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Havneholmen 29  
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CVR no. 20 22 26 70

**ACCELINK DENMARK A/S**  
**BLOKKEN 84, 3460 BIRKERØD**  
**ANNUAL REPORT**  
**1 JANUARY - 31 DECEMBER 2020**

**The Annual Report has been presented and  
adopted at the Company's Annual General  
Meeting on 8 April 2021**

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**Yueqiang Shen**

*The English part of this document is an unofficial translation of the original Danish text, and in case of any discrepancy between the Danish text and the English translation, the Danish text shall prevail.*

**CVR NO. 28 28 50 35**

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**COMPANY DETAILS**

<b>Company</b>	Accelink Denmark A/S Blokken 84 3460 Birkerød  CVR No.: 28 28 50 35 Established: 29 November 2004 Registered Office: Birkerød Financial Year: 1 January - 31 December
<b>Board of Directors</b>	Xuanze HUANG, chairman Xianghong Yu, vice-chairman Weidong Ma Dan Anker Zauner, elected by employees Christian Ingemann Mikkelsen, elected by employees
<b>Executive Board</b>	Yueqiang Shen
<b>Auditor</b>	BDO Statsautoriseret revisionsaktieselskab Havneholmen 29 1561 Copenhagen V
<b>Bank</b>	Nykredit Kalvebod Brygge 1-3 5 1780 Copenhagen V
<b>Law Firm</b>	Ursus Law Firm

## BOARD OF DIRECTORS STATEMENT AND MANAGEMENT'S STATEMENT

Today the Board of Directors and Executive Board have discussed and approved the Annual Report of Accelink Denmark A/S for the financial year 1 January - 31 December 2020.

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 Company's assets, liabilities and financial position at 31 December 2020 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2020.

The Management Commentary includes in our opinion a fair presentation of the matters dealt with in the Commentary.

We recommend the Annual Report be approved at the Annual General Meeting.

Birkerød, 8 April 2021

Executive Board

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Yueqiang Shen

Board of Directors

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Xuanze HUANG  
Chairman

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Xianghong Yu  
Vice-chairman

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Weidong Ma

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Dan Anker Zauner  
Elected by employees

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Christian Ingemann Mikkelsen  
Elected by employees

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholder of Accelink Denmark A/S

#### Opinion

We have audited the Financial Statements of Accelink Denmark A/S for the financial year 1 January - 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity, cash flows, notes and a summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2020 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2020 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 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 evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

#### 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 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 judgment and maintain professional skepticism 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.

## INDEPENDENT AUDITOR'S REPORT

- 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 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 Management Commentary

Management is responsible for Management Commentary.

Our opinion on the Financial Statements does not cover the Management Commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the Management Commentary and, in doing so, consider whether the Management Commentary is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management Commentary provides the information required under the Danish Financial Statements Act.

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

Copenhagen, 8 April 2021

BDO Statsautoriseret revisionsaktieselskab  
CVR no. 20 22 26 70

Ole C. K. Nielsen  
State Authorised Public Accountant  
MNE no. mne23299

**FINANCIAL HIGHLIGHTS**

	2020	2019	2018	2017	2016
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Net revenue.....	77,072	74,066	78,241	61,752	54,681
Gross profit/loss.....	23,221	28,269	34,583	15,878	12,478
Operating profit/loss of main activities...	7,953	13,307	21,961	3,537	5,107
Financial income and expenses, net.....	-398	-327	-23	-188	-159
Profit/loss for the year.....	6,540	15,398	21,565	3,348	5,317
<b>Balance sheet</b>					
Total assets.....	110,748	98,557	70,912	47,000	43,156
Equity.....	84,395	77,856	62,458	40,892	37,544
<b>Cash flows</b>					
Investment in property, plant and equipment.....	-18,670	-23,545	-5,781	-4,413	-2,385
<b>Key ratios</b>					
Equity ratio.....	76.2	79.0	88.1	87.0	87.0
Return on equity.....	8.1	21.9	41.7	8.5	15.2

The ratios stated in the list of key figures and ratios have been calculated as follows:

Equity ratio: 
$$\frac{\text{Equity ex. minorities, at year end} \times 100}{\text{Total equity and liabilities, at year end}}$$

Return on equity: 
$$\frac{\text{Profit/loss after tax} \times 100}{\text{Average equity}}$$

## MANAGEMENT COMMENTARY

### Principal activities

Accelink Denmark A/S is wholly-owned by its parent company, Accelink Technologies Co., Ltd. The objective of Accelink Denmark A/S is to supply the parent company with PLC technology and products to help the parent company maintain its position as the leading global supplier of PLC-based optical components for the growing market for fiber optical technology, which is demanding significant bandwidth upgrading.

