Mille Food A/S

Unovej 1, 3390 Hundested

CVR no. 37 98 89 87

Annual report for 2019

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 08.07.20

Jakob Kristensen
Dirigent

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Company information etc.

The company

Mille Food A/S
Unovej 1
3390 Hundested
Danmark
Registered office: Halsnæs
CVR no.: 37 98 89 87
Financial year: 01.01 - 31.12

Executive Board

CEO Christian Dehlholm

Board Of Directors

Erik Trock-Jansen, chairman
Wentao Zhang
Qiang Liu

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6
Postboks 1600
0900 Copenhagen C

Statement by the Executive Board and Board of Directors on the annual report

We have on this day presented the annual report for the financial year 01.01.19 - 31.12.19 for Mille Food A/S.

The annual report is presented in accordance with Danish Financial Statements Act (Årsregnskabsloven).

In our opinion, the financial statements give a true and fair view of the the company's assets, liabilities and financial position as at 31.12.19 and of the results of the the company's activities for the financial year 01.01.19 - 31.12.19.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Hundested, June 23, 2020

Executive Board

Christian Dehlholm
CEO

Board Of Directors

Erik Trock-Jansen Chairman	Wentao Zhang	Qiang Liu

To the Shareholder of Mille Food A/S

Opinion

We have audited the financial statements of Mille Food A/S for the financial year 01.01.19 - 31.12.19, which comprise the income statement, balance sheet, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial statements are prepared in accordance with Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31.12.19 and of the results of the company's operations for the financial year 01.01.19 - 31.12.19 in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

Basis for conclusion

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

Statement regarding the management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether management's review provides the information required under the Danish Financial Statements Act.

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

Management's responsibility for the financial statements

The Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act. Furthermore the Management is responsible for the internal control as the 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 International Standards on Auditing 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 International Standards on Auditing 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.

- 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.

Copenhagen, June 23, 2020

Deloitte Statsautoriseret Revisionspartnerselskab
CVR no. 33963556

Jens Jørgensen Baes
State Authorized Public Accountant
MNE-no. mne14956

FINANCIAL HIGHLIGHTS

Key figures

Figures in DKK '000	2019	2018	31.08.16 31.12.17
Profit/loss			
Operating profit/loss	-10,958	3,304	-8,335
Total net financials	-5,830	-5,099	-159
Loss for the year	-13,127	-1,421	-6,817
Balance			
Total assets	180,426	131,728	81,540
Investments in property, plant and equipment	31,629	-37,528	67,258
Equity	18,636	31,763	33,183

Ratios

	2019	2018	31.08.16 31.12.17
Profitability			
Return on equity	-52%	-4%	-41%
Others			
Number of employees (average)	53	40	14

Ratios definitions

Return on equity: $\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$

Primary activities

The company's activities comprise manufacturing of infant formula and milk powders.

Uncertainty concerning recognition and measurement

At year end balance, the company had finished goods worth 11.8 million DKK with uncertainty concerning recognition and measurement. The company is working on a solution to sell the goods.

Exceptional conditions

In 2019 the Company has been negatively affected by an extraordinary disposal of manufactured goods, due to non-satisfactory documentation on one of the ingredients.

This has resulted in a disposal of manufactured goods with an impairment loss on DKK 12,345,000 in 2019.

Development in activities and financial affairs

The income statement for the period 01.01.19 - 31.12.19 shows a loss of DKK -13,126,961 against DKK -1,420,506 for the period 01.01.18 - 31.12.18. The balance sheet shows equity of DKK 18,635,958.

The new management, as per 01.10.2019, finds the 2019 result unsatisfactory as the expectations for 2019 were not met.

Due to the loss the Board of Directors proposed a share capital increase of DKK 40,000,000 to take place at an extraordinary meeting on the 9th of June 2020. The share capital was increased by debt conversion from payables to group companies.

Outlook

The Management expects a profit before tax in the range of DKK 15,000,000 to DKK 25,000,000 for 2020.

