements and the parent financial statements of LABFLEX HOLDING ApS 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, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2019, and of the results of their operations and the consolidated cash flows 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 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 consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group 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 consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent 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 consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent'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 consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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

Independent auditor's report

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 consolidated financial statements and these parent 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 consolidated financial statements and the parent 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 Group's and the Parent'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 consolidated financial statements and the parent 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 Group's and the Parent'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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent 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 consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent 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 consolidated financial statements and the parent 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.

Copenhagen, 25.07.2020

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Torben Skov
State Authorised Public Accountant
Identification No (MNE) mne19689

Heidi Julitta Østergaard Jensen
State Authorised Public Accountant
Identification No (MNE) mne34163

Management commentary

	2019 DKK'000	2018 DKK'000	2017 DKK'000	2016 DKK'000
Financial highlights				
Key figures				
Gross profit	23.490	11.221	7.974	16.616
Operating profit/loss	(4.383)	(35.357)	(63.905)	(92.150)
Net financials	(1.118)	60.070	(7.915)	(6.577)
Profit/loss for the year	(4.523)	22.922	(75.993)	(107.791)
Profit/loss excl minority interests	(3.608)	33.033	(75.993)	(107.791)
Total assets	109.295	95.538	129.861	181.223
Investments in property, plant and equipment	691	811	222	20.359
Equity	16.308	21.226	(52.589)	(17.855)
Equity excl minority interests	16.308	7.998	(55.342)	(17.855)
Average numbers of employees	83	89	113	133

Ratios

Equity ratio (%)	14,9	8,4	(42,6)	(9,9)
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Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the Danish Society of Financial Analysts.

Ratios

Calculation formula

Calculation formula reflects

Equity ratio (%)

$$\frac{\text{Equity excl minority interests} \times 100}{\text{Total assets}}$$

The financial strength of the entity.

Management commentary

Primary activities

Labflex is a turnkey provider of interior solutions and products to laboratories and hospitals. Core activities are design and engineering, installation and after sales supported by sales, marketing, project management and supply chain services.

Development in activities and finances

Labflex Holding ApS

Labflex Holding ApS does not have financial activities beside acting as a holding company for the Labflex A/S. Labflex Holding ApS net profit 2019 reached DKK -4,523k against DKK 22,922k in 2018. Compared to Labflex A/S the financial deficit of Labflex Holding ApS is mainly due to depreciations of goodwill in 2019.

Labflex Holding Group

Labflex A/S achieved a positive improvement of the financial performance. Labflex A/S net profit 2019 reached DKK 2,144k against DKK -17,265k in 2018. That is primarily an outcome of the turnaround process initiated in Q2 2018. The turnaround process has downsized and optimized the organization to a more agile and profitable company. The profit before tax in 2019 was realized above budget and perceived as a very satisfying result.

The financial performance improved significantly during H2 2018 and 2019, mainly caused by revenue increases, improved project execution procedures including increased financial project controlling and due to the positive impact from downsizing of the organization. A positive impact from the improved operational initiatives was achieved across all functional areas and companies within Labflex A/S. All remaining turnaround- and operational improvement initiatives will be finalized during 2020.

The positive development from 2019 has continued in 2020 as the operational profit in Q1 is realized above budget. Labflex A/S is expected to reach a financial result for the first half of the year in line with budget.

Uncertainty relating to recognition and measurement

In the preparation of the annual report, accounting estimates and judgements were made in accordance with statutory provisions and Danish law – see the description under Accounting Policies. The estimates are based on assumptions which management consider realistic, sound, and defensible.

Future plans are based on expectations of market development, strategic initiatives, analysis of the operation and structural measures as well as historical results. The assumptions and estimates prepared for the long-term development of the market and the related expectations of both the Labflex Holding's and Labflex A/S's development are inherently subject to uncertainty.

Outlook

The focus in 2020 is to further stabilize Labflex A/S by continue building the right structure and organizational base for the future business and thereby create a solid platform for the expected long-term growth development.

Management commentary

During 2020, the geographical focus will still be on the Danish, Norwegian and UK markets, with primary focus on improving and strengthening the position in the UK market. We will simultaneously continue to service the global key accounts.

