Dynaudio Holding A/S

Sverigesvej 15, DK-8660 Skanderborg

Annual Report for 1 January - 31 December 2018

CVR No 27 21 55 48

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 14/5 2019

Jian Guo
Chairman of the General Meeting

Contents

Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Dynaudio Holding A/S for the financial year 1 January - 31 December 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2018.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Skanderborg, 8 April 2019

Executive Board

Jian Guo

Board of Directors

Bin Jiang Chairman	Long Jiang	Peng Li

Independent Auditor's Report

To the Shareholders of Dynaudio Holding A/S

Opinion
In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations and of consolidated cash flows for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Dynaudio Holding A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows ("the Financial Statements").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Group 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.

Emphasis of Matter
We draw attention to Note 2 in the financial statements, which describes the uncertainty associated with measurement of assets, including particularly capitalized development projects, based on Management's expectations for sufficient positive results and cash flows in future years and retention of key customers. Our conclusion is not modified regarding this matter.

Statement on 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 Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

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, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and 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 Group or the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group'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 Group's and 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 Group and 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.

- 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 performance 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.

Aarhus, 8 April 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

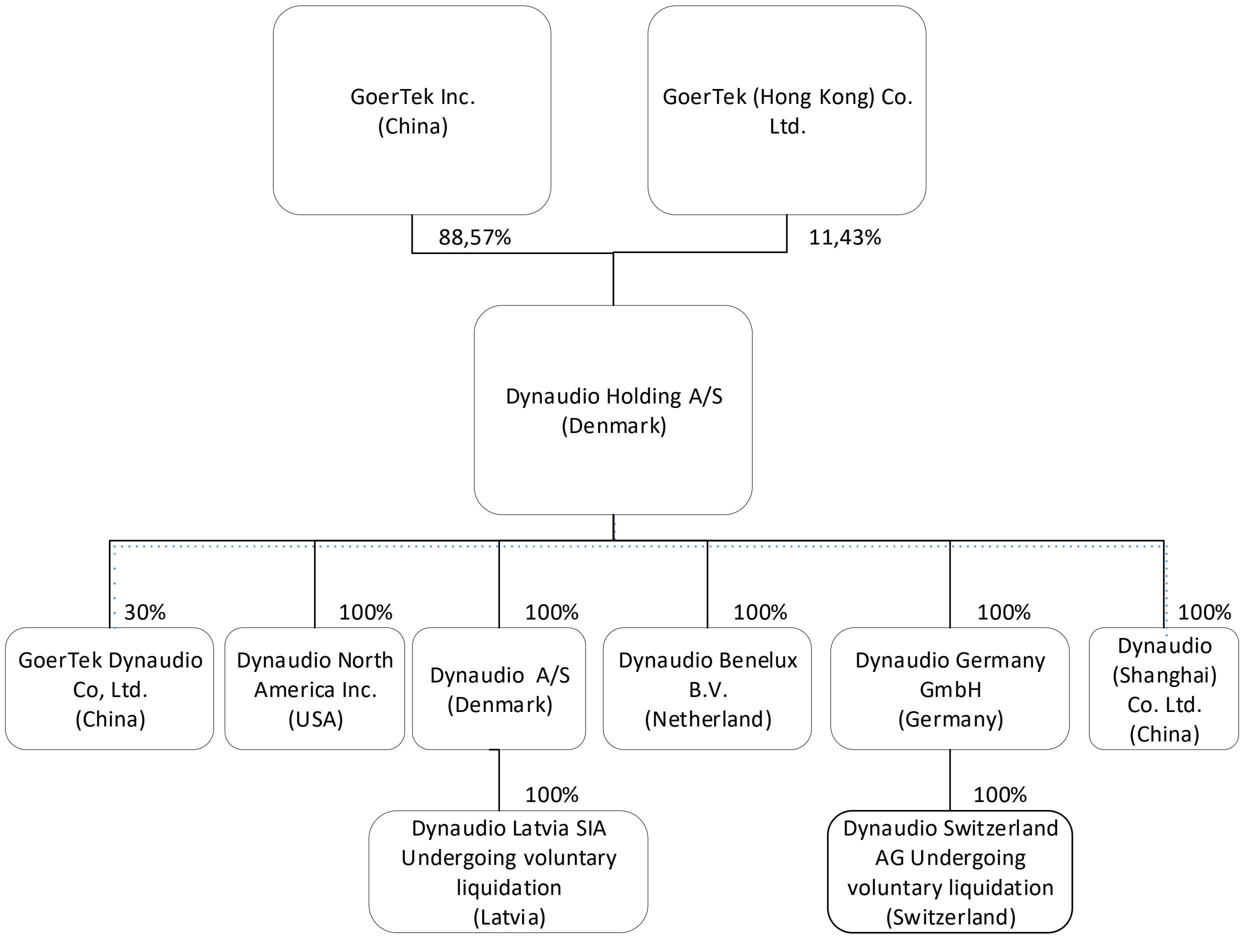
Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Claus Lyngsø Sørensen
State Authorised Public Accountant
mne34539

