Mille International ApS

Langebjergvej 3, 4300 Roskilde

CVR no. 39 70 52 06

Annual report
for the financial year 05.07.18 - 31.12.19

This annual report has been adopted at the
annual general meeting on 21.08.20

Wei Qing Wang

Chairman of the meeting

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Group information etc.

The company

Mille International ApS
Langebjergvej 3
4300 Roskilde
Registered office: Roskilde
CVR no.: 39 70 52 06
Financial year: 05.07.2018 - 31.12.2019
1. financial year

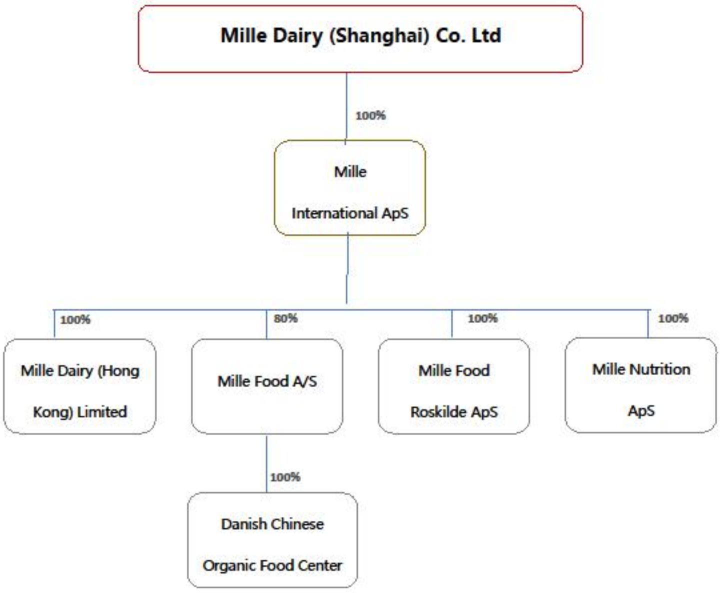
Executive Board

Wei Qing Wang

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Group chart


Mille Dairy (Shanghai) Co. Ltd
100%
Mille
International ApS
100%
80%
100%
100%
Mille Dairy (Hong
Kong) Limited
Mille Food A/S
Mille Food
Roskilde ApS
Mille Nutrition
ApS
100%
Danish Chinese
Organic Food Center

Statement by the Executive Board on the annual report

I have on this day presented the annual report for the financial year 05.07.18 - 31.12.19 for Mille International ApS.

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

In my opinion, the consolidated financial statements and financial statements give a true and fair view of the group's and the parent's assets, liabilities and financial position as at 31.12.19 and of the results of the group's and parent's activities and of the group's cash flows for the financial year 05.07.18 - 31.12.19.

I 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.

Roskilde, August 21, 2020

Executive Board

Wei Qing Wang

Independent auditor's report

To the capital owner of Mille International ApS

Opinion

We have audited the consolidated financial statements and parent company financial statements of Mille International ApS for the financial year 05.07.18 - 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 for the group as well as for the parent company as well as the consolidated cash flow statement. The consolidated financial statements and parent company financial statements are prepared in accordance with Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the consolidated financial statements and parent company financial statements give a true and fair view of the group's and the parent company's assets, liabilities and financial position at 31.12.19 and of the results of the group's and the parent company's operations and the consolidated cash flows for the financial year 05.07.18 - 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 consolidated financial statements and parent company financial statements" section of our report. We are independent of the group and 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.

Management's responsibility for the consolidated financial statements and parent company financial statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and parent company 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 consolidated financial statements and parent company 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 consolidated financial statements and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the parent 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 consolidated financial statements and parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent 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 consolidated financial statements and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the consolidated financial statements and parent company financial statements, including the disclosures, and whether the consolidated financial statements and parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and per-formance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement regarding the management's review

Management is responsible for management's review.

