HKScan Denmark A/S

CVR No 25 17 75 09

Annual Report for 2015

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 28/4 2016

Chairman

Contents

Management's Statement and Auditor's Report

Management's Statement

The Board of Directors and the Executive Board have today considered and adopted the Annual Report of HKScan Denmark A/S for the financial year 1 January - 31 December 2015.

The Annual Report was prepared in accordance with the Danish Financial Statements Act. We consider the accounting policies applied appropriate and the estimates made reasonable. Furthermore, we consider the overall annual report presentation true and fair. Therefore, in our opinion the Annual Report gives a true and fair view of the financial position of the Company and of the results of the Company's operations.

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

Vinderup 28 April 2016

Executive Board

Anders Jeppesen Jensen

Michael Jørgensen

Board of Directors

Markku Suvanto
Chairman

Ernst Göran Holm
Vice Chairman

Anders Jeppesen Jensen

Henrik Schaar

Jette Vinther Nielsen

Brian Sloth

Independent Auditor's Report

To the Shareholders of HKScan Denmark A/S

Report on the Financial Statements

We have audited the Financial Statements of HKScan Denmark A/S for the financial year 1 January - 31 December 2015, which comprise income statement, balance sheet, statement of changes in equity, notes and summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Financial Statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

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

The audit has not resulted in any qualification.

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2015 and of the results of the Company's operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Independent Auditor's Report

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Financial Statements. On this basis, in our opinion, the information provided in Management's Review is consistent with the Financial Statements.

Skive, 28 April 2016
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

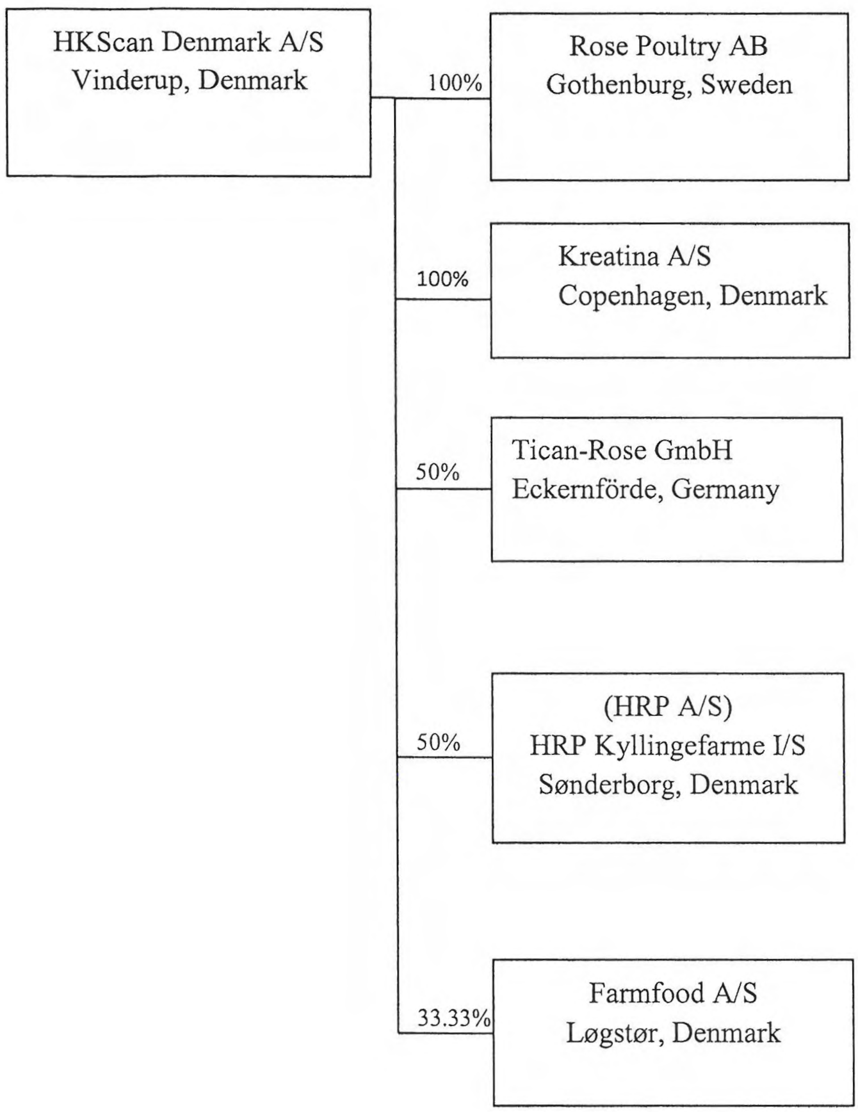
Bjørn Jakobsen	Michael Laursen
State Authorised Public Accountant	State Authorised Public Accountant