Thanks to its competitive PLC wafer production facilities, efficient production processes, patents and customer relations, Accelink Denmark A/S is a key player in the PLC components area.

The Company continues to invest in product portfolio development and productivity measures in order to align with the market demand.

### Development in activities and financial and economic position

In 2020, the Company's revenue amounted to DKK 77,071,739 against DKK 74,065,710 last year. The income statement for 2020 shows an operating profit of DKK 7,952,838 against an operating profit of DKK 13,306,659 last year, and the balance sheet at 31 December 2020 shows equity of DKK 84,395,354.

Profit/loss for the year was influenced by increased maintenance costs in the production as well as production volume, and by reduction of WIP stock.

### Profit/loss for the year compared to the expected development

The profit for the year was as expected.

### Significant events after the end of the financial year

No events have occurred after the end of the financial year of material importance for the company's financial position.

### Future expectations

In 2021, the Company's revenue is expected to increase as a result of increased demand from the market. Against this background, a positive result is expected.

To keep up with the increasing demand, substantial investments have been made and are planned to be completed in 2021 in order to increase the production capacity.

Covid-19 has changed our procedures in the beginning of 2020 and through the year, but we are continuing to produce, and we do not expect any material long-term effect on our business.

## INCOME STATEMENT 1 JANUARY - 31 DECEMBER

	Note	2020 DKK	2019 DKK
<b>NET REVENUE</b> .....		<b>77,071,739</b>	<b>74,065,710</b>
Production costs.....	1	-53,850,482	-45,796,347
<b>GROSS PROFIT/LOSS</b> .....		<b>23,221,257</b>	<b>28,269,363</b>
Administrative expenses.....	1	-15,343,341	-15,016,104
<b>OPERATING PROFIT</b> .....		<b>7,877,916</b>	<b>13,253,259</b>
Other operating income.....		74,922	53,400
<b>OPERATING PROFIT</b> .....		<b>7,952,838</b>	<b>13,306,659</b>
Financial income.....	2	845,962	399,035
Financial expenses.....	3	-1,244,085	-726,362
<b>PROFIT BEFORE TAX</b> .....		<b>7,554,715</b>	<b>12,979,332</b>
Tax on profit/loss for the year.....	4	-1,015,146	2,418,290
<b>PROFIT FOR THE YEAR</b> .....	5	<b>6,539,569</b>	<b>15,397,622</b>

## BALANCE SHEET AT 31 DECEMBER

ASSETS	Note	2020 DKK	2019 DKK
Intangible fixed assets acquired.....		23,643	48,599
<b>Intangible assets.....</b>	<b>6</b>	<b>23,643</b>	<b>48,599</b>
Production plant and machinery.....		34,344,340	17,914,976
Other plant, machinery, tools and equipment.....		155,882	174,173
Tangible fixed assets in progress and prepayment.....		3,735,464	11,804,654
<b>Property, plant and equipment.....</b>	<b>7</b>	<b>38,235,686</b>	<b>29,893,803</b>
Receivables from group enterprises.....		12,286,226	0
Rent deposit and other receivables.....		4,178,269	4,165,515
<b>Financial non-current assets.....</b>	<b>8</b>	<b>16,464,495</b>	<b>4,165,515</b>
<b>NON-CURRENT ASSETS.....</b>		<b>54,723,824</b>	<b>34,107,917</b>
Raw materials and consumables.....		2,487,243	1,473,440
Work in progress.....		7,869,029	7,483,241
Finished goods and goods for resale.....		1,271,576	1,271,841
<b>Inventories.....</b>		<b>11,627,848</b>	<b>10,228,522</b>
Trade receivables.....		2,435,314	458,319
Receivables from group enterprises.....	9	11,065,674	14,037,242
Deferred tax assets.....	10	1,403,144	2,418,290
Other receivables.....		4,328,093	1,676,772
Prepayments and accrued income.....	11	300,474	194,566
<b>Receivables.....</b>		<b>19,532,699</b>	<b>18,785,189</b>
<b>Cash and cash equivalents.....</b>		<b>24,864,023</b>	<b>35,435,142</b>
<b>CURRENT ASSETS.....</b>		<b>56,024,570</b>	<b>64,448,853</b>
<b>ASSETS.....</b>		<b>110,748,394</b>	<b>98,556,770</b>