Special risks

The Company's manufacturing of infant formula is exported towards the Chinese market. The Chinese market of infant formula is not only the largest in the World, but indeed the market with the fiercest competition and largest political attention.

Any changes in the Chinese market consumer behavior e.g. following covid-19 could influence future forecasts. In addition, new Chinese political measurements and standards directed towards infant formula production abroad are continuously being implemented and dictates the overall legislative framework for any factory producing infant formula to the Chinese market.

Further, any changes in global trade relations towards China, and especially bilaterally between Denmark and China, could have a material impact on the Company's operation and financial position.

As the Company operates within a market with high quality demands, specialized legislation and political attention, the management has a specific focus on these circumstances in order to mitigate any risk.

Subsequent events

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report. The outbreak and wide spreading of covid-19 have not significantly impacted the daily operation but have effected global demand which might affect the Company's suppliers and customers. The Company has taken all necessary measures to strengthen production, supply chain, and any other internal and external processes from any effect caused by covid-19.

The Company's financial position and strategic direction have not been significantly affected by the outbreak of covid-19

Income statement

Note		2019 DKK	2018 DKK
	Gross profit	**23,606,814**	**32,002,435**
2	Staff costs	-28,389,708	-24,405,328
	Profit/loss before depreciation, amortisation, write-downs and impairment losses	**-4,782,894**	**7,597,107**
	Depreciation and impairments losses of property, plant and equipment	-6,175,117	-4,293,305
	Profit/loss before net financials	**-10,958,011**	**3,303,802**
3	Financial income	883,237	80,880
4	Financial expenses	-6,712,910	-5,179,750
	Loss before tax	**-16,787,684**	**-1,795,068**
	Tax on profit or loss for the year	3,660,723	374,562
	Loss for the year	**-13,126,961**	**-1,420,506**
5	Distribution of net profit		

Balance sheet

ASSETS

Note		31.12.19 DKK	31.12.18 DKK
	Development projects in progress	923,202	334,982
6	**Total intangible assets**	**923,202**	**334,982**
	Land and buildings	41,365,987	28,931,898
	Plant and machinery	51,192,407	38,322,148
7	**Total property, plant and equipment**	**92,558,394**	**67,254,046**
8	Equity investments in group enterprises	2,000,000	2,000,000
	Total investments	**2,000,000**	**2,000,000**
	Total non-current assets	**95,481,596**	**69,589,028**
	Raw materials and consumables	9,777,464	8,779,085
	Manufactured goods and goods for resale	44,377,612	14,261,990
	Total inventories	**54,155,076**	**23,041,075**
	Trade receivables	13,414,305	5,243,265
	Receivables from group enterprises	2,965,623	5,390,842
10	Deferred tax asset	5,913,000	2,252,277
	Other receivables	2,816,989	1,027,181
	Total receivables	**25,109,917**	**13,913,565**
	Cash	**5,679,440**	**25,184,058**
	Total current assets	**84,944,433**	**62,138,698**
	Total assets	**180,426,029**	**131,727,726**

Balance sheet

EQUITY AND LIABILITIES

Note		31.12.19 DKK	31.12.18 DKK
9	Share capital	40,000,000	40,000,000
	Reserve for development costs	720,098	261,282
	Retained earnings	-22,084,140	-8,498,363
	Total equity	**18,635,958**	**31,762,919**
11	Payables to other credit institutions	21,995,018	29,074,122
	Total long-term payables	**21,995,018**	**29,074,122**
11	Short-term part of long-term payables	7,346,129	6,978,000
	Payables to other credit institutions	11,141,739	0
	Trade payables	62,429,566	36,999,561
	Payables to group enterprises	55,246,373	24,408,118
	Other payables	3,631,246	2,505,006
	Total short-term payables	**139,795,053**	**70,890,685**
	Total payables	**161,790,071**	**99,964,807**
	Total equity and liabilities	**180,426,029**	**131,727,726**