The global Covid-19 pandemic has had an effect on the business and required immediate managerial attention in order to mitigate potential negative financial impact. It has short termed been possible to reduce costs and postpone investments and thereby compensate for the reduced or postponed revenue experienced YTD. Please see more details in the section "Event after the balance sheet date".

Particular risks

Financial risks

Labflex's activities create exposure to a variety of financial risks. These risks include market risk (such as foreign exchange risk and interest rate risk), credit risk and liquidity risk which all can affect Labflex's net result and/or equity. The aim is to reduce the financial risks as much as possible by continuously monitoring and assessing the specific risks and implement corrective actions accordingly. Among others foreign exchange risks are mitigated using cautious tender and contractual terms and using financial instruments like hedging and SWAP.

Liquidity risk results from Labflex's potential inability to meet the obligation associated with its financial liabilities, e.g. paying its suppliers, and fulfill financial lease obligations. Labflex's liquidity is managed by the parent company and the status is evaluated and reported bi-weekly including two months forecast.

Labflex's liquidity situation based on the expected cash inflow and the current bank credit lines is assessed and determined as being satisfactory.

Environmental performance

The environment has become a central topic on Labflex A/S's agenda. Labflex A/S runs its business with the highest possible respect for environmental matters - both related to own produced goods and third part sourced products.

The use of polluting auxiliary substances in the production process is very limited.

Research and development activities

Labflex develops new products and maintains its design continuously.

Based on assessments of the specific development activities, development costs are regularly expensed in the income statement or depreciated.

Management commentary

Events after the balance sheet date

No events after the balance sheet date has occurred that effects the evaluation of the annual report and e.g. accruals related to provision on debt and project risks or -liabilities is evaluated to be realistic and conservative.

The Covid-19 situation has had an impact on the business and mainly due to a decrease in the number of new projects being initiated and a delay in the clarifications needed on pending orders. But as the main construction sites in all markets during the entire Covid-19 lockdowns has been kept opened Labflex A/S has been able to proceed producing, delivering, and installing all main projects. In order to mitigate the financial impact from Covid-19 Labflex A/S has been able to amend or postpone costs and protect the financial cash-flow, consequently H1 2020 is expected to be realized in line with budget.

The second half of 2020 can potentially continue to be affected by the Covid-19 in case the lockdown restrictions will remain and mainly in case the current limitations in meeting- and travelling activities will be retained. The risk of negative impact on Labflex A/S financial performance in the second half of 2020 is primarily related to the markets in Scandinavia, United Kingdom and Central Europe. The management have an intensified focus on continuously monitoring the order backlog development and adapting the cost structure accordingly as well as protecting the cash-flow by regular forecast and reporting on the liquidity situation. Consequently, Labflex A/S management team continues to operate the company on the basis of going concern.

Consolidated income statement for 2019

	<u>Notes</u>	<u>2019 DKK'000</u>	<u>2018 DKK'000</u>
Gross profit	3, 4	23.490	11.221
Distribution costs	3, 4	(5.319)	(9.702)
Administrative expenses	3, 4	(22.554)	(36.876)
Operating profit/loss		(4.383)	(35.357)
Other financial income		1.815	65.184
Financial expenses from group enterprises		(265)	(159)
Other financial expenses		(2.668)	(4.955)
Profit/loss before tax		(5.501)	24.713
Tax on profit/loss for the year	5	978	(1.791)
Profit/loss for the year	6	(4.523)	22.922

Consolidated balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019</u> <u>DKK'000</u>	<u>2018</u> <u>DKK'000</u>
Completed development projects		1.897	1.335
Acquired intangible assets		0	0
Acquired patents		34	58
Goodwill		23.850	29.452
Intangible assets	7	25.781	30.845
Plant and machinery		5.596	7.162
Other fixtures and fittings, tools and equipment		407	358
Leasehold improvements		3.370	3.873
Property, plant and equipment	8	9.373	11.393
Deposits		1.219	1.359
Fixed asset investments	9	1.219	1.359
Fixed assets		36.373	43.597
Raw materials and consumables		3.183	3.488
Work in progress		1.327	1.495
Manufactured goods and goods for resale		619	0
Inventories		5.129	4.983
Trade receivables		31.054	28.294
Contract work in progress	10	10.608	7.988
Receivables from group enterprises		1.467	0
Deferred tax	11	1.000	0
Other receivables		1.692	2.421
Joint taxation contribution receivable		0	594
Prepayments	12	1.171	1.073
Receivables		46.992	40.370
Cash	13	20.801	6.588
Current assets		72.922	51.941
Assets		109.295	95.538