Company Information

The Company	Dynaudio Holding A/S Sverigesvej 15 DK-8660 Skanderborg CVR No: 27 21 55 48 Financial period: 1 January - 31 December Municipality of reg. office: Skanderborg
Board of Directors	Bin Jiang, Chairman Long Jiang Peng Li
Executive Board	Jian Guo
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Nobelparken Jens Chr. Skous Vej 1 DK-8000 Aarhus C

Group Chart


GoerTek Inc.
(China)
GoerTek (Hong Kong) Co. Ltd.
88,57%
11,43%
Dynaudio Holding A/S
(Denmark)
30%
100%
100%
100%
100%
100%
GoerTek Dynaudio Co, Ltd.
(China)
Dynaudio North America Inc.
(USA)
Dynaudio A/S
(Denmark)
Dynaudio Benelux B.V.
(Netherland)
Dynaudio Germany GmbH
(Germany)
Dynaudio (Shanghai) Co. Ltd.
(China)
100%
100%
Dynaudio Latvia SIA Undergoing voluntary liquidation
(Latvia)
Dynaudio Switzerland AG Undergoing voluntary liquidation
(Switzerland)

Financial Highlights

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

	Group				
	2018	2017	2016	2015	2014
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Revenue	420,665	412,153	343,696	268,130	288,684
Gross profit/loss	81,041	98,849	80,975	50,215	74,320
Operating profit/loss	-88,834	-68,840	-75,097	-47,232	-356
Net financials	-37,028	9,687	-26,553	-10,350	-6,461
Net profit/loss for the year	-131,736	-38,183	-105,262	-42,134	6,149
Balance sheet					
Balance sheet total	478,823	423,875	428,550	301,822	245,669
Equity	-152,034	-19,243	-104,348	2,329	42,950
Cash flows					
Cash flows from:					
- operating activities	-133,979	-8,138	-81,217	-35,717	11,284
- investing activities	-45,575	-44,347	-111,643	-50,186	-26,207
including investment in property, plant and equipment	-9,062	-14,543	-40,513	-27,982	-15,642
- financing activities	185,765	104,120	155,568	80,931	13,892
Change in cash and cash equivalents for the year	6,211	51,635	-37,292	-4,972	-1,031
Ratios					
Gross margin	19.3%	24.0%	23.6%	18.7%	25.7%
Profit margin	-20.9%	-12.2%	-21.8%	-17.6%	-0.1%
Return on assets	-18.4%	-11.9%	-17.5%	-15.6%	-0.1%
Solvency ratio	-31.8%	-4.5%	-24.3%	0.8%	17.5%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Key activities

The Group's activities are to develop, produce and sell loudspeaker systems and loudspeaker units etc. relying on advanced technology and high quality.

The core competencies are based on sound systems, and the corporate vision is to produce sound systems that reproduce sound authentically without any distortion and noise. This has been the ambition ever since the formation of Dynaudio. Regardless of the segment in which the Group operates, ultimate demands are placed for the quality of the sound systems to promote sound reproduction which is as authentic as possible.

The Group's business foundation comprises the following five business areas:

- CAR – Premium Sound Systems for the car industry
- Consumer – Premium Sound systems for consumers
- PRO – Systems for studios and other professional applications
- INSTALL – Systems for residential installation
- Multimedia – External loudspeakers for multimedia and tuning of sound in computers.

Our subsidiaries now consist of sales and distribution companies in China, USA and Germany which together with Dynaudio A/S in Denmark ensure the worldwide distribution is pushed. Our subsidiary in the Netherlands acts as local sales office for the Netherlands. Dynaudio further has a branch in Sweden.

A majority of the employees in Dynaudio Group is located in Dynaudio A/S, Denmark.

Development in the year

The income statement of the Group for 2018 shows a loss of kDKK 131,736, and at 31 December 2018 the balance sheet of the Group shows negative equity of kDKK 152,034.

The loss is higher than expected and is affected by external as well as internal supply challenges resulting in delays and postponement of significant product launches during the year. However the performance is still in line with our strategy of promoting and supporting future growth.

Net revenue increased slightly in 2018 and was aligned with the Group's strategy. The key drivers were increase of Consumer products such as the Music series.

Organizational changes in the organization have continued this year to support growth in all business areas and all major markets. Additionally, the Group is establishing sales in new sales channels and in Spring 2018 the new Brand Flagship store was opened in Shanghai to positioning our branding strategy.

Management's Review

Furthermore, the work on slimming the company organizational structure continues with the closing process of our production subsidiary Dynaudio Latvia, which is undergoing voluntary liquidation.

The net loss for 2018 is higher than budgeted, which initially is planned to foster growth in the long term. The investments in Dynaudio have been massive since our parent company, Goertek Inc., acquired us and the past year's losses are due to the high commitment and support from our owners to secure the further developing of Dynaudio. This will bring Dynaudio into a strong competitive position in the future.