## BALANCE SHEET AT 31 DECEMBER

EQUITY AND LIABILITIES	Note	2020 DKK	2019 DKK
Share capital.....	12	500,300	500,300
Retained earnings.....		83,895,054	77,355,484
<b>EQUITY.....</b>		<b>84,395,354</b>	<b>77,855,784</b>
Lease liabilities.....		10,116,312	14,175,097
Payables to group enterprises.....		2,337,063	0
Other liabilities.....		2,813,711	952,159
<b>Non-current liabilities.....</b>	<b>13</b>	<b>15,267,086</b>	<b>15,127,256</b>
Lease liabilities.....		3,188,544	1,668,000
Trade payables.....		3,115,701	1,573,093
Payables to group enterprises.....	14	931,250	0
Other liabilities.....		3,850,459	2,332,637
<b>Current liabilities.....</b>		<b>11,085,954</b>	<b>5,573,730</b>
<b>LIABILITIES.....</b>		<b>26,353,040</b>	<b>20,700,986</b>
<b>EQUITY AND LIABILITIES.....</b>		<b>110,748,394</b>	<b>98,556,770</b>
 Contingencies, etc.	 15		
Charges and securities	16		
Related parties	17		

## EQUITY

	Share capital	Retained earnings	Total
Equity at 1 January 2020.....	500,300	77,355,485	77,855,785
Proposed profit allocation, note 5.....		6,539,569	6,539,569
<b>Equity at 31 December 2020.....</b>	<b>500,300</b>	<b>83,895,054</b>	<b>84,395,354</b>

**CASH FLOW STATEMENT 1 JANUARY - 31 DECEMBER**

	<b>2020</b> DKK	<b>2019</b> DKK
Profit/loss for the year.....	6,539,569	15,397,622
Depreciation and amortisation, reversed.....	6,361,347	3,655,623
Adjustment of other financial income.....	377,776	126,254
Tax on profit/loss, reversed.....	1,015,146	-2,418,290
Lease payments.....	-2,916,017	-4,077,801
Corporation tax paid.....	0	-372,702
Change in inventories.....	-1,399,326	-2,994,028
Change in receivables (ex tax).....	-14,048,880	-7,309,670
Change in current liabilities (ex bank, tax, instalments payable and overdraft facility).....	8,190,294	-3,223,993
<b>CASH FLOWS FROM OPERATING ACTIVITY.....</b>	<b>4,119,909</b>	<b>-1,216,985</b>
Purchase of property, plant and equipment.....	-14,949,166	-3,749,831
Sale of property, plant and equipment.....	258,138	0
<b>CASH FLOWS FROM INVESTING ACTIVITY.....</b>	<b>-14,691,028</b>	<b>-3,749,831</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>-10,571,119</b>	<b>-4,966,816</b>
Cash and cash equivalents at 1 January.....	35,435,142	40,401,958
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER.....</b>	<b>24,864,023</b>	<b>35,435,142</b>
Cash and cash equivalents at 31 December comprise:		
Cash and cash equivalents.....	24,864,023	35,435,142
<b>CASH AND CASH EQUIVALENTS, NET DEBT.....</b>	<b>24,864,023</b>	<b>35,435,142</b>

## NOTES

	2020 DKK	2019 DKK	Note
<b>Staff costs</b>			<b>1</b>
Average number of employees	53	53	
Wages and salaries.....	27,943,853	26,064,032	
Pensions.....	4,268,273	4,352,261	
Social security costs.....	539,535	589,640	
Other staff costs.....	830,912	917,677	
	<b>33,582,573</b>	<b>31,923,610</b>	
Information about remuneration of Management is not included, see the exemption clause in the Danish Financial Statements Act, section 98b(3) no. 2.			
<b>Financial income</b>			<b>2</b>
Other financial income.....	845,962	399,035	
	<b>845,962</b>	<b>399,035</b>	
<b>Financial expenses</b>			<b>3</b>
Group enterprises.....	83,818	0	
Other financial expenses.....	1,160,267	726,362	
	<b>1,244,085</b>	<b>726,362</b>	
<b>Tax on profit/loss for the year</b>			<b>4</b>
Adjustment of deferred tax.....	1,015,146	-2,418,290	
	<b>1,015,146</b>	<b>-2,418,290</b>	
<b>Proposed distribution of profit</b>			<b>5</b>
Retained earnings.....	6,539,569	15,397,622	
	<b>6,539,569</b>	<b>15,397,622</b>	
<b>Intangible assets</b>			<b>6</b>
		Intangible fixed assets acquired	
Cost at 1 January 2020.....		35,376,275	
<b>Cost at 31 December 2020.....</b>		<b>35,376,275</b>	
Amortisation at 1 January 2020.....		35,327,676	
Amortisation for the year.....		24,956	
<b>Amortisation at 31 December 2020.....</b>		<b>35,352,632</b>	
<b>Carrying amount at 31 December 2020.....</b>		<b>23,643</b>	