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

Copenhagen, August 21, 2020

Deloitte Statsautoriseret Revisionspartnerselskab
CVR no. 33963556

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

GROUPS FINANCIAL HIGHLIGHTS

Key figures

Figures in DKK '000	05.07.18 31.12.19
Profit/loss	
Operating profit/loss	-26,556
Index	100
Total net financials	-8,717
Index	100
Profit/loss for the year	-27,764
Index	100
Balance	
Total assets	236,965
Index	100
Investments in property, plant and equipment	148,827
Equity	11,199
Index	100
Cashflow	
Net cash flow:	
Operating activities	-33,432
Investing activities	-110,449
Financing activities	127,662
Cash flows for the year	-16,219

Ratios

	05.07.18 31.12.19
Profitability	
Return on equity	-248%
Others	
Number of employees (average)	65

No comparative figures have been provided as this is the parents' and the group's first financial year. The period's results for a few of the Group's subsidiaries are included for the period 01.01.2019 - 31.12.2019 as a consequence of the establishment of the Group.

Ratios definitions

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

Primary activities

The company is a holding company for Mille Group in Denmark, also a shared service center consisting of central functions such as Group Management, International Sales, R&D and Finance.

Uncertainty concerning recognition and measurement

At year-end balance, the company's subsidiary Mille Food A/S 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

Company's subsidiary Mille Food A/S had a disposal of manufactured goods with an impairment loss on DKK 12,345,000 in 2019, due to non-satisfactory documentation on one of the ingredients.

Development in activities and financial affairs

The income statement for the period 05.07.18 - 31.12.19 shows a profit/loss of DKK -27,763,944. The balance sheet shows equity of DKK 11,198,609.

The management finds the 2019 result unsatisfactory, and the major loss was coming from its subsidiary Mille Food A/S.

A share capital increase of DKK 40,000,000 has taken place for its subsidiary Mille Food A/S at an extraordinary meeting on the 9th of June 2020. The share capital was increased by debt conversion from payables to the company.

Outlook

The Management expects a profit before tax of approx. DKK 15,000,000 for 2020.

Special risks

The company is a holding company in Denmark, and the group management has a high focus on its subsidiaries' risks and mitigation plans, especially its biggest daughter company Mille Food A/S.

Mille Food A/S is a manufacturer of infant formula and mainly export towards the Chinese market. The opportunities and risks which relate to this specific market have the full attention from the factory management.

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. This can be both a risk and an opportunity.

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.

Subsequent events

No events have occurred after the balance sheet date to this date, that could influence the evaluation of this annual report. The outbreak and wide spreading of covid-19 have not significantly impacted the daily operation but has affected 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.

Corporate social responsibility

The company has provided sponsorship to the Danish National Badminton team and Nykøbing Football Club in 2019 and will continue in 2020.

Income statement

Note		Group	Parent
		05.07.18 31.12.19 DKK	05.07.18 31.12.19 DKK
	Gross profit	**25,813,580**	**6,114,102**
2	Staff costs	-45,533,411	-15,319,665
	Profit/loss before depreciation, amortisation, write-downs and impairment losses	**-19,719,831**	**-9,205,563**
	Depreciation, amortisation and impairments losses of intangible assets and property, plant and equipment	-6,836,042	-31,332
	Profit/loss before net financials	**-26,555,873**	**-9,236,895**
3	Financial income	42,557	723,688
4	Financial expenses	-8,760,041	-1,104,937
	Profit/loss before tax	**-35,273,357**	**-9,618,144**
5	Tax on profit or loss for the year	7,509,413	2,108,000
	Profit/loss for the year	**-27,763,944**	**-7,510,144**