The shareholders of the company have approved a plan for re-establishing the shareholder's equity via capital increase. The capital increase process has been initiated and is expected to be completed within the end of first half of 2019.

Special risks

Currency risks

Foreign exchange risks are hedged primarily by trading in EURO. Risks in USD are hedged by seeking to align sales and purchases in USD.

Liquidity risks

Liquidity in relation to the operations planned for 2019 has been secured through agreements with the owners of the enterprise.

Business review

Several new products have been launched and Music Line has been introduced as new in the range of intelligent wireless music system for the mass market which is the first time Dynaudio go outside the traditional hifi market. The organization was strengthened within multiple specialist areas.

Outlook

Taking both the performance in 2018 and a focus on securing a sustainable profitability in the future, Dynaudio have initiated a restructuring of the organization, which was executed in the beginning of 2019. With the new organization, we expect a revenue increase in 2019 within our primary business areas and a correspondingly stable profit development. Further we take into consideration an increased profitability from our existing business areas.

Also, new initiatives are expected within both product development, production optimization as well as sales and distribution.

We expect the result in 2019 to be improved compared to 2018.

Management's Review

Intellectual resources

Development of new products represents a significant parameter for the Group, and particularly within acoustics and electronics, access to competent resources needs to be secured. This is done through partnerships with the universities in Aarhus and Aalborg and close cooperation with knowledge intensive partners within electronics, etc.

Quality and environment

As a tool for ensuring its high level of quality and maintaining and developing its competitiveness as well as following e.g. environmental regulations, the Group has opted to implement a quality and environmental management system which is based on Dynaudio A/S' requirements and processes and certified under IATF 16949, VDA and DS/EN ISO 14001.

Dynaudio is externally audited yearly and have a yearly self-assessment cycle implemented as well. This ensure our quality in all aspect are at the highest level possible to benefit all our business partners.

The quality and environmental management system is effective for Dynaudio A/S in Denmark with regard to e.g. (but not limited to) product development, construction, production, procurement, delivery, it etc.

Dynaudio A/S never compromises on the product quality adopted nor the environmental regulations.

Combined with a zero-error quality concept, authentic music and sound reproduction are achieved through gradual as well as groundbreaking improvements within technology and quality.

The philosophy to ensure continuous quality improvement is the very foundation on which the entire Group and each staff member relies.

The Group attempts to fulfil its vision through respect and consideration for the local and global effects that the products have on the physical and social environment.

The Group aims to attract and retain employees holding qualifications matching the Group's high level of ambition.

Any Dynaudio product must be capable of meeting the highest technical standards in accordance with the customer's wishes whilst retaining a sustainable environmental balance.

The objectives of the Group's quality and environmental management system are to ensure that:

- Dynaudio A/S complies with all relevant laws, regulatory and customer requirements as well as other regulations to which Dynaudio A/S has committed itself;
- quality and environmental focus areas are improved regularly;
- damage to and pollution of the environment are prevented.

Management's Review

The areas are all assessed regularly by internal audits carried out by our quality department. These audits are mandatory under the regulations of the certifications of DS/ISO/TS 16949 (future IATF 16949) and DS/EN ISO 14001.

Report on Corporate Social Responsibility, cf. Section 99 a of the Danish Financial Statements Act

Corporate Social Responsibility (CSR) is a natural and integrated focus area for Dynaudio. Our CSR policies concerns our engagement with customers, suppliers, the local community, the industry and own staff.

By its nature, the quality certification under IATF 16949 places heavy demands on the Group in terms of CSR, but Dynaudio has taken its social responsibility to an even higher level by introducing additional, relevant initiatives.

Risk related to CSR

Dynaudio operates within a competitive global market. In order to create and sustain a profitable growth, the Group consider risk management as key tool.

The Group considers the impact on Environment and Climate, Human Rights and Anti-Corruption to be limited. The Group are considering business risks together with these specific risks. In situation where an increased risk is identified, the risk will be highlighted in each separate section below, including a description of our policy.

Environment and climate

The Group's products generally have long lifespans, which minimizes negative effects on the environment. However, we recognize that when producing we use and transform natural resources and that our suppliers also use natural resources when delivering components to us. Therefore, we focus on maintaining a responsible and resource efficient business. Responsibility and efficiency is an integrated part of our certified DS/EN ISO 14001 environmental management system and we continuously seek to improve our environmental performance.

Every year, we perform internal audits according to our ISO 14001 environmental certification. The audit identified a number of opportunities to further improve our internal processes, which we work to implement going forward. Moreover, we conducted nine audits at our suppliers in 2018 to evaluate their processes ensuring they comply with our rules as well as the terms and conditions they are covered by – all in order to ensure future improvement.

In 2018, we completed several energy-saving projects at our production facility in Denmark that will reduce our energy consumption by up to 10% in the Production facility, or about 60.000 kWh of electricity annually. Furthermore, we have replaced traditional light balls with LED in most of our Danish facilities in order to save energy and costs.

Management's Review

Our investments are in line with the Dynaudio strategy and ensure both positively impact on our environment as well as on our costs going forward. Further energy savings programs will be initiated in 2019 and onwards.