Management's Review

Company Information

The Company	HKScan Denmark A/S Tværmosevej 10 DK-7830 Vinderup Denmark Telephone: + 45 99 95 95 95 Facsimile: + 45 99 95 95 40 Website: www.rosepoultry.dk CVR No 25 17 75 09 Financial period: 1 January – 31 December Financial year: 17th financial year Municipality of reg. office: Holstebro
Board of Directors	Markku Suvanto Ernst Göran Holm Anders Jeppesen Jensen Henrik Schaar Jette Vinther Nielsen Brian Sloth
Executive Board	Anders Jeppesen Jensen Michael Jørgensen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Resenvej 81 DK-7800 Skive Denmark

Group Chart


HKScan Denmark A/S
Vinderup, Denmark
100%
Rose Poultry AB
Gothenburg, Sweden
100%
Kreatina A/S
Copenhagen, Denmark
50%
Tican-Rose GmbH
Eckernförde, Germany
50%
(HRP A/S)
HRP Kyllingefarme I/S
Sønderborg, Denmark
33.33%
Farmfood A/S
Løgstør, Denmark

Financial Highlights of HKScan Denmark A/S

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

	2015	2014	2013	2012	2011
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Key figures					
Profit/loss					
Revenue	1.268.391	1.481.928	1.624.549	1.508.895	1.636.948
Gross profit/loss	1.254	-24.021	160.818	117.432	29.306
EBITDA	5.882	20.363	169.567	160.869	29.667
Profit/loss before financial income and expenses	-61.962	-87.379	98.500	57.003	-26.217
Net profit/loss for the year	-62.603	-80.188	67.382	20.785	-64.871
Balance sheet					
Balance sheet total	716.239	754.434	803.196	873.501	818.681
Equity	170.585	233.188	313.376	245.994	173.978
Average number of employees	666	817	852	799	936
Ratios					
Gross margin	0,1%	-1,6%	9,9%	7,8%	1,8%
Profit margin	-4,9%	-5,9%	6,1%	3,8%	-1,6%
Return on net assets	-8,7%	-11,6%	12,3%	6,5%	-3,2%
Solvency ratio	23,8%	30,9%	39,0%	28,2%	21,3%
Return on equity	-30,1%	-33,5%	24,1%	11,3%	-43,6%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financi see under accounting policies.

Review

The Annual Report of HKScan Denmark A/S for 2015 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Financial Statements have been prepared under the same accounting policies as last year. In accordance with section 112 of the Danish Financial Statements Act, consolidated financial statements have not been prepared as the Company is included in the HKScan Corporation Group. The Consolidated Financial Statements may be obtained at the Parent Company's address.

Market overview

As in previous years, the Company's main activity has comprised slaughtering, processing and sale of poultry products both in Denmark and in export markets.

Development in the year

The past year and follow-up on development expectations from last year

The results for the year show a loss before tax of DKK 81.2 million. The results are considered unsatisfactory.

The competition in HKScan Denmark A/S's main markets remained fierce throughout 2015 resulting in continuing declining sales. Especially the Company's main markets abroad were heavily affected by the increasing competition.