6 Distribution of net profit

Balance sheet

ASSETS

Note		Group 31.12.19 DKK	Parent 31.12.19 DKK
	Acquired rights	426,845	426,845
	Goodwill	6,287,449	0
	Development projects in progress	923,202	0
7	**Total intangible assets**	**7,637,496**	**426,845**
	Land and buildings	87,013,813	0
	Plant and machinery	51,192,407	0
8	**Total property, plant and equipment**	**138,206,220**	**0**
9	Equity investments in group enterprises	0	32,625,000
10	Deposits	31,000	0
	Total investments	**31,000**	**32,625,000**
	Total non-current assets	**145,874,716**	**33,051,845**
	Raw materials and consumables	9,777,464	0
	Manufactured goods and goods for resale	44,377,612	0
	Total inventories	**54,155,076**	**0**
	Trade receivables	13,757,393	0
	Receivables from group enterprises	780,000	51,944,460
13	Deferred tax asset	9,839,897	2,108,000
	Other receivables	3,172,254	0
11	Prepayments	312,500	312,500
	Total receivables	**27,862,044**	**54,364,960**
	Cash	**9,073,368**	**3,220,969**
	Total current assets	**91,090,488**	**57,585,929**
	Total assets	**236,965,204**	**90,637,774**

Balance sheet

EQUITY AND LIABILITIES

Note		Group 31.12.19 DKK	Parent 31.12.19 DKK
	Share capital	32,500,000	32,500,000
	Retained earnings	-24,952,909	-7,510,143
	Equity attributable to owners of the parent	**7,547,091**	**24,989,857**
12	Non-controlling interests	3,651,518	0
	Total equity	**11,198,609**	**24,989,857**
14	Payables to other credit institutions	21,995,018	0
	Total long-term payables	**21,995,018**	**0**
14	Short-term part of long-term payables	7,346,129	0
	Payables to other credit institutions	26,456,489	0
	Trade payables	64,541,742	682,902
	Payables to group enterprises	97,965,060	61,369,926
	Other payables	7,462,157	3,595,089
	Total short-term payables	**203,771,577**	**65,647,917**
	Total payables	**225,766,595**	**65,647,917**
	Total equity and liabilities	**236,965,204**	**90,637,774**

15 Contingent liabilities
16 Charges and security
17 Related parties

Statement of changes in equity

Figures in DKK	Share capital	Retained earnings	Equity of the parent company's capital owners	Non-controlling interests	Total equity
Group:					
Statement of changes in equity for 05.07.18 - 31.12.19					
Capital contributed on establishment	500,000	0	500,000	0	500,000
Capital increase	32,000,000	0	32,000,000	0	32,000,000
Minority interests, other equity transactions	0	0	0	6,309,102	6,309,102
Changes in reserves according to the uniting-of-interests method	0	153,451	153,451	0	153,451
Net profit/loss for the year	0	-25,106,360	-25,106,360	-2,657,584	-27,763,944
Balance as at 31.12.19	32,500,000	-24,952,909	7,547,091	3,651,518	11,198,609
Parent:					
Statement of changes in equity for 05.07.18 - 31.12.19					
Capital contributed on establishment	500,000	0	500,000	0	500,000
Capital increase	32,000,000	0	32,000,000	0	32,000,000
Net profit/loss for the year	0	-7,510,143	-7,510,143	0	-7,510,143
Balance as at 31.12.19	32,500,000	-7,510,143	24,989,857	0	24,989,857

Consolidated cash flow statement

Note		Group 05.07.18 31.12.19 DKK
	Profit/loss for the year	**-27,763,944**
18	Adjustments	8,044,113
	Change in working capital:	
	Inventories	-31,114,001
	Receivables	-6,317,548
	Trade payables	27,482,181
	Other payables relating to operating activities	4,954,768
	Cash flows from operating activities before net financials	**-24,714,431**
	Interest income and similar income received	42,559
	Interest expenses and similar expenses paid	-8,760,041
	Cash flows from operating activities	**-33,431,913**
	Purchase of intangible assets	-1,046,397
	Purchase of property, plant and equipment	-77,277,106
	Purchase of investments	-32,125,000
	Cash flows from investing activities	**-110,448,503**
	Raising of additional capital	32,500,000
	Repayment of mortgage debt	19,745,514
	Arrangement of payables to group entreprises	75,416,139
	Cash flows from financing activities	**127,661,653**
	Total cash flows for the year	**-16,218,763**
	Additions of cash at establishment of group structure	25,292,131
	Cash, end of year	**9,073,368**
	Cash, end of year, comprises:	
	Cash	9,073,368
	Total	**9,073,368**

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.