Human rights

We respect internationally recognized human rights and support the observance of these rights. We act in accordance with the applicable requirements of the International Labor Organization. We recognize the basic right of all employees to establish trade unions / labor representations and do not interfere or seek information regarding these rights. We reject all deliberate use of forced or compulsory labor. Child labor is prohibited. We heed the minimum age requirements for employment in accordance with governmental obligations. Remuneration and benefits paid or otherwise rendered in compensation for a normal working week are following as a minimum the national legal standard or standards of the respective national economic region.

All of the above also goes for our suppliers and we work closely with our suppliers to ensure that they act in accordance of what we expect of them. Suppliers are often audited by our internal quality / procurement teams to ensure the code of conduct are followed.

In 2018, all Dynaudio suppliers have agreed to follow our Code of Conduct, which is a requirement for being a Dynaudio partner and it's included in our supplier terms & conditions. Our frequent supplier visits ensure non-conformities are assessed and all have planned corrective actions. According to ISO 14001 suppliers must document Code of Conduct are followed and future supplier audits will include a more detailed control to ensure this is indeed following the agreed Code of Conduct.

Anti-corruption

It is important to us that the employment activities of our employees do not get in a conflict between their private interests and those interests of Dynaudio. Therefore, it is imperative that all situations from which conflicts of interest could arise be avoided. For the protection of Dynaudio and our employees, we have established internal rules of conduct as well as a system for exposure, and the pursuit of such activities and offences.

Corruption is forbidden worldwide and unacceptable behavior for a Dynaudio employee, business partner and customer. It is a criminal act and will not be tolerated. None of our employees may use the business connections of the Company for their own benefit or for that of another or to the disadvantage of the Company. This means, in particular that none of our employees grants or accepts impermissible personal benefits (e.g., money, tangible assets, or services) that are intended to influence a fact-based decision.

Management's Review

In 2018, all new employees completed extensive business ethics training as a part of the on-boarding program.

No cases of corruption and bribery has been reported during 2018, nor has any of our employees received excessive gifts/presents from our business partners as to our knowledge.

Supporting the community – we grow together

Dynaudio has decided to play an active role in helping citizens in the Skanderborg area back to work, into the job market and also in integrating new comers to Denmark. We do this based on our value GROW. Helping gives us pride in our organization, it grows our understanding of the diversity in people and backgrounds and while doing so, we support our intern's growth of self-confidence, work identity, language skills etc.

To support this task, we have a full-time mentor employed who coordinates internships/job trainings of different lengths with the Job Centers. Through our engagement we have had 2 interns and +10 employees in job trainings in 2018. In 2019 we expect a similar number of interns and job trainings.

Leading

We are leading within our field and have the best of the best experts in our staff. In order to support and ensure the experts for the future our specialist and managers are active as tutors/mentors at e.g. Aarhus and Aalborg University. Sharing their knowledge and helping educate the experts of the future.

We work together with educational institutions at all level from seven graders to phd´s. Inviting them in, where possible for e.g. factory tours, paper cooperation's and internships. We feel a responsibility towards the employees of the future – giving them insight into our industry and the wide variety of job possibilities it holds.

Sponsoring

We award sponsoring in the context of the respective legal framework and in accordance with the applicable internal rules. This means it must be relevant for our work field and/or have a social/health benefit for our employees. We have actively sponsorships with:

- Continuation of the support to The Music Hall in Aarhus.
- Dynaudio Midsommer Stafet (running event), which is both a social and healthy event bringing people together, sharing fun and food and growing network across work areas, hieratic level.
- Randers HK handball.

To Lead we need to continuously improve

The Group's CSR policies are reviewed regularly at top management level and by the collaboration committee to ensure that these policies always comply with applicable national and international guidelines, and that they are developed and improved on an ongoing basis.

Management's Review

Report on the gender representation in Management, cf section 99 b of the Danish Financial Statements Act

We want to be a Company which is known as giving equal opportunity and equal treatment, irrespective of ethnicity, skin color, gender, disability, ideology, faith, nationality, sexual orientation, social background, or political conviction. This view is reflected in our hiring process. Our employees are chosen, hired, and supported based on their qualifications and skills. However, we do seek toward equal representation in the hiring process.

At management level, policies have been introduced to ensure larger gender equality within the group. Hence, a goal has been set stating that women must comprise 50% of the management group by 2021. In 2017 the percentage was 20% and for 2018 it has been increased to 28%. For Senior Management the percentage is 16%.

We will seek to reach our goal as follows:

- Organic growth. This means that in cases of retirement/new hires in the management group and/or executive group there will – until the above goal is reached – be a small positive "weighing" in regard to female candidates. That means that during recruitments where the final choice stands between a man and a woman, and where the competencies can be completely equated, there will be a small positive weighing towards women.

- That hiring procedures and recruitment contribute to visualizing female leadership talents so that both female and male candidates are represented in internal and external recruitment.