Due to the declining revenue which started in 2014, Company Management implemented restructuring of the Company through closure of a slaughterhouse and the deboning and cutting activities at the Company's slaughterhouse in Skovsgaard with effect as from April 2015. This initiative was necessary and resulted in capacity being aligned with sales in 2015.

Moverover, the Company has launched initiatives in 2015 to renew its product portfolio.

Capital resources

Current loans and credit facilities are considered adequate to cover the Company's operations and planned investments. The Financial Statements show that a significant part of the Company's financing has been raised as intercompany loans from the Parent Company.

Subsequent events

No further events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Review

Special risks

Operating and market risks

The Company's most material operating risks relate to the development in market prices on the global market, including fluctuations in exchange rates, and incidence of poultry disease both in Denmark and abroad, which also constitutes a general business risk.

The supply of raw materials which is in all material respects based on multiannual contracts with approximately 80 chicken producers is sensitive to the market-oriented settlement price. The level of the settlement price was stable in 2015.

Foreign exchange risks

A material export share implies that results, cash flows and equity are affected by the development of the exchange rate of especially SEK, USD and GBP. It is the Company's policy to hedge against commercial foreign exchange exposure. The Company does not enter into foreign exchange positions for speculative purposes. Hedging mainly takes place by means of forward exchange contracts.

Interest rate risks

The Company's interest-bearing debt is generally raised with a floating interest rate.

Credit risks

The Company's credit risks relate primarily to financial assets recognised in the balance sheet. The Company does not have any material risks relating to a single customer or business partner. According to the Company's policy for assuming credit risks, all customers are credit rated regularly.

Statutory statement of corporate social responsibility

Policies for corporate social responsibility

Health and safety at work

The Group's policies with respect to health and safety at work and the Group's employees imply a strong focus on establishing and securing a healthy working environment in which accidents and injuries are prevented and in which generally positive relations are created in the workplace.

Environment and climate

The Company has prepared an environmental policy with related targets according to which environmental issues are managed. The policy is based on environmentally responsible operations and forms a natural part of the Company's targets for product quality and production conditions.

Review

Initiated activities

Health and safety at work

The Group assumes a social responsibility towards its employees through an ongoing dialogue at LEAN meetings and joint consultation committees, just as proactive prevention of industrial injuries is achieved through follow-up on all reported injuries.

Finally, the Company offers health insurance to all its employees.

Environment and climate

The Group's activities in the environmental area are concentrated on preventing negative environmental impacts. The Company has its own purification plant and runs a combined heat and power plant at the slaughterhouse in Vinderup.

Achieved and expected results

Health and safety at work

The number of industrial accidents has been reduced on a continuous basis and current follow-up is made on absence due to illness to ensure that the employees return to work.

Environment and climate

The Company is liable to notification under the Danish Environmental Protection Act. We refer to the green accounts.

Composition of the Board of Directors

The members elected at the general meeting are mainly recruited among the Company's Executive Board and the Executive Board of the Parent Company. The gender representation thus depends on the gender representation in the relevant positions from time to time.

Employee representatives on the Board of Directors are elected among all employees. All employees with a minimum length of service of 12 months have equal access to run for election.
The representation of female members on the Board of Directors is presently 0%. The representation of female members with respect to employee representatives is 50%.

In the long run, HKScan Denmark A/S intends to achieve a more equal gender representation on the Board of Directors. There are however no specific plans to increase the number of board members in the near future and, therefore, no target is set at the present time.

The Company's policy for gender representation at the Company's other executive levels comprises an overall wish to have 30% female executives. The Company will attempt to achieve this target over a 10-year period through active new recruitment. At the present time, the ratio of female executives is approximately 20%.

Review

Expectations for the year ahead

Market conditions in the strategic markets are still characterised by competition; however, with its new structure the Company emerges stronger to face this competition. The Company expects to maintain and expand its market shares in the strategic main markets.

The continuing efficiency improvement of the production and marketing is expected to result in increased competitive strength also next year, and the Company will especially focus on increasing the sale of fresh products both in the Danish and in the Swedish market.