12 Contingent liabilities
13 Charges and security
14 Related parties

Statement of changes in equity

Figures in DKK	Share capital	Reserve for development costs	Retained earnings
Statement of changes in equity for 01.01.19 - 31.12.19			
Balance as at 01.01.19	40,000,000	261,282	-8,498,363
Transfers to/from other reserves	0	458,816	-458,816
Net profit/loss for the year	0	0	-13,126,961
Balance as at 31.12.19	40,000,000	720,098	-22,084,140

1. Uncertainty concerning recognition and measurement

At year end balance, the company had finished goods worth 11.8 million DKK with uncertainty concerning recognition and measurement.

The company is working on a solution to sell the goods.

	2019 DKK	2018 DKK

2. Staff costs

Wages and salaries	23,973,956	20,403,125
Pensions	3,587,936	2,736,768
Other social security costs	460,850	269,315
Other staff costs	825,186	996,120
Staff costs recognised in assets	-458,220	0
Total	28,389,708	24,405,328
Average number of employees during the year	53	40

Remuneration for the management:

Remuneration for the Executive Board and Board of Directors	248,021	1,647,775

	2019 DKK	2018 DKK

3. Financial income

Interest, group enterprises	853,866	69,932
Foreign currency translation adjustments	29,371	0
Other financial income	0	10,948
Other financial income	29,371	10,948
Total	883,237	80,880

4. Financial expenses

Interest, group enterprises	1,471,550	624,491
Other interest expenses	2,456,542	2,190,902
Foreign currency translation adjustments	0	61,328
Foreign exchange losses	356,543	28,355
Other financial expenses	2,428,275	2,274,674
Other financial expenses total	5,241,360	4,555,259
Total	6,712,910	5,179,750

5. Distribution of net profit

Retained earnings	-13,126,961	-1,420,506

6. Intangible assets

Figures in DKK	Development projects in progress
Cost as at 01.01.19	334,982
Additions during the year	588,220
Cost as at 31.12.19	923,202
Carrying amount as at 31.12.19	923,202

Development projects in progress include the development of new products to infants. The development project are expected to be completed in 2020 and comprise of both external consultancy fees and internal labour costs.

7. Property, plant and equipment

Figures in DKK	Land and buildings	Plant and machinery
Cost as at 01.01.19	29,729,554	41,820,198
Additions during the year	13,572,856	18,056,424
Disposals during the year	0	-303,783
Cost as at 31.12.19	43,302,410	59,572,839
Depreciation and impairment losses as at 01.01.19	-797,471	-3,498,050
Depreciation during the year	-1,138,952	-4,907,697
Depreciation of and impairment losses on disposed assets for the year	0	25,315
Depreciation and impairment losses as at 31.12.19	-1,936,423	-8,380,432
Carrying amount as at 31.12.19	41,365,987	51,192,407
Interest expenses included in cost as at 31.12.19	637,791	633,237

8. Equity investments in group enterprises

Figures in DKK	Equity investments in group enterprises
Additions during the year	2,000,000
Cost as at 31.12.19	2,000,000
Carrying amount as at 31.12.19	2,000,000

Name and Registered office:	Ownership interest	Equity	Net profit/loss for the year
Group enterprises:			
Danish-Chinese Organic Food Center A/S, København	100%	1,621,630	-117,119

9. Share capital

The share capital consists of:

	Quantity	Total nominal value
Share capital	40,000	40,000,000
Total		40,000,000

The share capital has been fully paid in at the balance sheet date.

	31.12.19 DKK	31.12.18 DKK

10. Deferred tax

Provisions for deferred tax as as at 01.01.19	2,252,277	1,877,715
Deferred tax recognised in the income statement	3,660,723	374,562
Provisions for deferred tax as at 31.12.19	5,913,000	2,252,277

Deffered tax comprises:

Property, plant and equipment	1,980,000	623,010
Liabilities	29,000	33,212
Tax losses	3,904,000	1,596,055
Total	5,913,000	2,252,277

As of 31.12.2019, the Company has recognised a tax asset of DKK 5,913 thousand. The tax asset is composed of tax loss carryforwards and unutilised tax deductions consisting of timing differences. Management believes that the tax asset is likely to be offset against future taxable income.