- There must be equal conditions for the genders when external candidates apply for executive positions within the Dynaudio Group. The aim will be that at the second round of interviews, both genders are represented.

- There must be equal conditions for the genders by internal promotions.

- In our employee branding we will seek to stress more focus on female employees working here, to show our diversity and give the applicants role models they can relate to.

For both Dynaudio Holding A/S and Dynaudio A/S the board constitutes of 3 persons representing the owners of Dynaudio Holding A/S. Two out of three members were reelected, and only one new candidate was listed for the board election, which was not a female candidate. The policy to ensure larger gender equality within the Board has been implemented. Here the goal is that at least 1 out of 3 (or 2 out of 5) board members are women by the end of 2021. The goal will be sought through e.g. retirement. The Board there will – until the above goal is reached – be a small positive "weighing" in regard to female candidates.

Management's Review

A positive work environment

Each of our employees are prohibited from discrimination of any kind (e.g., by disadvantaging, harassing, or bullying) and shall foster a respectful, partner-like interaction with one another. As part of this we have the value; Listen – meaning listening and respecting each other. We also have an anti-bullying/wellbeing policy.

We create an environment which provides personal and professional prospects for our employees, in which employees can grow their skills and create the best results. We invest in the skills and competence of our employees.

We expect that each of our employees will maintain high personal standards for themselves, their performance, and their health. That they actively participate in their own ongoing professional development.

Income Statement 1 January - 31 December

	Note	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
		kDKK	kDKK	kDKK	kDKK
Revenue	3	**420,665**	**412,153**	**0**	**0**
Cost of sales	4	-339,624	-313,304	0	115
Gross profit/loss		**81,041**	**98,849**	**0**	**115**
Distribution expenses	4	-98,548	-76,903	0	0
Development expenditure	4	-37,282	-64,055	0	0
Administrative expenses	4	-34,045	-26,731	-697	-723
Operating profit/loss		**-88,834**	**-68,840**	**-697**	**-608**
Other operating income		964	18,461	737	817
Profit/loss before financial income and expenses		**-87,870**	**-50,379**	**40**	**209**
Income from investments in subsidiaries		0	0	-117,425	-27,452
Income from investments in associates		-12,048	-7,375	-12,048	-7,375
Financial income	5	4,578	34,487	0	0
Financial expenses	6	-29,558	-17,425	-2,213	-3,482
Profit/loss before tax		**-124,898**	**-40,692**	**-131,646**	**-38,100**
Tax on profit/loss for the year	7	-6,838	2,509	-90	-83
Net profit/loss for the year		**-131,736**	**-38,183**	**-131,736**	**-38,183**

Balance Sheet 31 December

Assets

	Note	Group 2018 kDKK	Group 2017 kDKK	Parent Company 2018 kDKK	Parent Company 2017 kDKK
Completed development projects		43,534	35,101	0	0
Software		7,294	5,070	218	292
Goodwill		0	51	0	0
Development projects in progress		29,830	33,861	0	0
Intangible assets	8	**80,658**	**74,083**	**218**	**292**
Land and buildings		72,042	73,105	0	0
Plant and machinery		31,332	29,302	0	0
Other fixtures and fittings, tools and equipment		8,243	5,351	0	0
Property, plant and equipment in progress		0	6,844	0	0
Property, plant and equipment	9	**111,617**	**114,602**	**0**	**0**
Investments in subsidiaries	10	0	0	13,464	50,028
Investments in associates	11	0	7,981	0	7,981
Deposits	12	334	138	0	0
Fixed asset investments		**334**	**8,119**	**13,464**	**58,009**
Fixed assets		**192,609**	**196,804**	**13,682**	**58,301**
Inventories	13	**206,314**	**152,983**	**0**	**0**
Trade receivables		56,376	49,820	0	0
Other receivables		2,962	2,407	82	249
Deferred tax asset	17	0	5,775	0	0
Prepayments	14	1,965	3,701	0	0
Receivables		**61,303**	**61,703**	**82**	**249**
Cash at bank and in hand		**18,597**	**12,385**	**20**	**95**
Currents assets		**286,214**	**227,071**	**102**	**344**
Assets		**478,823**	**423,875**	**13,784**	**58,645**

Balance Sheet 31 December

Liabilities and equity

		Group		Parent Company	
	Note	2018	2017	2018	2017
		kDKK	kDKK	kDKK	kDKK
Share capital		3,111	3,111	3,111	3,111
Retained earnings		-155,145	-22,354	-155,145	-22,354
Equity	15	**-152,034**	**-19,243**	**-152,034**	**-19,243**
Provisions relating to investments in group enterprises		0	0	106,617	18,633
Provisions relating to investments in associates		4,067	0	4,067	0
Other provisions	18	1,840	2,007	0	0
Provisions		**5,907**	**2,007**	**110,684**	**18,633**
Subordinate loan capital		147,057	140,026	0	0
Mortgage loans		13,548	14,900	0	0
Lease obligations		957	1,540	0	0
Long-term debt	19	**161,562**	**156,466**	**0**	**0**