Consolidated balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019 DKK'000</u>	<u>2018 DKK'000</u>
Contributed capital		13.250	13.250
Retained earnings		3.058	(5.252)
Equity attributable to the Parent's owners		16.308	7.998
Share of equity attributable to minority interests		0	13.228
Equity		16.308	21.226
Other provisions	14	2.023	1.540
Provisions		2.023	1.540
Subordinate loan capital	15	11.219	0
Bank loans		24.000	25.000
Finance lease liabilities		3.131	4.310
Other payables	16	1.344	0
Non-current liabilities other than provisions	17	39.694	29.310
Current portion of long-term liabilities other than provisions	17	2.178	1.153
Bank loans		26.708	14.364
Prepayments received from customers		1.289	661
Trade payables		8.950	14.001
Payables to group enterprises		2.153	0
Payables to shareholders and management		464	1.026
Joint taxation contribution payable		0	1.749
Other payables		9.528	10.508
Current liabilities other than provisions		51.270	43.462
Liabilities other than provisions		90.964	72.772
Equity and liabilities		109.295	95.538
Events after the balance sheet date	1		
Uncertainty relating to recognition and measurement	2		
Unrecognised rental and lease commitments	19		
Contingent liabilities	20		
Assets charged and collateral	21		
Transactions with related parties	22		
Group relations	23		
Subsidiaries	24		

Consolidated statement of changes in equity for 2019

	Contributed capital DKK'000	Retained earnings DKK'000	Share of equity attributable to minority interests DKK'000	Total DKK'000
Equity beginning of year	13.250	(5.252)	13.228	21.226
Exchange rate adjustments	0	(289)	(106)	(395)
Group contributions etc	0	13.227	0	13.227
Other entries on equity	0	(1.020)	(12.207)	(13.227)
Profit/loss for the year	0	(3.608)	(915)	(4.523)
Equity end of year	13.250	3.058	0	16.308

Consolidated cash flow statement for 2019

	<u>Notes</u>	<u>2019 DKK'000</u>	<u>2018 DKK'000</u>
Operating profit/loss		(4.383)	(35.357)
Amortisation, depreciation and impairment losses		8.781	23.812
Other provisions		483	(998)
Working capital changes	18	(8.665)	11.832
Cash flow from ordinary operating activities		(3.784)	(711)
Financial income received		1.815	65.184
Financial expenses paid		(2.933)	(4.729)
Income taxes refunded/(paid)		(1.177)	(336)
Cash flows from operating activities		(6.079)	59.408
Acquisition etc of intangible assets		(1.026)	(989)
Acquisition etc of property, plant and equipment		(691)	(811)
Sale of property, plant and equipment		20	0
Acquisition of fixed asset investments		0	(8)
Sale of fixed asset investments		0	244
Cash flows from investing activities		(1.697)	(1.564)
Loans raised		0	26.026
Repayments of loans etc		(1.179)	(120.829)
Repayment of debt to group enterprises		11.219	(12.946)
Cash increase of capital		0	51.020
Cash flows from financing activities		10.040	(56.729)
Increase/decrease in cash and cash equivalents		2.264	1.115
Cash and cash equivalents beginning of year		(7.776)	(8.764)
Currency translation adjustments of cash and cash equivalents		(395)	(127)
Cash and cash equivalents end of year		(5.907)	(7.776)
Cash and cash equivalents at year-end are composed of:			
Cash		20.801	6.588
Short-term debt to banks		(26.708)	(14.364)
Cash and cash equivalents end of year		(5.907)	(7.776)

Notes to consolidated financial statements

1. Events after the balance sheet date

No events after the balance sheet date has occurred that effects the evaluation of the annual report and e.g. accruals related to provision on debt and project risks or -liabilities is evaluated to be realistic and conservative.