Income Statement 1 January - 31 December 2015

	Note	2015	2014
		DKK '000	DKK '000
Revenue	1	**1.268.391**	**1.481.928**
Production costs		-1.273.051	-1.558.937
Other operating income	2	5.914	52.988
Gross profit/loss		**1.254**	**-24.021**
Distribution costs		-21.744	-25.548
Administrative expenses		-41.472	-37.810
Profit/loss before financial income and expenses		**-61.962**	**-87.379**
Income from investments in subsidiaries	3	-152	-446
Income from investments in associates	4	3.750	554
Financial income	5	3.944	3.558
Financial expenses	6	-26.849	-19.180
Profit/loss before tax		**-81.269**	**-102.893**
Corporation tax	7	18.666	22.705
Net profit/loss for the year		**-62.603**	**-80.188**

Distribution of profit

Proposed distribution of profit

	2015	2014
Reserve for net revaluation under the equity method	-1.443	108
Retained earnings	-61.160	-80.296
	-62.603	**-80.188**

Balance Sheet at 31 December 2015

Assets

	Note	2015	2014
		DKK '000	DKK '000
Land and buildings		135.452	116.577
Plant and machinery		234.086	241.082
Other fixtures and fittings, tools and equipment		259	1.511
Property, plant and equipment in progress		4.159	47.122
Property, plant and equipment	8	**373.956**	**406.292**
Investments in subsidiaries		3.301	3.453
Investments in associates		34.931	30.793
Other securities		523	1.362
Long-term receivables		0	990
Fixed asset investments	9	**38.755**	**36.598**
Fixed assets		**412.711**	**442.890**
Inventories	10	**128.208**	**120.351**
Trade receivables		114.646	116.228
Receivables from affiliates		23.794	57.541
Receivables from associates		3.846	4.877
Other receivables		10.559	10.168
Prepayments		1.440	0
Deferred tax asset		21.006	2.340
Receivables		**175.291**	**191.154**
Cash at bank and in hand		**29**	**40**
Current assets		**303.528**	**311.545**
Assets		**716.239**	**754.434**

Balance Sheet at 31 December 2015

Liabilities and equity

	Note	2015	2014
		DKK '000	DKK '000
Share capital	11	10.250	10.250
Reserve for revaluation		21.772	21.772
Reserve for net revaluation under the equity method		4.306	5.749
Retained earnings		134.257	195.417
Equity		**170.585**	**233.188**
Other provisions	13	7.204	12.816
Provisions		**7.204**	**12.816**
Mortgage loans		1.218	1.496
Payables to group enterprises		380.000	290.000
Long-term debt	14	**381.218**	**291.496**
Mortgage loans	14	278	278
Credit institutions	14	122	0
Trade payables		82.361	82.986
Payables to group enterprises	14	11.138	69.395
Payables to associates	14	0	3.012
Other payables		63.333	61.264
Short-term debt		**157.232**	**216.935**
Debt		**538.450**	**508.431**
Liabilities and equity		**716.239**	**754.434**

Contingent assets, liabilities and other financial obligations	15
Fee to auditors appointed at the general meeting	16
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Statement of Changes in Equity

	Share capital	Reserve for revaluation	under the equity method	Retained earnings	Total
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Equity at 1 January 2015	10.250	21.772	5.749	195.417	233.188
Net profit/loss for the year			-1.443	-61.160	-62.603
Equity at 31 December 2015	**10.250**	**21.772**	**4.306**	**134.257**	**170.585**
Equity at 1 January 2014	10.250	21.772	5.641	275.713	313.376
Net profit/loss for the year			108	-80.296	-80.188
Equity at 31 December 2014	**10.250**	**21.772**	**5.749**	**195.417**	**233.188**

Notes to the Annual Report

		2015	2014
		DKK '000	DKK '000
1	**Revenue**		
	Geographical segments		
	Domestic market	693.607	677.981
	EU	425.613	659.981
	Other countries	149.172	143.966
		1.268.391	**1.481.928**

2 Other operating income

Other operating income consists of compensation received in connection with outbreak of salmonella in 2015 and compensation received in connection with fire in 2014.