Balance Sheet 31 December *(continued)*

Liabilities and equity

		Group		Parent Company	
	Note	2018	2017	2018	2017
		kDKK	kDKK	kDKK	kDKK
Mortgage loans	19	1,333	1,313	0	0
Credit institutions		149,524	43,742	577	0
Lease obligations	19	520	633	0	0
Prepayments received from customers		17,762	22,878	0	0
Trade payables		49,870	51,512	25	32
Payables to group enterprises		186,062	113,637	54,021	58,630
Payables to associates		16,541	13,986	0	0
Corporation tax		356	435	346	346
Other payables		41,420	36,509	165	247
Short-term debt		**463,388**	**284,645**	**55,134**	**59,255**
Debt		**624,950**	**441,111**	**55,134**	**59,255**
Liabilities and equity		**478,823**	**423,875**	**13,784**	**58,645**

Going concern	1
Uncertainty relating to recognition and measurement	2
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Statement of Changes in Equity

Group

	Share capital	Retained earnings	Total
	kDKK	kDKK	kDKK
Equity at 1 January	3,111	-22,354	-19,243
Exchange adjustments	0	-1,288	-1,288
Fair value adjustment of hedging instruments, end of year	0	233	233
Net profit/loss for the year	0	-131,736	-131,736
Equity at 31 December	**3,111**	**-155,145**	**-152,034**

Parent Company

	Share capital	Retained earnings	Total
Equity at 1 January	3,111	-22,354	-19,243
Exchange adjustments	0	-1,288	-1,288
Fair value adjustment of hedging instruments, end of year	0	233	233
Net profit/loss for the year	0	-131,736	-131,736
Equity at 31 December	**3,111**	**-155,145**	**-152,034**

Cash Flow Statement 1 January - 31 December

	Note	Group 2018	Group 2017
		kDKK	kDKK
Net profit/loss for the year		-131,736	-38,183
Adjustments	21	74,431	36,272
Change in working capital	22	-60,109	-5,392
Cash flows from operating activities before financial income and expenses		**-117,414**	**-7,303**
Financial income		1,692	1,063
Financial expenses		-17,115	-4,667
Cash flows from ordinary activities		**-132,837**	**-10,907**
Corporation tax paid		-1,142	0
Received tax reimbursements		0	2,769
Cash flows from operating activities		**-133,979**	**-8,138**
Purchase of intangible assets		-37,446	-30,490
Purchase of property, plant and equipment		-9,062	-14,543
Fixed asset investments made etc		-199	0
Sale of property, plant and equipment		1,132	0
Sale of fixed asset investments etc		0	1,134
Business acquisition		0	-9,869
Other adjustments		0	9,421
Cash flows from investing activities		**-45,575**	**-44,347**
Repayment of mortgage loans		-1,333	-1,332
Repayment of loans from credit institutions		0	-6,000
Reduction of lease obligations		-696	-541
Repayment of payables to group enterprises		0	-127,504
Repayment of payables to associates		0	13,986
Repayment of other long-term debt		0	-5,594
Raising of loans from credit institutions		105,782	0
Raising of loans from group enterprises		72,426	0
Raising of loans from associates		2,555	0
Raising of other long-term debt		7,031	105,907
Cash capital increase		0	125,198
Cash flows from financing activities		**185,765**	**104,120**

Pengestrømsopgørelse 1. januar - 31. december

	Note	2018	2017
		kDKK	kDKK
Change in cash and cash equivalents		**6,211**	**51,635**
Cash and cash equivalents at 1 January		-25,357	-76,992
Cash and cash equivalents at 31 December		**-19,146**	**-25,357**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		18,597	12,385
Overdraft facility		-37,743	-37,742
Cash and cash equivalents at 31 December		**-19,146**	**-25,357**

Notes to the Financial Statements

1 Going concern

The parent company to Dynaudio Holding A/S has signed af letter of financial support stating that Goertek Inc. as the parent company to Dynaudio Holding A/S will support Dynaudio Holding A/S and Dynaudio A/S financially in the form of a loan in the extent necessary to finance their operation activities and other extraordinary expenses, if any, during 2019. Hence no material uncertainty exist regarding the company being going concern.

2 Uncertainty relating to recognition and measurement

When preparing the annual report, Management has made accounting estimates reflecting Management's assessment of the most likely outcome of future events and circumstances. These assessments are, by their nature, uncertain and unpredictable and may change in subsequent financial years.

As described in Management’s Review, massive investments have been made in Dynaudio to develop the company and prepare for future expansion. Consequently, Management expects financial losses the next couple of years and then afterwards positive results. Valuation of fixed asset investments, including capitalized development projects, is based on budgets and forecasts for the years to come. If budgeted activities are not realized as expected this might impact the valuation of fixed asset investments, leading to impairments.

Further, Dynaudio has high customer dependency. Valuation of assets is therefore highly dependent on retention of key customers.