The Covid-19 situation has had an impact on the business and mainly due to a decrease in the number of new projects being initiated and a delay in the clarifications needed on pending orders. But as the main construction sites in all markets during the entire Covid-19 lockdowns has been kept opened Labflex A/S has been able to proceed producing, delivering, and installing all main projects. In order to mitigate the financial impact from Covid-19 Labflex A/S has been able to amend or postpone costs and protect the financial cash-flow, consequently H1 2020 is expected to be realized in line with budget.

The second half of 2020 can potentially continue to be affected by the Covid-19 in case the lockdown restrictions will remain and mainly in case the current limitations in meeting- and travelling activities will be retained. The risk of negative impact on Labflex A/S financial performance in the second half of 2020 is primarily related to the markets in Scandinavia, United Kingdom and Central Europe. The management have an intensified focus on continuously monitoring the order backlog development and adapting the cost structure accordingly as well as protecting the cash-flow by regular forecast and reporting on the liquidity situation. Consequently, Labflex A/S management team continues to operate the company on the basis of going concern.

2. Uncertainty relating to recognition and measurement

Goodwill is measured at cost less write-offs, when the recoverable amount is less than carrying amount. The recoverable amount is calculated as the higher of net sales price and the value in use.

When calculating value in use, Management has extracted the estimated cash flows from the approved budgets and projections for the budget years 2020 – 2024. In addition to these estimates, Management has calculated a terminal period by projecting the final budget year using expected macroeconomics growth rates.

The primary uncertainties relate to budget fulfillment. Other uncertainties relate to cost of capital (WACC) as well as growth and profit rates in the terminal period. Management has highlighted key figures and volatilities below.

Key figure	Applied rate %	Volatility (change in value / change in rate)	
		+ 0,5 point k DKK	- 0,5 point k DKK
WACC	16,05	(2.653)	2.869
Growth in terminal period	2,00	1.413	(1.316)
EBITDA-margin in terminal period	10,50	2.322	(2.322)

Notes to consolidated financial statements

The applied assumptions are based on Management's best estimate of the growth and earnings. It is Management's expectations, that the long term growth rate does not exceed the marked rate as a whole.

Management notes, that should the expectations not be met, there is a significant risk, that goodwill would be impaired.

	2019 DKK'000	2018 DKK'000
3. Staff costs		
Wages and salaries	37.039	39.173
Pension costs	2.785	3.842
Other social security costs	250	169
Other staff costs	900	0
	40.974	43.184
Average number of employees	83	89
	Remunera- tion of manage- ment 2019 DKK'000	Remunera- tion of manage- ment 2018 DKK'000
Total amount for management categories	3.354	2.885
	3.354	2.885
	2019 DKK'000	2018 DKK'000
4. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	6.088	6.565
Impairment losses on intangible assets	0	14.493
Depreciation on property, plant and equipment	2.691	2.754
Profit/loss from sale of intangible assets and property, plant and equipment	18	0
	8.797	23.812
	2019 DKK'000	2018 DKK'000
5. Tax on profit/loss for the year		
Current tax	0	1.692
Change in deferred tax	(1.000)	0
Adjustment concerning previous years	22	99
	(978)	1.791

Notes to consolidated financial statements

	2019 DKK'000	2018 DKK'000
6. Proposed distribution of profit/loss		
Retained earnings	(3.608)	33.033
Minority interests' share of profit/loss	(915)	(10.111)
	(4.523)	22.922

	Completed develop- ment projects DKK'000	Acquired intangible assets DKK'000	Acquired patents DKK'000	Goodwill DKK'000
7. Intangible assets				
Cost beginning of year	2.599	3.677	104	128.246
Additions	1.026	0	0	0
Disposals	(628)	0	0	0
Cost end of year	2.997	3.677	104	128.246
Amortisation and impairment losses beginning of year	(1.264)	(3.677)	(46)	(98.794)
Amortisation for the year	(464)	0	(24)	(5.602)
Reversal regarding disposals	628	0	0	0
Amortisation and impairment losses end of year	(1.100)	(3.677)	(70)	(104.396)
Carrying amount end of year	1.897	0	34	23.850

7. Intangible assets

Development projects relates to development of a new products and internal processes, which are intended to supplement and replace part of the current portfolio of Lab-equipment including optimizing current manufacturing processes and workstreams.