3	**Income from investments in subsidiaries**		
	Share of profits\losses of subsidiaries	-152	-446
		-152	**-446**
4	**Income from investments in associates**		
	Share of profits of associates	3.942	1.411
	Share of losses of associates	-192	-857
		3.750	**554**
5	**Financial income**		
	Income from fixed asset investments	14	85
	Exchange adjustments	3.621	3.035
	Other financial income	309	438
		3.944	**3.558**
6	**Financial expenses**		
	Interest paid to group enterprises	18.328	15.026
	Exchange adjustments	7.646	3.155
	Other financial expenses	875	999
		26.849	**19.180**

Notes to the Annual Report

		2015	2014
		DKK '000	DKK '000
7	**Corporation tax**		
	Deferred tax for the year	-18.666	-22.485
	Adjustment of tax, previous years	0	-220
	Tax on profit for the year	-18.666	-22.705
	Total tax for the year	**-18.666**	**-22.705**
	which breaks down as follows:		
	Tax on profit for the year	-18.666	-22.705
		-18.666	**-220**

		Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
		DKK '000	DKK '000	DKK '000	DKK '000
8	**Property, plant and equipment**				
	Cost at 1 January 2015	329.095	780.911	21.128	47.122
	Additions for the year	18.081	19.142	0	3.404
	Disposals for the year	-4.806	-2.679	0	0
	Transfers for the year	12.922	33.445	0	-46.367
	Cost at 31 December 2015	355.292	830.819	21.128	4.159
	Revaluation at 1 January 2015	29.685	0	0	0
	Revaluation at 31 December 2015	29.685	0	0	0
	Depreciation and impairment losses at 1 January 2015	242.203	539.829	19.617	0
	Depreciation and impairment losses for the year	8.485	58.107	1.252	0
	Reversal of depreciation and impairment of sold assets	-1.163	-1.203	0	0
	Depreciation and impairment losses at 31 December 2015	249.525	596.733	20.869	0
	Carrying amount at 31 December 2015	**135.452**	**234.086**	**259**	**4.159**
	Depreciated over	20-25 years	5-15 years	3-10 years	-

Notes to the Annual Report

		2015	2014
		DKK '000	DKK '000
8	**Property, plant and equipment** (continued)		
	Depreciation and impairment of property, plant and equipment amount to:		
	Depreciation and impairment losses	67.844	107.742
	Loss/(profit) on sale	1.721	-777
	New acquisitions below DKK 20,000	1.141	1.298
		70.706	**108.263**
	Depreciation and impairment of property, plant and equipment are expensed in the following items:		
	Production costs	68.747	104.798
	Distribution costs	9	68
	Administrative expenses	1.950	3.397
		70.706	**108.263**
9	**Fixed asset investments**		
	Investments in subsidiaries		
	Cost at 1 January 2015	3.274	3.274
	Cost at 31 December 2015	3.274	3.274
	Revaluation at 1 January 2015	179	625
	Net profit/loss for the year	-152	-446
	Revaluation at 31 December 2015	27	179
	Carrying amount at 31 December 2015	**3.301**	**3.453**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Rose Poultry AB	Gothenburg, Sweden	SEK 1,000k	100%
Kreatina A/S	Copenhagen, Denmark	DKK 3,000k	100%

Notes to the Annual Report

	2015	2014
	DKK '000	DKK '000
9 Fixed asset investments (continued)		
Investments in associates		
Cost at 1 January 2015	23.848	23.848
Cost at 31 December 2015	23.848	23.848
Value adjustments at 1 January 2015	6.945	5.016
Net profit/loss for the year	3.750	554
Transfer for the year to other provisions	388	1.375
Value adjustments at 31 December 2015	11.083	6.945
Carrying amount at 31 December 2015	**34.931**	**30.793**

Investments in associates are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Tican-Rose GmbH	Eckernförde, Germany	EUR 51k	50%
HRP A/S	Sønderborg, Denmark	1.504	50%
HRP Kyllingefarme I/S	Sønderborg, Denmark	200	50%
Farmfood A/S	Løgstør, Denmark	30.000	33%