Investments in the Parent are recognised at cost. As a consequence of negative results for the period, the investments exceed the Group's equity at the end of the financial year. Management has performed an impairment test of the Company's investments for the financial year that exceed the book value. Based on this, Management did not identify a need for impairment.

	Group	Parent
	05.07.18 31.12.19 DKK	05.07.18 31.12.19 DKK

2. Staff costs

Wages and salaries	39,262,260	12,982,195
Pensions	5,778,931	1,868,883
Other social security costs	528,359	51,266
Other staff costs	1,243,406	417,321
Staff costs recognised in assets	-1,279,545	0
Total	45,533,411	15,319,665
Average number of employees during the year	65	9

Disclosures of remuneration to Management are excluded according to section 98b(3)(2) of the Danish Financial Statements Act.

3. Financial income

Interest, group enterprises	0	723,688
Other financial income	42,557	0
Total	42,557	723,688

	Group	Parent
	05.07.18 31.12.19 DKK	05.07.18 31.12.19 DKK

4. Financial expenses

Interest, group enterprises	2,001,512	991,647
Other interest expenses	3,747,583	13,210
Foreign exchange losses	529,825	99,326
Other financial expenses	2,481,121	754
Other financial expenses total	6,758,529	113,290
Total	8,760,041	1,104,937

5. Tax on profit or loss for the year

Adjustment of deferred tax for the year	-7,509,413	-2,108,000
Total	-7,509,413	-2,108,000

6. Distribution of net profit

Non-controlling interests	-2,657,584	0
Retained earnings	-25,106,360	-7,510,144
Total	-27,763,944	-7,510,144

7. Intangible assets

Figures in DKK	Acquired rights	Goodwill	Development projects in progress
Group:			
Additions during the year	458,177	6,917,042	923,202
Cost as at 31.12.19	458,177	6,917,042	923,202
Amortisation during the year	-31,332	-629,593	0
Amortisation and impairment losses as at 31.12.19	-31,332	-629,593	0
Carrying amount as at 31.12.19	426,845	6,287,449	923,202
Parent:			
Additions during the year	458,177	0	0
Cost as at 31.12.19	458,177	0	0
Amortisation during the year	-31,332	0	0
Amortisation and impairment losses as at 31.12.19	-31,332	0	0
Carrying amount as at 31.12.19	426,845	0	0

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.

8. Property, plant and equipment

Figures in DKK	Land and buildings	Plant and machinery
Group:		
Additions during the year	88,950,236	59,876,622
Disposals during the year	0	-303,783
Cost as at 31.12.19	88,950,236	59,572,839
Additions during the year	-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	87,013,813	51,192,407
Interest expenses included in cost as at 31.12.19	637,791	633,237

9. Equity investments in group enterprises

Figures in DKK	Equity investments in group enterprises
Parent:	
Additions during the year	32,625,000
Cost as at 31.12.19	32,625,000
Carrying amount as at 31.12.19	32,625,000

9. Equity investments in group enterprises - continued -

Name and registered office:	Ownership interest	Equity DKK	Net profit/loss for the year DKK	Recognised value DKK
Subsidiaries:				
Mille Food Roskilde ApS, Roskilde	100%	-5,671,397	-6,171,397	500,000
Mille Nutrition ApS, Hundested	100%	261,756	-5,100,623	125,000
Mille Food A/S, Hundested	80%	18,635,958	-13,126,961	32,000,000
Mille Dairy (Hong Kong) Limited, Hong Kong	100%	0	0	0

No information has been provided on the Mille Dairy (Hong Kong) Limited as the Company has not yet published any Financial Information.