Notes to consolidated financial statements

	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improve- ments DKK'000
8. Property, plant and equipment			
Cost beginning of year	20.530	22.461	5.483
Additions	260	323	108
Disposals	(132)	(13.280)	(41)
Cost end of year	20.658	9.504	5.550
Depreciation and impairment losses beginning of year	(13.368)	(22.103)	(1.610)
Depreciation for the year	(1.826)	(274)	(591)
Reversal regarding disposals	132	13.280	21
Depreciation and impairment losses end of year	(15.062)	(9.097)	(2.180)
Carrying amount end of year	5.596	407	3.370
Recognised assets not owned by entity	3.657	-	-
			Deposits DKK'000
9. Fixed asset investments			
Cost beginning of year			1.430
Additions			111
Disposals			(97)
Cost end of year			1.444
Impairment losses beginning of year			(71)
Impairment losses for the year			(154)
Impairment losses end of year			(225)
Carrying amount end of year			1.219
		2019 DKK'000	2018 DKK'000
10. Contract work in progress			
Contract work in progress		115.894	185.155
Progress billings regarding contract work in progress		(106.575)	(177.828)
Transferred to liabilities other than provisions		1.289	661
		10.608	7.988

Notes to consolidated financial statements

	2019
	DKK'000
11. Deferred tax	
Tax losses carried forward	1.000
	1.000
Changes during the year	
Recognised in the income statement	1.000
End of year	1.000

The Group's full tax asset totals DKK 31.7m, however, the Group has only recognised net deferred tax assets of DKK 1.0m arising from temporary differences between carrying amounts and tax-based values. Based on the budget and the forecast for the Group, Management expects the deferred tax assets to be used in the period from 2020 to 2022. The value of the tax asset relies on some assumptions, with the key assumption being that the Group will be able to realise the 2020 budget approved by Management and the 2021-2022 forecast.

Computing expected future taxable income in the years ahead is highly subject to estimation and judgement, for which reason the valuation of the deferred tax asset recognised is inherently uncertain.

12. Prepayments

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

13. Cash and cash equivalents

Cash includes a guarantee cover account amounting to 11.000 t.DKK which is pledged as security for debt to the Group's bank.

14. Other provisions

Other provisions comprise costs for guarantees provided.

15. Subordinate loan capital

The Group has issued subordinated loan capital amounted to 11.219 t.DKK. Interests on subordinated loan is calculated equalling the interest rate on bank loans and the subordinated loan including interests falls due when bank loans are fully paid.

	2019	2018
	DKK'000	DKK'000
16. Other long-term payables		
Holiday pay obligation	1.344	0
	1.344	0

Notes to consolidated financial statements

	Due within 12 months 2019 DKK'000	Due within 12 months 2018 DKK'000	Due after more than 12 months 2019 DKK'000	Outstanding after 5 years DKK'000
17. Liabilities other than provisions				
Subordinate loan capital	0	0	11.219	11.219
Bank loans	1.000	0	24.000	6.000
Finance lease liabilities	1.178	1.153	3.131	0
Other payables	0	0	1.344	0
	2.178	1.153	39.694	17.219

	2019 DKK'000	2018 DKK'000
18. Change in working capital		
Increase/decrease in inventories	(146)	2.686
Increase/decrease in receivables	(6.076)	8.558
Increase/decrease in trade payables etc	(2.443)	588
	(8.665)	11.832

	2019 DKK'000	2018 DKK'000
19. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	19.618	26.046
Liabilities under rental agreements or leases with group enterprises until expiry	16.812	19.214

20. Contingent liabilities

The Danish entities of the Labflex Holding ApS-Group participates in a Danish joint taxation arrangement where Lars Foghsgaard Holding ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Danish entities of the Labflex Holding ApS-Group is therefore secondarily liable for income taxes etc for the jointly taxed entities, which is limited to the equity interest by which the individual entities participates in the Lars Foghsgaard Holding ApS-group, as well as secondarily liable for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements

The company has provided guarantee commitments relating to advance payment guarantees and performance bonds.