## NOTES

				Note
<b>Property, plant and equipment</b>				<b>7</b>
	Production plant and machinery	Other plants, machinery, tools and equipment	Tangible fixed assets in progress and prepayment	
Cost at 1 January 2020.....	56,339,468	894,108	11,804,654	
Transferred.....	11,804,654	0	-11,804,654	
Additions.....	14,891,104	43,051	3,735,464	
Disposals.....	-4,216,104	0	0	
<b>Cost at 31 December 2020.....</b>	<b>78,819,122</b>	<b>937,159</b>	<b>3,735,464</b>	
Depreciation and impairment losses at 1 January 2020.....	38,424,492	719,935		
Reversal of depreciation of assets disposed of..	-224,759	0		
Depreciation for the year.....	6,275,049	61,342		
<b>Depreciation and impairment losses at 31 December 2020.....</b>	<b>44,474,782</b>	<b>781,277</b>		
<b>Carrying amount at 31 December 2020.....</b>	<b>34,344,340</b>	<b>155,882</b>	<b>3,735,464</b>	
Finance lease assets.....	12,044,461		3,735,464	
<b>Financial non-current assets</b>				<b>8</b>
		Receivables from group enterprises	Rent deposit and other receivables	
Cost at 1 January 2020.....		0	4,178,269	
Additions.....		12,286,226	0	
<b>Cost at 31 December 2020.....</b>		<b>12,286,226</b>	<b>4,178,269</b>	
<b>Carrying amount at 31 December 2020.....</b>		<b>12,286,226</b>	<b>4,178,269</b>	
<b>Receivables from group enterprises</b>				<b>9</b>
<b>Deferred tax assets</b>				<b>10</b>
Provision for deferred tax comprises deferred tax on intangible and tangible fixed assets, lease debt and tax losses.				
		2020 DKK	2019 DKK	
Deferred tax, beginning of year.....		2,418,290	0	
Deferred tax of the year, income statement.....		-1,015,146	2,418,290	
<b>Deferred tax assets at 31 December 2020.....</b>		<b>1,403,144</b>	<b>2,418,290</b>	

The Company has taxable income and will therefore make use of the deferred tax assets.

## NOTES

	2020 DKK	2019 DKK	Note	
<b>Prepayments and accrued income</b>			<b>11</b>	
Costs.....	300,474	194,566		
	<b>300,474</b>	<b>194,566</b>		
Tekstafsnit				
	2020 DKK	2019 DKK	12	
<b>Share capital</b>				
Allocation of share capital:				
Shares, 500 units in the denomination of 1,000 DKK.....	500,000	500,000		
Shares, 3 units in the denomination of 100 DKK.....	300	300		
	<b>500,300</b>	<b>500,300</b>		
<b>Long-term liabilities</b>			<b>13</b>	
	31/12 2020 total liabilities	Repayment next year	Debt outstanding after 5 years	31/12 2019 total liabilities
Lease liabilities.....	13,304,856	3,188,544	0	15,843,097
Payables to group enterprises.....	3,268,313	931,250	0	0
Other liabilities.....	2,813,711	0	2,813,711	952,159
	<b>19,386,880</b>	<b>4,119,794</b>	<b>2,813,711</b>	<b>16,795,256</b>
<b>Payables to group enterprises</b>				<b>14</b>
<b>Contingencies, etc.</b>				<b>15</b>
<b>Contingent assets</b>				
The Company has a deferred tax asset carried forward of DKK 31.4 m of which DKK 1.7 m has been taken to income. The remaining amount of DKK 29.7 m has not been accounted for in the balance sheet due to uncertainties on timing of utilization against future income.				
<b>Contingent liabilities</b>				
	2020 DKK	2019 DKK		
Tenancy commitments with a period of non-terminability of :				
Within 1 year.....	2,642,080	2,617,080		
Between 1 and 5 years.....	0	0		
After 5 years.....	0	0		
	<b>2,642,080</b>	<b>2,617,080</b>		
<b>Charges and securities</b>				<b>16</b>
No assets have been pledged as collateral or otherwise charged at 31 December 2020.				