In connection with the presentation of the annual report, Management has assessed the valuation of Dynaudio's assets, including particularly capitalized development projects. Management is of the opinion that the carrying amount can be supported by expected earnings and cash flows from the related products, etc.

3 Revenue

	Group		Parent Company	
	2018	2017	2018	2017
	kDKK	kDKK	kDKK	kDKK
Geographical segments				
Europe	237,232	261,617	0	0
North America	27,786	25,931	0	0
Asia	137,039	119,815	0	0
Other	18,608	4,790	0	0
	420,665	**412,153**	**0**	**0**

Notes to the Financial Statements

4 Staff

	Group		Parent Company	
	2018	2017	2018	2017
	kDKK	kDKK	kDKK	kDKK
Wages and Salaries	127,406	111,380	0	0
Pensions	13,199	12,338	0	0
Other social security expenses	4,292	7,187	0	0
Other staff expenses	3,378	1,405	0	0
	148,275	**132,310**	**0**	**0**
Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:				
Cost of sales	82,179	68,444	0	0
Distribution expenses	39,622	40,550	0	0
Development expenditure	9,502	7,924	0	0
Administrative expenses	16,972	15,392	0	0
	148,275	**132,310**	**0**	**0**
Average number of employees	**377**	**330**	**0**	**0**

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

5 Financial income

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Interest received from group enterprises	0	869	0	0
Other financial income	1,691	13	0	0
Exchange adjustments	2,887	33,605	0	0
	4,578	**34,487**	**0**	**0**

Notes to the Financial Statements

	Group		Parent Company	
	2018	2017	2018	2017
	kDKK	kDKK	kDKK	kDKK
6 Financial expenses				
Interest paid to group enterprises	10,898	7,554	2,137	2,007
Other financial expenses	5,838	4,277	76	1,475
Exchange adjustments, expenses	12,822	5,594	0	0
	29,558	**17,425**	**2,213**	**3,482**
7 Tax on profit/loss for the year				
Current tax for the year	1,063	185	90	83
Deferred tax for the year	5,775	0	0	0
Adjustment of tax concerning previous years	0	-2,642	0	0
Adjustment of deferred tax concerning previous years	0	-52	0	0
	6,838	**-2,509**	**90**	**83**

Notes to the Financial Statements

8 Intangible assets

Group

	Completed development projects	Software	Goodwill	Development projects in progress
	kDKK	kDKK	kDKK	kDKK
Cost at 1 January	96,692	27,001	889	47,638
Additions for the year	9,439	4,389	0	24,145
Disposals for the year	0	-110	-60	0
Transfers for the year	41,567	0	0	-41,939
Cost at 31 December	147,698	31,280	829	29,844
Impairment losses and amortisation at 1 January	61,590	21,931	838	13,777
Impairment losses for the year	12,500	888	0	0
Amortisation for the year	16,311	1,277	0	0
Reversal of amortisation of disposals for the year	0	-110	-9	0
Transfers for the year	13,763	0	0	-13,763
Impairment losses and amortisation at 31 December	104,164	23,986	829	14
Carrying amount at 31 December	**43,534**	**7,294**	**0**	**29,830**

Development costs relate to the development of technologies and products which are to the Company's main activities within loudspeakers. All development costs relate to projects which are expected to be commercialised within short period of time, which is ordinary to the business.

Notes to the Financial Statements

9 Property, plant and equipment

Group

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
	kDKK	kDKK	kDKK	kDKK
Cost at 1 January	103,676	105,667	15,813	6,844
Exchange adjustment	0	0	36	0
Additions for the year	1,735	4,029	3,298	0
Disposals for the year	-251	-2,503	-297	0
Transfers for the year	0	6,254	961	-6,844
Cost at 31 December	105,160	113,447	19,811	0
Impairment losses and depreciation at 1 January	30,571	76,365	10,462	0
Exchange adjustment	0	0	26	0
Depreciation for the year	2,768	7,045	1,135	0
Impairment and depreciation of sold assets for the year	-221	-1,295	-55	0
Impairment losses and depreciation at 31 December	33,118	82,115	11,568	0
Carrying amount at 31 December	**72,042**	**31,332**	**8,243**	**0**
Including assets under finance leases amounting to	2,026	1,291	0	0

	Parent Company	
	2018	2017
	kDKK	kDKK
10 Investments in subsidiaries		
Cost at 1 January	204,072	71,024
Additions for the year	0	131,522
Transfers for the year	0	1,526
Cost at 31 December	204,072	204,072
Value adjustments at 1 January	-172,677	-145,012
Exchange adjustment	-1,288	852
Net profit/loss for the year	-117,436	-21,010
Dividend to the Parent Company	-6,067	-9,441
Other equity movements, net	233	461
Change in intercompany profit on inventories	10	2,999
Transfers for the year	0	-1,526
Value adjustments at 31 December	-297,225	-172,677
Equity investments with negative net asset value transferred to provisions	106,617	18,633
Carrying amount at 31 December	**13,464**	**50,028**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership
Dynaudio A/S	Denmark	100%
Dynaudio Switzerland AG	Switzerland	100%
Dynaudio Germany GmbH	Germany	100%
Dynaudio (Shanghai) Co. Ltd.	China	100%
Dynaudio North America Inc.	USA	100%
Benelux B.V.	Netherlands	100%