Notes to consolidated financial statements

21. Assets charged and collateral

The Group has issued a company pledge of DKK 25,000k (2018: DKK 25,000k) as security for debt to bank.

The security comprises inventories and un-secured claims relating to the sale of goods and services as well as goodwill, etc. The Group pledge is carrying amount of mortgaged assets is DKK 33,900k (2018: DKK 34,133k).

The Group has provided a guarantee for Labflex Holding ApS as security for the OTC framework.

22. Non-arm's length related party transactions

Pursuant to paragraph 98c, section 7 of the Danish Financial Statements Act, the Group has elected not to disclose all transactions with related parties. No transactions with related parties have been carried through on non-market terms.

23. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Lars Foghsgaard Holding ApS, Gentofte, Central Business Registration No. 33 14 33 41

	<u>Registered in</u>	<u>Corpo- rate form</u>	<u>Equity inte- rest %</u>	<u>Equity DKK'000</u>	<u>Profit/loss DKK'000</u>
24. Subsidiaries					
Labflex A/S	Skive, DK	A/S	100,0	22.302	2.144
Labflex Ltd.	Derby, UK	Ltd.	100,0	(7.181)	(430)

Parent income statement for 2019

	<u>Notes</u>	<u>2019 DKK'000</u>	<u>2018 DKK'000</u>
Gross profit		0	0
Administrative expenses		(196)	(873)
Operating profit/loss		(196)	(873)
Income from investments in group enterprises		(2.541)	(38.960)
Other financial income		0	65.076
Other financial expenses		(871)	(1.522)
Profit/loss before tax		(3.608)	23.721
Tax on profit/loss for the year	4	0	(1.692)
Profit/loss for the year	5	(3.608)	22.029

Parent balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019 DKK'000</u>	<u>2018 DKK'000</u>
Investments in group enterprises		47.172	36.775
Fixed asset investments	6	<u>47.172</u>	<u>36.775</u>
Fixed assets		<u>47.172</u>	<u>36.775</u>
Other receivables		5	475
Receivables		<u>5</u>	<u>475</u>
Current assets		<u>5</u>	<u>475</u>
Assets		<u>47.177</u>	<u>37.250</u>

Parent balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019 DKK'000</u>	<u>2018 DKK'000</u>
Contributed capital	7	13.250	13.250
Retained earnings		4.078	(5.252)
Equity		<u>17.328</u>	<u>7.998</u>
Bank loans		24.000	25.000
Non-current liabilities other than provisions	8	<u>24.000</u>	<u>25.000</u>
Current portion of long-term liabilities other than provisions	8	1.000	0
Bank loans		185	376
Trade payables		473	395
Payables to group enterprises		4.191	1.789
Joint taxation contribution payable		0	1.692
Current liabilities other than provisions		<u>5.849</u>	<u>4.252</u>
Liabilities other than provisions		<u>29.849</u>	<u>29.252</u>
Equity and liabilities		<u>47.177</u>	<u>37.250</u>
Events after the balance sheet date	1		
Uncertainty relating to recognition and measurement	2		
Contingent liabilities	9		
Assets charged and collateral	10		
Related parties with controlling interest	11		
Transactions with related parties	12		

Parent statement of changes in equity for 2019

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	13.250	(5.252)	7.998
Exchange rate adjustments	0	(289)	(289)
Group contributions etc	0	13.227	13.227
Profit/loss for the year	0	(3.608)	(3.608)
Equity end of year	13.250	4.078	17.328

Notes to parent financial statements

1. Events after the balance sheet date

No events after the balance sheet date has occurred that effects the evaluation of the annual report and e.g. accruals related to provision on debt and project risks or -liabilities is evaluated to be realistic and conservative.

The Covid-19 situation has had an impact on the business and mainly due to a decrease in the number of new projects being initiated and a delay in the clarifications needed on pending orders. But as the main construction sites in all markets during the entire Covid-19 lockdowns has been kept opened Labflex A/S has been able to proceed producing, delivering, and installing all main projects. In order to mitigate the financial impact from Covid-19 Labflex A/S has been able to amend or postpone costs and protect the financial cash-flow, consequently H1 2020 is expected to be realized in line with budget.