**NOTES****Note****Related parties**

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The Company's related parties include:

**Controlling interest**

Accelink Technologies Co. Ltd, 1 Tanhu Rd, Conglongdao Development Zone, Jiangxia Dist. Whuan, 430205, China , is the principal shareholder.

**Transactions with related parties**

The Company did not carry out any material transactions that were not concluded on market conditions. According to section 98c(7) of the Danish Financial Statements Act information is given only on transactions that were not performed on common market conditions.

## ACCOUNTING POLICIES

The Annual Report of Accelink Denmark A/S for 2020 has been presented in accordance with the provisions of the Danish Financial Statements Act for enterprises in reporting class C, medium-size enterprises.

The Annual Report is prepared consistently with the accounting principles used last year.

## INCOME STATEMENT

### Net revenue

Net revenue from sale of merchandise and finished goods is recognised in the Income Statement if supply and risk transfer to purchaser has taken place before the end of the year and if the income can be measured reliably and is expected to be received. Net revenue is recognised exclusive of VAT, duties and less discounts related to the sale.

Net revenue is recognised exclusive of VAT and less duties and discounts related to the sale.

### Production costs

Production costs comprise costs, including wages and salaries and write-off, incurred to achieve the net revenue for the year. Commercial enterprises recognise cost of sales, and the manufacturing enterprises recognise production costs equal to the revenue for the year, including direct and indirect costs of raw materials and consumables, wages and salaries, rent and leasing and depreciation of production plant.

Amortisation of capitalised development and research costs and the development costs that do not fulfil the criteria for capitalisation are also recognised in production costs.

Impairment losses are recognised in connection with expected losses on project contracts.

### Administrative expenses

Administrative expenses include costs incurred during the year regarding management and administration of the Group, inclusive of costs relating to the administrative staff, executives, office premises, office expenses, etc. and related amortisation.

### Other operating income

Other operating income includes items of a secondary nature in relation to the Group's and the Company's activities, including profit from sale of intangible and tangible fixed assets. In addition, profit from sale of intangible and tangible fixed assets as well as business interruption and conflict compensations are included. Compensations are recognised when the income is deemed to be realisable.

### Financial income and expenses

Financial income and expenses include interest income and expenses, financial expenses of finance leases, realised and unrealised gains and losses arising from investments in financial assets, debt and transactions in foreign currencies, amortisation of financial assets and liabilities as well as charges and allowances under the tax-on-account scheme, etc. Financial income and expenses are recognised in the income statement by the amounts that relate to the financial year.

### Tax

The tax for the year, which consists of the current tax for the year and changes in deferred tax, is recognised in the income statement by the portion that may be attributed to the profit for the year, and is recognised directly in the equity by the portion that may be attributed to entries directly to the equity.

**ACCOUNTING POLICIES**

**BALANCE SHEET**

**Intangible fixed assets**

Acquired goodwill is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over the expected useful life which is estimated to 5 years. The period of amortisation is determined based on an assessment of the acquired company’s position in the market and earnings profile, and the industry-specific conditions.

Patents and licences are measured at the lower of cost less accumulated amortisation and the recoverable amount. Patents are amortised over the remaining patent period and licences are amortised over the period of the agreement, however, no more than 8 years.

Profit or loss from sale of intangible fixed assets is calculated at the difference between the sales price and the carrying amount at the time of the sale. Profit and loss are recognised in the Income Statement under other operating income or other operating expenses.

**Tangible fixed assets**

Land and buildings, production plant and machinery, other plant, fixtures and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

The depreciation base is cost less estimated residual value after end of useful life.

The cost includes the acquisition price and costs incurred directly in connection with the acquisition until the time when the asset is ready to be used. As regards self-manufactured assets, the cost price includes cost of materials, components, subcontractors, direct payroll and indirect production costs.