11. Longterm payables

Figures in DKK	Repayment first year	Outstanding debt after 5 years	Total payables at 31.12.19	Total payables at 31.12.18
Payables to other credit institutions	7,346,129	0	29,341,147	36,052,122
Total	7,346,129	0	29,341,147	36,052,122

12. Contingent liabilities

Total contingen liabilities comprises DKK 751,728 (2018: DKK 552.055)

Other contingent liabilities

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

13. Charges and security

The company has issued mortgage deeds registered to the mortgagor in the total amount of DKK 68,820,000 secured upon land & buildings with a carrying amount of DKK 41,365,987.

As company for debt to credit institutions, a company charge of DKK 20,000,000 has been provided comprising trade receivables, other receivables, inventories and plant and machinery. The total carrying amount of the comprised assets is DKK 120,142,440.

The company has chattel mortgage with a mortgage in plant and machinery on 51,192,407.

The Company has issued a unlimited guarantee for Mille Food Roskilde ApS's payables to a credit institution. The payable to credit institution at 31.12.2019 amounts to DKK 15,431,717.

14. Related parties

Controlling influence	Basis of influence
Mille Dairy Co. Ltd, Kina	Significant voting rights
Mille International ApS	Significant voting rights

Balances	31.12.19 DKK
Receivables from group enterprises	2,965,623
Payables to group enterprises	-55,246,373

All transactions with related group entities has been carried out on an arm-lengths basis,

15. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for medium-sized enterprises in reporting class C.

The accounting policies have been applied consistently with previous years.

In accordance with section 112 of the Danish Financial Statements Act, the company has not prepared consolidated financial statements.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation, impairment losses and write-downs, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

CURRENCY

The annual report is presented in Danish kroner (DKK).

On initial recognition, transactions denominated in foreign currencies are translated using the exchange rates applicable at the transaction date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment are recognised in the income statement as a financial item. Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rates applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised under financial income or expenses in the income statement. Fixed assets, inventories and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

15. Accounting policies - continued -

LEASES

Lease payments relating to operating leases are recognised in the income statement on a straight-line basis over the lease term.

INCOME STATEMENT

Gross profit

Gross profit comprises revenue and raw materials and consumables and other external expenses.

Revenue

Income from the sale of goods is recognised in the income statement if delivery has taken place and the risk has passed to the buyer before the end of the financial year and where the selling price can be determined reliably and is expected to be paid. Revenue is measured at fair value and is determined exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

Other operating income

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including rental income, negative goodwill and gains on the sale of intangible assets and property, plant and equipment.

Costs of raw materials and consumables

Costs of raw materials and consumables comprise raw materials and consumables used for the year as well as any changes in inventories, including any inventory wastage.

Write-downs of inventories of raw materials and consumables are also recognised under raw materials and consumables to the extent that these do not exceed normal write-downs.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises and bad debts to the extent that these do not exceed normal write-downs.

Staff costs

Staff costs comprise wages and salaries as well as other staff-related costs.

15. Accounting policies - continued -

Depreciation and impairment losses

The depreciation of property, plant and equipment aim at systematic depreciation over the expected useful lives of the assets. Assets are depreciated according to the straight-line method based on the following expected useful lives and residual values:

	Useful lives, years	Residual value DKK
Buildings	25 years	3,000,000
Plant and machinery	3 - 10 years	0

Land is not depreciated.

The basis of depreciation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Intangible assets and property, plant and equipment are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

Other net financials

Interest income and interest expenses, foreign exchange gains and losses on transactions denominated in foreign currencies etc. are recognised in other net financials.

Tax on profit/loss for the year

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

The company is jointly taxed with Danish consolidated enterprises. The parent is the administration company for the joint taxation and thus settles all income tax payments with the tax authorities.