10. Other non-current financial assets

Figures in DKK	Deposits
Group:	
Additions during the year	31,000
Cost as at 31.12.19	31,000

	Group	Parent
	31.12.19 DKK	31.12.19 DKK

11. Prepayments

Other prepayments	312,500	312,500
Total	312,500	312,500

Prepayments comprise down payment to vendor regarding a 3D printer not yet received at year end.

	Group
	31.12.19 DKK

12. Non-controlling interests

Non-controlling interests, beginning of year	6,309,102
Net profit/loss for the year (distribution of net profit)	-2,657,584
Total	3,651,518

	Group	Parent
	31.12.19 DKK	31.12.19 DKK

13. Deferred tax

	Group 31.12.19 DKK	Parent 31.12.19 DKK
Additions during to group structuring	2,330,484	0
Deferred tax recognised in the income statement	7,509,413	2,108,000
Provisions for deferred tax as at 31.12.19	9,839,897	2,108,000

Deferred tax is distributed as below:

	Group 31.12.19 DKK	Parent 31.12.19 DKK
Intangible assets	7,000	7,000
Property, plant and equipment	1,985,600	0
Liabilities	29,000	0
Tax losses	7,818,297	2,101,000
Total	9,839,897	2,108,000

As at 31.12.2019, the company has recognised a deferred tax asset of DKK 9,840 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.

14. Long-term payables

Figures in DKK	Repayment first year	Outstanding debt after 5 years	Total payables at 31.12.19
Group:			
Payables to credit institutions	7,346,129	0	29,341,147
Total	7,346,129	0	29,341,147

15. Contingent liabilities

Parent:

Other contingent liabilities

The company is taxed jointly with the other Danish companies in the group and has joint, several and unlimited liability for income taxes and any obligations to withhold tax at source on interest, royalties and dividends for the jointly taxed companies. The total known tax liability for the jointly taxed companies is DKK 0 at the balance sheet date, of which DKK 0 is recognised in the balance sheet. The liability also includes any subsequent corrections to the calculated tax liability as a consequence of changes made to the jointly taxable income etc.

16. Charges and security

Group:

The company has issued mortgage deeds registered to the mortgagor in the total amount of DKK 83,820,000 secured upon land & buildings with a carrying amount of DKK 87,450,255.

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 DKK 51,192,407.

Parent:

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.

17. Related parties

Controlling influence	Basis of influence
Mille Dairy (Shanghai) Co. Ltd.	Ultimative Parent Company

Related party transactions are not disclosed, as all transactions are entered into in the ordinary course of business at arms' length.

18. Adjustments for the cash flow statement

Depreciation, amortisation and impairments losses of intangible assets and property, plant and equipment	6,836,042
Financial income	-42,557
Financial expenses	8,760,041
Tax on profit or loss for the year	-7,509,413
Total	8,044,113

19. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act for medium-sized groups and enterprises in reporting class C with application of provisions for a higher reporting class.

No comparative figures have been provided as this is the parents' and the group's first financial year. The period's results for a few of the Group's subsidiaries are included for the period 01.01.2019 - 31.12.2019 as a consequence of the establishment of the Group.

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.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements comprise the parent and its subsidiaries in which the parent directly or indirectly holds more than 50% of the voting rights or by way of agreements exercises control. Enterprises in which the group holds equity investments, between 20% and 50% of the voting rights and in which it has significant interest but not control, are considered associates.

All financial statements used for consolidation are prepared in accordance with the accounting policies of the group.

19. Accounting policies - continued -

The consolidated financial statements consolidate the financial statements of the parent and its subsidiaries by adding together items of a uniform nature, eliminating intercompany income and expenditure, equity investments, intercompany balances and dividends as well as gains and losses resulting from transactions between the consolidated enterprises to the extent that the underlying assets and liabilities are not realised.

