Landson Emission Technologies A/S

Kuopiovej 13, 5700 Svendborg

CVR no. 38 00 80 48

Annual report 2019

Approved at the Company's annual general meeting on 2 April 2020

Chairman

Guang Hu

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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Landson Emission Technologies 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 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.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Svendborg, 2 April 2020
Executive Board:

Johnny Marcher

Board of Directors:

Guang Hu Chairman	Wu Yin	Johnny Marcher

Independent auditor's report

To the shareholders of Landson Emission Technologies A/S

Opinion

We have audited the financial statements of Landson Emission Technologies 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 accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the 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.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 the financial statements.

Independent auditor's report

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 note 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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Svendborg, 2 April 2020
Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Ahle Pedersen
State Authorised Public Accountant
mne16611

Management's review

Company details

Name	Landson Emission Technologies A/S
Address, Postal code, City	Kuopiovej 13, 5700 Svendborg
CVR no.	38 00 80 48
Established	14 September 2016
Registered office	Svendborg
Financial year	1 January - 31 December
Board of Directors	Guang Hu, Chairman Wu Yin Johnny Marcher
Executive Board	Johnny Marcher
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Fåborgvej 44, 5700 Svendborg, Denmark

Management's review

Business review

The object of the Company is research and development, manufacture and sales within cleantech and other business related hereto.

Financial review

The income statement for 2019 shows a loss of DKK 2,117,122 against a loss of DKK 2,312,192 last year, and the balance sheet at 31 December 2019 shows equity of DKK 68,423,688.

2019 was a year where the company continued the focus on the development of new products and processes for Diesel particulate filters (DPF) for the retrofit market, and partly for the OEM market. In parallel the company finished the DPF for marine applications. This work was initiated in 2016/17, and was continued through 2019 to meet new and strict regulations.

Along with the development of DPF the company also put a lot of efforts into finalizing catalytic coatings for DPF, both retrofit and marine applications

In 2019, the company accelerated the development of ceramic membranes for water treatment. Especially Flat Sheet Membranes has been in focus, but tubular membranes have also been developed.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end. However, the effect of Corona virus is not yet known. Until this day, the markets in which we operate has not been affected negatively but given that some of our products are linked to the transport sector, it is expected that a decline in the DPF sales compared to the budget for 2020 will occur.

Outlook

The Company expects growth despite the Corona virus in 2020-2021, mainly in the membrane business.

Liquidity for working capital and investments is expected to be secured through a bank loan and financing from the parent company.

Financial statements 1 January - 31 December

Income statement

Note	DKK	2019	2018
	Gross profit	10,204,268	4,424,990
2	Staff costs	-7,216,499	-2,871,532
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-3,310,803	-2,375,216
	Other operating expenses	-299,332	0
	Profit/loss before net financials	-622,366	-821,758
	Financial income	81,955	909
3	Financial expenses	-2,158,899	-2,140,168
	Profit/loss before tax	-2,699,310	-2,961,017
4	Tax for the year	582,188	648,825
	Profit/loss for the year	-2,117,122	-2,312,192

	Recommended appropriation of profit/loss		
	Reserve for development costs	4,696,205	6,192,162
	Retained earnings/accumulated loss	-6,813,327	-8,504,354
		-2,117,122	-2,312,192

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2019	2018
	ASSETS		
	Fixed assets		
5	Intangible assets		
	Completed development projects	19,603,616	20,353,465
	Acquired intangible assets	0	27,500
	Development projects in progress and prepayments for intangible assets	9,286,459	2,515,834
		28,890,075	22,896,799
6	Property, plant and equipment		
	Land and buildings	13,934,508	14,059,621
	Fixtures and fittings, other plant and equipment	13,924,665	13,091,841
	Prepayments for property, plant and equipment	2,034,760	0
		29,893,933	27,151,462
	Total fixed assets	58,784,008	50,048,261
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	3,546,716	2,488,014
	Work in progress	1,766,965	1,704,204
	Finished goods and goods for resale	1,146,004	174,611
		6,459,685	4,366,829
	Receivables		
	Trade receivables	5,563,428	4,673,412
	Receivables from group enterprises	108,893	0
	Other receivables	1,359,539	885,620
	Prepayments	817,763	732,818
		7,849,623	6,291,850
	Cash	1,651,911	1,376,040
	Total non-fixed assets	15,961,219	12,034,719
	TOTAL ASSETS	74,745,227	62,082,980

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2019	2018
	EQUITY AND LIABILITIES		
	Equity		
7	Share capital	6,000,000	5,000,000
	Reserve for development costs	22,534,258	17,838,053
	Retained earnings	39,889,430	-4,307,843
	Total equity	68,423,688	18,530,210
	Provisions		
	Deferred tax	1,649,895	391,944
	Total provisions	1,649,895	391,944
	Liabilities other than provisions		
8	Non-current liabilities other than provisions		
	Payables to group entities	0	34,874,284
	Other payables	191,116	0
		191,116	34,874,284
	Current liabilities other than provisions		
	Bank debt	87,859	0
	Trade payables	3,841,221	2,404,270
	Payables to group enterprises	0	4,713,779
	Other payables	551,448	1,168,493
		4,480,528	8,286,542
	Total liabilities other than provisions	4,671,644	43,160,826
	TOTAL EQUITY AND LIABILITIES	74,745,227	62,082,980