In connection with the settlement of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed enterprises in proportion to their taxable incomes. This means that enterprises with a tax loss receive joint taxation contributions from enterprises which have been able to use this loss to reduce their own taxable profit.

15. Accounting policies - continued -

BALANCE SHEET

Intangible assets

Development projects in progress

Development projects are recognised in the balance sheet where the project aims at developing a specific product or a specific process, intended to be produced or used, respectively, by the company in its production process. On initial recognition, development projects are measured at cost. Cost comprises the purchase price plus expenses resulting directly from the purchase, including wages and salaries directly attributable to the development projects until the asset is ready for use. Interest on loans arranged to finance development projects in the development period is not included in the cost. Other development projects and development costs are recognised in the income statement in the year in which they are incurred.

Development projects in progress are transferred to completed development projects when the asset is ready for use.

Development projects are subsequently measured in the balance sheet at cost less accumulated amortisation and impairment losses.

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal.

Property, plant and equipment

Property, plant and equipment comprise land and buildings og plant and machinery.

Property, plant and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. Interest on loans arranged to finance production is not included in the cost.

The total cost of an asset is decomposed into separate components that are depreciated separately if the useful lives of the individual components vary.

Property, plant and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation and impairment losses' section.

15. Accounting policies - continued -

Property, plant and equipment under construction

Property, plant and equipment under construction are measured at cost. Costs incurred on property, plant and equipment under construction are transferred to the relevant asset category when the asset is ready for use.

Gains and losses on the disposal of property, plant and equipment

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

Equity investments in group entreprises

Equity investments in subsidiaries are measured in the balance sheet at cost less any impairment losses.

Gains or losses on the divestment of subsidiaries are determined as the difference between the divestment consideration and the carrying amount of net assets at the time of sale, including non-amortised goodwill, as well as the expected costs of divestment or discontinuation. Gains and losses are recognised in the income statement under income from equity investments.

Impairment losses on fixed assets

The carrying amount of fixed assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

If dividends are distributed on equity investments in subsidiaries exceeding the year earnings from the enterprise in question, this is considered an indication of impairment.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

15. Accounting policies - continued -

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist.

Inventories

Inventories are measured at cost calculated according to the FIFO principle. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

The cost of manufactured finished goods and work in progress is determined as the value of direct and indirect material, labour costs and indirect production costs.. Production overheads include indirect material and labour costs as well as maintenance and depreciation of machinery, buildings and equipment used in the production process as well as the costs of factory administration and management. Interest on loans arranged to finance production is not included in the cost.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost

The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and the expected development in the selling price.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

15. Accounting policies - continued -

Cash

Cash includes deposits in bank accounts as well as operating cash.

Equity

An amount equivalent to internally generated development costs in the balance sheet is recognised in equity under reserve for development costs. The reserve is measured less deferred tax and reduced by amortisation and impairment losses on the asset. If impairment losses on development costs are subsequently reversed, the reserve will be restored with a corresponding amount. The reserve is dissolved when the development costs are no longer associated with the operations of the enterprise, and the remaining amount will be transferred to retained earnings. In accordance with act no. 738 amending the Danish Financial Statements Act of 1 June 2015, development costs will initially be recognised in the reserve, with initial recognition in the balance sheet from 1 January 2016.

Current and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Joint taxation contributions payable and receivable are recognised as income tax under receivables or payables in the balance sheet.

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

15. Accounting policies - continued -

Payables

Long-term payables are measured at cost at the time of contracting such liabilities (raising of the loan). The payables are subsequently measured at amortised cost where capital losses and loan expenses are recognised in the income statement as a financial expense over the term of the payable on the basis of the calculated effective interest rate in force at the time of contracting the liability.

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables.

CASH FLOW STATEMENT

Referring to section 86(4) of the Danish Financial Statements Act a cash flow statement has not been prepared as the enterprise is included in the consolidated cash flow statement.