The second half of 2020 can potentially continue to be affected by the Covid-19 in case the lockdown restrictions will remain and mainly in case the current limitations in meeting- and travelling activities will be retained. The risk of negative impact on Labflex A/S financial performance in the second half of 2020 is primarily related to the markets in Scandinavia, United Kingdom and Central Europe. The management have an intensified focus on continuously monitoring the order backlog development and adapting the cost structure accordingly as well as protecting the cash-flow by regular forecast and reporting on the liquidity situation. Consequently, Labflex A/S management team continues to operate the company on the basis of going concern.

2. Uncertainty relating to recognition and measurement

Goodwill is measured at cost less write-offs, when the recoverable amount is less than carrying amount. The recoverable amount is calculated as the higher of net sales price and the value in use.

When calculating value in use, Management has extracted the estimated cash flows from the approved budgets and projections for the budget years 2020 – 2024. In addition to these estimates, Management has calculated a terminal period by projecting the final budget year using expected macroeconomics growth rates.

The primary uncertainties relate to budget fulfillment. Other uncertainties relate to cost of capital (WACC) as well as growth and profit rates in the terminal period. Management has highlighted key figures and volatilities below.

Key figure	Applied rate %	Volatility (change in value / change in rate)	
		+ 0,5 point k DKK	- 0,5 point k DKK
WACC	16,05	(2.653)	2.869
Growth in terminal period	2,00	1.413	(1.316)
EBITDA-margin in terminal period	10,50	2.322	(2.322)

Notes to parent financial statements

The applied assumptions are based on Management's best estimate of the growth and earnings. It is Management's expectations, that the long term growth rate does not exceed the marked rate as a whole.

Management notes, that should the expectations not be met, there is a significant risk, that goodwill would be impaired.

	<u>2019</u>	<u>2018</u>
3. Staff costs		
Average number of employees	<u>0</u>	<u>0</u>
	<u>2019</u>	<u>2018</u>
	<u>DKK'000</u>	<u>DKK'000</u>
4. Tax on profit/loss for the year		
Current tax	<u>0</u>	<u>1.692</u>
	<u>0</u>	<u>1.692</u>
	<u>2019</u>	<u>2018</u>
	<u>DKK'000</u>	<u>DKK'000</u>
5. Proposed distribution of profit/loss		
Retained earnings	<u>(3.608)</u>	<u>22.029</u>
	<u>(3.608)</u>	<u>22.029</u>
		Investments in group enterprises DKK'000
6. Fixed asset investments		
Cost beginning of year		243.892
Additions		13.227
Cost end of year		<u>257.119</u>
Impairment losses beginning of year		(207.117)
Exchange rate adjustments		(289)
Amortisation of goodwill		(4.118)
Share of profit/loss for the year		1.577
Impairment losses end of year		<u>(209.947)</u>
Carrying amount end of year		<u>47.172</u>

A specification of investments in subsidiaries is evident from the notes to the consolidated financial statements.

Notes to parent financial statements

	<u>Number</u>	<u>Par value DKK'000</u>	<u>Nominal value DKK'000</u>
7. Contributed capital			
A-shares	8.502.050	1	8.502
B-shares	500.544	1	501
C-shares	4.247.406	1	4.247
	13.250.000		13.250
	<u>Due within 12 months 2019 DKK'000</u>	<u>Due after more than 12 months 2019 DKK'000</u>	<u>Outstanding after 5 years DKK'000</u>
8. Liabilities other than provisions			
Bank loans	1.000	24.000	6.000
	1.000	24.000	6.000

9. Contingent liabilities

The Entity participates in a Danish joint taxation arrangement where Lars Foghsgaard Holding ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore secondarily liable for income taxes etc for the jointly taxed entities, which is limited to the equity interest by which the entity participates in the Group, as well as secondarily liable for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

The parent has guaranteed Labflex A/S engagement with the bank for a maximum of DKK 42,500k.