	2015	2014
	DKK '000	DKK '000
Other securities and investments		
Cost at 1 January 2015	1.362	2.125
Disposals for the year	-942	-861
Additions for the year	103	98
Cost at 31 December 2015	523	1.362
Carrying amount at 31 December 2015	**523**	**1.362**

Notes to the Annual Report

	2015	2014
	DKK '000	DKK '000
10 Inventories		
Raw materials and consumables	16.011	14.928
Work in progress	1.497	3.457
Finished goods and goods for resale	110.700	101.966
	128.208	**120.351**

11 Equity

The share capital consists of 10,000 shares of a nominal value of DKK 1,000 each, 2,500 shares of a nominal value of DKK 100 each and one share of DKK 200. No shares carry any special rights.

Development in share capital:
2012: The share capital was increased by a nominal amount of DKK 50,000
2011: The share capital was increased by a nominal amount of DKK 100,000

	2015	2014
	DKK '000	DKK '000
12 Provision for deferred tax		
Property, plant and equipment	-8.620	6.214
Trade receivables	-165	-220
Provisions	0	-1.320
Tax loss	-12.221	-7.014
Transferred to deferred tax asset	21.006	2.340
	0	**0**
Calculated tax asset	**21.006**	**2.340**

	2015	2014
13 Other provisions		
Provision for negative balance in associates	6.804	6.416
Provision for dismissed employees	0	6.000
Other provisions	400	400
	7.204	**12.816**

Notes to the Annual Report

14 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2015	2014
	DKK '000	DKK '000
Mortgage loans		
Between 1 and 5 years	1.218	1.496
Long-term part	1.218	1.496
Within 1 year	278	278
	1.496	**1.774**

	Parent Company	
	2015	2014
	DKK '000	DKK '000
Credit institutions		
Within 1 year	122	0
Short-term part	122	0
	122	**0**
Payables to group enterprises		
Between 1 and 5 years	380.000	290.000
Long-term part	380.000	290.000
Within 1 year	11.138	69.395
	391.138	**359.395**
Payables to associates		
Within 1 year	0	3.012
	0	**3.012**

	2015	2014
	DKK '000	DKK '000
15 Contingent assets, liabilities and other financial obligations		
Rental agreements and leases		
Lease commitments under operating leases. Total future lease payments:		
Within 1 year	12.374	12.994
Between 1 and 5 years	18.621	21.860
After 5 years	937	4.272
	31.932	39.126
Security		
The following assets have been placed as security with mortgage credit institutes:		
Land and buildings with a carrying amount of	135.452	116.577

The Company has issued mortgage deeds registered to the mortgagor and letters of indemnity totalling DKK 258,696k secured on land and buildings and other property, plant and equipment providing security for mortgage loans and debt to the Parent Company.

Securities with a carrying amount of DKK 177k have been provided as security for restoration obligations towards the Danish Coastal Authority.

Contingent liabilities

The Company has issued a guarantee in respect of the bank debt of the associates HRP A/S and HRP Kyllingefarme I/S by up to DKK 7,000k pro rata according to ownership share. At 31 December 2015, the bank debt amounts to DKK 2,522k.

The Company has provided a bank guarantee of DKK 34,000k as a producer guarantee.
The Company has provided a bank guarantee of DKK 500k towards the Danish Veterinary and Food Administration.

The Company has issued a letter of intent towards Atradius relating to the associate Tican-Rose GmbH in connection with insurance of debtor risks.

The Company is under a contractual obligation to supply waste and by-products from the poultry production to the associate Farmfood A/S for the next two years.

The Company is jointly taxed with the subsidiary Kreatina A/S. The companies in the joint taxation are jointly and severally liable for Danish corporation taxes arising in the jointly taxed group.