Straight-line depreciation is provided on the basis of an assessment of the expected useful lives of the assets and their residual value:

	Useful life	Residual value
Production plant and machinery.....	3-5 years	0 %
Other plant, fixtures and equipment.....	3-5 years	0 %

Profit or loss on disposal of tangible fixed assets is stated as the difference between the sales price less selling costs and the carrying amount at the time of sale. Profit or loss is recognised in the income statement as other operating income or other operating expenses.

**Lease contracts**

Lease contracts relating to tangible fixed assets for which the Company bears all material risks and benefits attached to the ownership (finance lease, see IAS 17) are recognised as assets in the balance sheet. The assets are at the initial recognition measured at the lower of cost stated at fair value and the present value of the future lease payments. The internal interest rate of the lease contract, or alternatively the Company’s loan interest, is used as discounting factor when calculating the present value. Finance lease assets are hereafter treated as the Group’s and the Company’s other similar tangible fixed assets.

The capitalised residual lease liability is recognised in the balance sheet as a liability and the interest portion of the lease payment is recognised in the income statement over the term of the contract.

**Fixed asset investments**

The portfolio of mortgage deeds includes mortgages that are expected to be held to maturity and are measured at amortised cost.

Deposits include rental deposits which are recognised and measured at amortised cost. Deposits are not depreciated.

## ACCOUNTING POLICIES

### Impairment of fixed assets

The carrying amount of intangible fixed and tangible assets together with fixed assets, which are not measured at fair value, are assessed on an annual basis for indications of impairment other than that reflected by amortisation and depreciation.

In the event of impairment indications, an impairment test is made for each asset or group of assets, respectively. If the recoverable amount is lower than the carrying amount, the assets are written down to the lower value.

The recoverable amount is calculated at the higher of net selling price and capital value. The capital value is determined as the fair value of the expected net cash flows from the use of the asset or group of assets and the expected net cash flows from sale of the asset or group of assets after the end of its useful life.

### Inventories

Inventories are measured at cost using the FIFO-principle. If the net realisable value is lower than cost, the inventories are written down to the lower value.

The cost of merchandise as well as raw materials and consumables is calculated at acquisition price with addition of transportation and similar costs.

The cost of finished goods and work in progress includes cost of raw materials, consumables, direct payroll cost and indirect production cost. Indirect production costs include indirect materials and payroll and maintenance and depreciation of the machines, factory buildings and equipment used in the production process, cost of factory administration and management and capitalised development costs relating to the products.

The net realisable value of inventories is stated at sales price less completion costs and costs incurred to execute the sale and is determined with due regard to marketability, obsolescence and development in expected sales price.

### Receivables

Receivables are measured at amortised cost which usually corresponds to nominal value. The value is reduced by impairment losses to meet expected losses.

### Accruals, assets

Accruals recognised as assets include costs incurred relating to the subsequent financial year.

### Tax payable and deferred tax

Current tax liabilities and receivable current tax are recognised in the balance sheet as the calculated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and taxes paid on account.

Deferred tax is measured on the temporary differences between the carrying amount and the tax value of assets and liabilities.

Deferred tax assets, including the tax value of tax loss carry-forwards, are measured at the expected realisable value of the asset, either by set-off against 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 under the legislation in force on the balance sheet date will be applicable when the deferred tax is expected to crystallise as current tax. Any changes in the deferred tax resulting from changes in tax rates, are recognised in the income statement, except from items recognised directly in equity.

## ACCOUNTING POLICIES

### Liabilities

Financial liabilities are recognised at the time of borrowing by the amount of proceeds received less borrowing costs. In subsequent periods, the financial liabilities are measured at amortised cost equal to the capitalised value when using the effective interest, the difference between the proceeds and the nominal value being recognised in the income statement over the term of loan.

Amortised cost of current liabilities usually corresponds to nominal value.

## CASH FLOW STATEMENT

The cash flow statement shows the Company's cash flows for the year for operating activities, investing activities and financing activities in the year, the change in cash and cash equivalents of the year and cash and cash equivalents at beginning and end of the year.

### Cash flows from operating activities:

Cash flows from operating activities are computed as the results for the year adjusted for non-cash operating items, changes in net working capital and corporation tax paid.

### Cash flows from investing activities:

Cash flows from investing activities include payments in connection with purchase and sale of intangible and tangible fixed asset and fixed asset investments.

### Cash flows from financing activities:

Cash flows from financing activities include changes in the size or composition of share capital and related costs, and borrowings and repayment of interest-bearing debt and payment of dividend to shareholders.

### Cash and cash equivalents:

Cash and cash equivalents include bank overdraft and cash in hand.