Non-controlling interests

The financial items of the subsidiaries are recognised in full in the consolidated financial statements. The non-controlling interests' proportionate share of the subsidiaries' equity is classified as a part of consolidated equity. The subsidiaries' results are distributed proportionately to non-controlling interests and the parent's equity interest.

Purchase and sale of non-controlling interests in a subsidiary which do not result in the parent losing control of the subsidiary are treated in the consolidated financial statements as equity transactions, and the difference between the consideration and the carrying amount is allocated to the parent's equity interest.

BUSINESS COMBINATIONS

For combined enterprises subject to common control, the pooling of interests method is used. The pooling of interests is deemed to be completed at the date of acquisition without restatement of comparative figures. The difference between the agreed consideration and the equity value of the acquired enterprise is recognised in equity.

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.

19. Accounting policies - continued -

INCOME STATEMENT

Gross profit

Gross profit comprises revenue, other operating income, raw materials and consumables and cost of sales 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.

Cost of sales

Cost of sales comprises cost of sales for the year measured at cost plus any changes in inventories, including write-downs 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.

19. Accounting policies - continued -

Staff costs

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

Depreciation, amortisation and impairment losses

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

	Useful lives, years	Residual value DKK
Acquired rights	15	0
Goodwill	10	0
Buildings	25	3,000,000
Plant and machinery	3-10	0

Goodwill is amortised over 10 years. The useful life has been determined in consideration of the expected future net earnings of the enterprise or activity to which the goodwill relates.

Land is not depreciated.

The basis of depreciation and amortisation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation and amortisation 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.

Income from equity investments in group entreprises

Dividends from equity investments measured at cost are recognised as income in the financial year in which the dividend is declared.

Income from equity investments in subsidiaries also comprises gains and losses on the sale of equity investments.

19. Accounting policies - continued -

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.

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.

19. Accounting policies - continued -

Acquired rights

Aquired rights are measured in the balance sheet at cost less accumulated amortisation and impairment losses.

Acquired rights are amortised using the straight-line method based on useful lives, which are stated in the ‘Depreciation, amortisation and impairment losses’ section.

Goodwill

Goodwill is measured in the balance sheet at cost less accumulated amortisation and impairment losses.

Goodwill is amortised using the straight-line method based on useful lives, which are stated in the ‘Depreciation, amortisation and impairment losses’ section.

Gains and losses on the disposal of intangible assets

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, amortisation and impairment losses' section.

19. 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 of the parent at cost less any impairment losses.

Accounting policies for the acquisition of new enterprises are stated in the 'Business combinations' section.

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 and amortisation.

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.

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.

19. Accounting policies - continued -

Impairment losses are reversed when the reasons for the impairment no longer exist. Impairment losses on goodwill are not reversed.

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 material and labour costs. Interest on loans arranged to finance production is not included in the 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.

Deposits recognised under assets comprise deposits paid to the lessor under leases entered into by the company.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

Cash

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

19. Accounting policies - continued -

Equity

An amount equivalent to internally generated development costs in the balance sheet is recognised in the financial statements of the parent 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.

19. 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

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year.

The cash flow statement is prepared based on the financial statements of a subsidiary at 31.12.2019 which is not evident from the financial statements. That is why, the figures in the cash flow statement cannot be directly concluded from the figures of the annual report.

Cash flows from operating activities comprise the net profit or loss for the year, adjusted for non-cash operating items, income tax paid and changes in working capital.

Cash flows from investing activities comprise payments in connection with the acquisition and divestment of companies and financial assets as well as the purchase, development, improvement and sale of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the parent's share capital and associated costs and financing from and dividends paid to shareholders as well as the arrangement and repayment of long-term payables.

Cash and cash equivalents at the beginning and end of the year comprise cash and short-term payables to credit institutions.