Notes to the Annual Report

		2015	2014
		DKK '000	DKK '000
16	**Fee to auditors appointed at the general meeting**		
	Audit fee to PricewaterhouseCoopers	335	335
	Other services	231	258
		566	**593**
17	**Staff**		
	Wages and salaries	246.820	286.120
	Pensions	18.997	21.204
	Other social security expenses	6.231	11.391
		272.048	**318.715**
	which have been expensed as follows:		
	Production costs	238.142	286.481
	Distribution costs	13.693	14.112
	Administrative expenses	20.213	18.122
		272.048	**318.715**
	Including remuneration to the Executive Board and the Board of Directors:		
	Executive Board and Board of Directors	**4.288**	**4.970**
	Average number of employees	**666**	**817**

18 Related parties

Members of the Executive Board and the Board of Directors of HK Scan Danmark A/S are considered related parties.

The Group's associates are considered related parties.

Accounting Policies

Basis of Preparation

The Annual Report of HKScan Denmark A/S for 2015 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Annual Report for 2015 is presented in DKK thousands.

The accounting policies applied remain unchanged from previous years.

Recognition and measurement

The financial statements have been prepared under the historical cost method.

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount falling due at maturity. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Basis of consolidation

Consolidated financial statements of HKScan Denmark A/S are not prepared as HKScan Denmark A/S is included in the Financial Statements of HKScan Corporation Group, which comprise Consolidated Financial Statements of the entire Group.

Accounting Policies

Leases

Leases in respect of property, plant and equipment in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the fair value of the leased asset, if measurable. Alternatively, the net present value, if lower, of future lease payments at the inception of the lease is applied. When computing the net present value, the interest rate implicit in the lease is applied as the discount rate or an approximated value. Assets acquired under finance leases are depreciated and written down for impairment like the other property, plant and equipment of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated during the year at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

Exchange adjustments arising on the translation of the opening equity of separate foreign legal entities and exchange adjustments arising from the translation at average exchange rates of the income statements of separate foreign legal entities are recognised directly in equity. Exchange adjustments arising on the translation of income statements and balance sheets of integrated foreign entities are recognised in financial income and expenses in the income statement.

Exchange adjustments of loans in foreign currencies contracted for the hedging of investments in foreign subsidiaries or loans considered to be derived from the investment are recognised directly in equity. If the hedge is not effective, the ineffective portion is reported immediately in net profit or loss.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are included as prepayments and deferred income, respectively.

Accounting Policies

Derivative financial instruments (continued)

Changes in the fair values of derivative financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions relating to purchases and sales in foreign currencies are recognised in pre-payments/deferred income or in retained earnings under equity, respectively. If the expected future transaction results in the recognition of assets or liabilities, amounts deferred in equity are transferred from equity and recognised in the cost of the asset or the liability, respectively. Amounts deferred in equity are transferred to the income statement in the period in which the hedged item affects the income statement.

Changes in the fair values of derivative financial instruments applied for the purpose of hedging net investments in separate foreign legal subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is reported immediately in net profit or loss.

Segment reporting

Segment information is presented in respect of the break down of revenue on geographical segments.

Income Statement

Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement provided that the general criteria have been met, including that delivery and transfer of risk have been made to the buyer by year end and the amount can be reliably measured and is expected to be received. Revenue is recognised exclusive of VAT and duties and net of discounts relating to sales.

Production costs

Production costs comprise costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Accounting Policies

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Other operating income and expenses

Other operating income and expenses comprise items of a secondary nature to the core activities of the Company.

Financial income and expenses

Financial income and expenses comprise interest, financial expenses in respect of finance leases, realised and unrealised exchange adjustments, price adjustment of securities, amortisation of mortgage loans as well as extra payments and repayment under the on-account taxation scheme.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The tax recognised in the income statement is classified as tax on ordinary activities and tax on extraordinary items, respectively.

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

The Company is jointly taxed with certain wholly owned Danish and foreign subsidiaries and with Danish fellow subsidiaries. The tax effect of the joint taxation with the subsidiaries is allocated to Danish enterprises showing profits or losses in proportion to their taxable incomes (full allocation with credit for tax losses). The jointly taxed enterprises have adopted the on-account taxation scheme.