1 Accounting policies
9 Collateral
10 Related parties

Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2018	5,000,000	11,645,891	4,196,511	20,842,402
Transfer through appropriation of loss	0	6,192,162	-8,504,354	-2,312,192
Equity at 1 January 2019	5,000,000	17,838,053	-4,307,843	18,530,210
Capital increase	1,000,000	0	51,010,600	52,010,600
Transfer through appropriation of loss	0	4,696,205	-6,813,327	-2,117,122
Equity at 31 December 2019	6,000,000	22,534,258	39,889,430	68,423,688

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Landson Emission Technologies A/S for 2019 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

Income from the sale of finished goods, is recognised in revenue when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross profit

The items revenue, cost of sales and external expenses have been aggregated into one item in the income statement called gross profit in accordance with section 32 of the Danish Financial Statements Act.

Other operating expenses

Other operating expenses comprise items of a secondary nature relative to the Company's core activities.

Raw materials and consumables, etc.

Raw materials and consumables include expenses relating to raw materials and consumables used in generating the year's revenue.

The item includes research and development costs that do not qualify for capitalisation.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Amortisation/depreciation and impairment

The item comprises amortisation/depreciation and impairment of intangible assets and property, plant and equipment.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Land and buildings	25 years
Fixtures and fittings, other plant and equipment	3-20 years
Installations	25 years
Acquired intangible assets	3 years
Development projects	5-10 years

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Intangible assets

Other intangible assets include development projects and other acquired intangible rights, including software licences, distribution rights and development projects.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities areidentifiable and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period cannot exceed 10 years.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Other liabilities are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK	2019	2018
2	**Staff costs**		
	Wages/salaries	12,605,621	9,167,008
	Pensions	1,390,894	1,213,857
	Other social security costs	343,407	197,395
	Other staff costs	304,019	179,440
	Staff costs transferred to inventory and development projects	-7,427,442	-7,886,168
		7,216,499	2,871,532
	Average number of full-time employees	32	21
3	**Financial expenses**		
	Interest expenses, group entities	2,028,755	1,789,457
	Other financial expenses	130,144	350,711
		2,158,899	2,140,168
4	**Tax for the year**		
	Deferred tax adjustments in the year	-582,188	-648,825
		-582,188	-648,825

5 **Intangible assets**

DKK	Completed development projects	Acquired intangible assets	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2019	21,555,907	110,000	2,515,834	24,181,741
Additions	452,593	0	6,770,625	7,223,218
Cost at 31 December 2019	22,008,500	110,000	9,286,459	31,404,959
Impairment losses and amortisation at 1 January 2019	1,202,442	82,500	0	1,284,942
Amortisation for the year	1,202,442	27,500	0	1,229,942
Impairment losses and amortisation at 31 December 2019	2,404,884	110,000	0	2,514,884
Carrying amount at 31 December 2019	19,603,616	0	9,286,459	28,890,075

Completed development projects and development projects in progress

Development projects includes newly developed products. The valutation is based on sales budgets for the individual projects for the coming years, as well as the total budget and estimates for the Company.

Financial statements 1 January - 31 December

Notes to the financial statements

6 Property, plant and equipment

DKK	Land and buildings	Fixtures and fittings, other plant and equipment	Prepayments for property, plant and equipment	Total
Cost at 1 January 2019	15,391,795	15,911,703	0	31,303,498
Additions	476,611	2,311,961	2,034,760	4,823,332
Cost at 31 December 2019	15,868,406	18,223,664	2,034,760	36,126,830
Impairment losses and depreciation at 1 January 2019	1,332,174	2,819,862	0	4,152,036
Depreciation	601,724	1,479,137	0	2,080,861
Impairment losses and depreciation at 31 December 2019	1,933,898	4,298,999	0	6,232,897
Carrying amount at 31 December 2019	13,934,508	13,924,665	2,034,760	29,893,933

Note 9 provides more details on security for loans, etc. as regards property, plant and equipment.

7 Share capital

Analysis of changes in the share capital over the past 3 years:

DKK	2019	2018	2017
Opening balance	5,000,000	5,000,000	500,000
Capital increase	1,000,000	0	4,500,000
	6,000,000	5,000,000	5,000,000

8 Non-current liabilities other than provisions

Of the long-term liabilities, DKK 0 falls due for payment after more than 5 years after the balance sheet date.

9 Collateral

As security for the Company's debt to banks, the Company has provided security in its property for at total amount of TDKK 2,500. The total carrying amount of these assets is TDKK 13,935.

10 Related parties

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

Name	Domicile
Sun Vision Group Limited	China