10. Assets charged and collateral

The company has provided security for all debt to the bank in the form of mortgaged shares in a subsidiary. The carrying amount of mortgaged investments as at 31.12.2019 is DKK 33,945k.

11. Related parties with controlling interest

Related parties with a controlling interest in Labflex Holding ApS and the Group are as follows:

- Lars Foghsgaard Holding ApS, Denmark, holds the majority of the company shares, hence the company has a controlling interest in the company
- Fox3 ApS, Denmark, is the ultimate holding company of the Group, and from thereon has a controlling interest given its voting rights at the higher level of the Group.

Notes to parent financial statements

12. Non-arm's length related party transactions

Pursuant to paragraph 98c, section 7 of the Danish Financial Statements Act, the Company has elected not to disclose all transactions with related parties. No transactions with related parties have been carried through on non-market terms.

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).

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year.

Consolidated financial statements

The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence. Enterprises in which the Group, directly or indirectly, holds between 20% and 50% of the voting rights and exercises significant, but not controlling influence are regarded as associates.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the acquisition date, with net assets having been calculated at fair value.

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 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.

When recognising foreign subsidiaries that are integral entities, monetary assets and liabilities are translated using the exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at the

Accounting policies

exchange rate of the time of acquisition or the time of any subsequent revaluation or writedown. The items of the income statement are translated at the average rates of the months; however, items deriving from non-monetary assets and liabilities are translated using the historical rates applicable to the relevant non-monetary items.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, production costs and other operating income.

Revenue

Revenue from the sale of manufactured goods and goods for resale 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.

Contract work in progress is included in revenue based on the stage of completion so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method).

Production costs

Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary writedown of inventories.

Also, provisions for loss on contract work in progress are recognised under production costs.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment attached to the distribution process.

Administrative expenses

Administrative expenses comprise costs incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

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 internal profits or losses.

Accounting policies

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises, net capital or exchange gains on 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

Goodwill

Goodwill is the positive difference between cost and fair value of assets and liabilities arising from acquisitions. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. Useful life has been determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and. Useful lives are reassessed annually. The amortisation periods used are 10 years.

Goodwill is written down to the lower of recoverable amount and carrying amount.

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 less deferred tax 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. If the useful life cannot be estimated reliably, it is fixed at 10 years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. The amortisation periods used are 5 years, corresponding to Managements estimate of the useful life of the assets.

Accounting policies

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.

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 assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

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:

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

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

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

In the parent financial statements, 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 will involve a loss, a provision is recognised that is measured at present value of the costs necessary to settle the obligations at the balance sheet date.

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.

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 on 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.

Receivables

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

Contract work in progress

Contract work in progress is measured at the selling price of the work carried out at the balance sheet date.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. Usually, the stage of completion is determined as the ratio of actual to total budgeted consumption of resources.

If the selling price of a project in progress cannot be made up reliably, it is measured at the lower of costs incurred and net realisable value.

Each contract in progress is recognised in the balance sheet under receivables or liabilities other than provisions, depending on whether the net value, calculated as the selling price less prepayments received, is positive or negative.

Costs of sales work and of securing contracts as well as finance costs are recognised in the income statement as incurred.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and the tax-based value of assets and liabilities, for which the tax-based value is calculated based on the planned use of each asset or the planned settlement of each liability. However, no deferred tax is recognised for amortisation of goodwill disallowed for tax purposes and temporary differences arising at the date of acquisition that do not result from a business combination and that do not have any effect on profit or loss or on taxable income.

Deferred tax assets, including the tax base of tax loss carry forwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Accounting policies

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 non-recourse guarantee commitments, returns, loss on contract work in progress, decided and published restructuring, etc.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Non-recourse guarantee commitments comprise commitments to remedy defects and deficiencies within the guarantee period.

Once it is probable that total costs will exceed total income from a contract in progress, provision is made for the total loss estimated to result from the relevant contract.

Finance lease liabilities

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

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.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Joint taxation contributions receivable or payable

Current joint taxation contributions receivable or joint taxation payable is recognised in the balance sheet, calculated as tax computed on the taxable income of the year, which has been adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.

Accounting policies

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash less short-term bank loans.