Balance Sheet

Property, plant and equipment

Land is measured at cost. Land is not depreciated. Other property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use, including setup costs.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Accounting Policies

Property, plant and equipment (continued)

Buildings	20 - 25 years
Plant and machinery	5 - 15 years
Other fixtures and fittings, tools and equipment	3 - 10 years

Assets costing less than DKK 20,000 are expensed in the year of acquisition.

Gains and losses on sale of fixed assets are recognised in the income statement in production costs, distribution expenses and administrative expenses, respectively.

Impairment of fixed assets

The carrying amounts of both intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by ordinary amortisation and depreciation. If so, the asset is written down to its lower recoverable amount. The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a recoverable amount can be determined.

Goodwill, head office buildings and other assets for which a value in use cannot be determined as the asset does not on an individual basis generate future cash flows are reviewed for impairment together with the group of assets to which they are attributable.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method in the Company's Annual Report.

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit after tax for the year of the subsidiaries less goodwill amortisation.

The item "Income from investments in associates" in the income statement includes the proportionate share of the profit after tax for the year of the associates less goodwill amortisation.

The items "Investments in subsidiaries" and "Investments in associates" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated under the accounting policies of the Company with deduction or addition of unrealised intercompany profits or losses and with addition or deduction of any remaining value of positive or negative differences (goodwill or negative goodwill).

Subsidiaries and associates with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Accounting Policies

Investments in subsidiaries and associates (continued)

The total net revaluation of investments in subsidiaries and associates is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity.

Positive and negative differences from equity investments made in subsidiaries and associates are stated to the effect that any differences are recognised in the Company's balance sheet under the item "Investments in subsidiaries".

On acquisition of subsidiaries, the difference between cost of acquisition and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities having been adjusted to fair value (the purchase method) and allowing for the recognition of any restructuring provisions relating to the enterprise acquired. Positive and negative differences from the acquisition are recognised in the Company's balance sheet under the item "Investments in subsidiaries".

Current asset investments

Current asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Listed securities are measured at market value. Unlisted securities are measured at the selling price based on calculated value in use.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value. The net realisable value of inventories is calculated as the total of future sales revenues expected, at the balance sheet date, to be generated by inventories in the process of normal operations and determined allowing for marketability, obsolescence and development in expected sales sum less the estimated expenses necessary to make the sale.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Any borrowing expenses in the period of production are not recognised.

Receivables

Receivables are recognised in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable.

Accounting Policies

Equity

Dividend

Dividend is recognised as a liability at the time of adoption at the Annual General Meeting. Dividend expected to be distributed for the year is disclosed as a separate equity item.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Deferred tax assets and liabilities

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

Deferred tax assets and liabilities are offset within the same legal tax entity.

Current tax receivables and liabilities

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

Financial debts

Fixed-interest loans, such as mortgage loans and loans from credit institutions, intended held to maturity are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost equal to the capitalised value using the effective interest method; the difference between the proceeds and the nominal value (the capital loss) is recognised in the income statement over the loan period.

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

Accounting Policies

Prepayments

Prepayments include expenses incurred in respect of subsequent financial years, including fair value adjustments of derivative financial instruments with a positive fair value. Such expenses are typically prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Deferred income includes payments received in respect of income in subsequent years as well as fair value adjustments of derivative financial instruments with a negative fair value.

Cash flow statement

No cash flow statement is prepared for HKScan Denmark A/S as HKScan Denmark A/S is included in the Financial Statements of HKScan Corporation which include a consolidated cash flow statement.

Financial ratios

Explanation of ratios

Gross margin = $\frac{\text{Gross profit x 100}}{\text{Revenue}}$

Profit margin = $\frac{\text{Profit before financials x 100}}{\text{Revenue}}$

Return on net assets = $\frac{\text{Profit before financials x 100}}{\text{Total assets}}$

Solvency ratio = $\frac{\text{Equity at year end x 100}}{\text{Total assets}}$

Return on equity = $\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$