	Group 2018 kDKK	Group 2017 kDKK	Parent Company 2018 kDKK	Parent Company 2017 kDKK
11 Investments in associates				
Cost at 1 January	20,850	4,098	20,850	4,098
Additions for the year	0	16,619	0	16,619
Transfers for the year	0	133	0	133
Cost at 31 December	20,850	20,850	20,850	20,850
Value adjustments at 1 January	-12,869	-4,358	-12,869	-4,358
Exchange adjustment	0	-1,004	0	-1,004
Net profit/loss for the year	-12,048	-10,911	-12,048	-10,911
Change in intercompany profit on inventories	0	3,537	0	3,537
Transfers for the year	0	-133	0	-133
Value adjustments at 31 December	-24,917	-12,869	-24,917	-12,869
Equity investments with negative net asset value transferred to provisions	4,067	0	4,067	0
Carrying amount at 31 December	**0**	**7,981**	**0**	**7,981**

Investments in associates are specified as follows:

Name	Place of registered office	Votes and ownership
GoerTek Dynaudio Co., Ltd.	China	30%

Notes to the Financial Statements

12 Other fixed asset investments

	Group
	Deposits
	kDKK
Cost at 1 January	138
Additions for the year	196
Cost at 31 December	334
Carrying amount at 31 December	**334**

13 Inventories

	Group		Parent Company	
	2018	2017	2018	2017
	kDKK	kDKK	kDKK	kDKK
Raw materials and consumables	67,568	77,545	0	0
Work in progress	7,861	10,627	0	0
Finished goods and goods for resale	130,885	64,811	0	0
	206,314	**152,983**	**0**	**0**

14 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well as fair value adjustments of derivative financial instruments with a positive fair value.

15 Equity

The share capital consists of 3,111,112 shares of a nominal value of kDKK 1. No shares carry any special rights.

16 Distribution of profit

	Group		Parent Company	
	2018	2017	2018	2017
	kDKK	kDKK	kDKK	kDKK
Retained earnings	-131,736	-38,183	-131,736	-38,183
	-131,736	**-38,183**	**-131,736**	**-38,183**

Notes to the Financial Statements

17 Provision for deferred tax

Provision for deferred tax at 1 January	-5,775	-5,775	0	0
Amounts recognised in the income statement for the year	5,775	0	0	0
Provision for deferred tax at 31 December	**0**	**-5,775**	**0**	**0**

The Company has recognised deferred tax assets relating to tax loss carry-forwards and other temporary adjustments. Regarding valuation and uncertainties hereto, refer to description in note 1 and note 24 regarding correction of material misstatement related to valuation of deferred tax asset.

18 Other provisions

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Based on previous experience in respect of the level of repairs and returns, other provisions of kDKK 1,840 (2017: kDKK 1,845) have been recognised for expected warranty claims.

Other provisions	0	162	0	0
Warranty obligations	1,840	1,845	0	0
	1,840	**2,007**	**0**	**0**

Notes to the Financial Statements

19 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:

	Group		Parent Company	
	2018	2017	2018	2017
	kDKK	kDKK	kDKK	kDKK
Subordinate loan capital				
After 5 years	147,057	140,026	0	0
Long-term part	147,057	140,026	0	0
Within 1 year	0	0	0	0
	147,057	**140,026**	**0**	**0**
Mortgage loans				
After 5 years	8,217	9,682	0	0
Between 1 and 5 years	5,331	5,218	0	0
Long-term part	13,548	14,900	0	0
Within 1 year	1,333	1,313	0	0
	14,881	**16,213**	**0**	**0**
Lease obligations				
Between 1 and 5 years	957	1,540	0	0
Long-term part	957	1,540	0	0
Within 1 year	520	633	0	0
	1,477	**2,173**	**0**	**0**

20 Derivative financial instruments

An agreement on interest swap has been entered into to secure future interest payments on a floating-rate loan. The agreement expires in 2030 and is recognised at a fair value of DKK -2,175k at the balance sheet date. In the agreement a floating interest, at the balance sheet date -0.12 % p.a., is swapped with a fixed interest of 3.12 % p.a. on a loan with a principal of DKK 15,109k.

	Group 2018 kDKK	Group 2017 kDKK
21 Cash flow statement - adjustments		
Financial income	-4,578	-34,487
Financial expenses	29,558	17,425
Depreciation, amortisation and impairment losses, including losses and gains on sales	41,788	38,649
Income from investments in associates	12,048	7,375
Tax on profit/loss for the year	6,838	-2,509
Other adjustments	-11,223	9,819
	74,431	**36,272**

22 Cash flow statement - change in working capital

	2018 kDKK	2017 kDKK
Change in inventories	-53,331	-63,654
Change in receivables	-5,373	61,337
Change in other provisions	-167	-2,635
Change in trade payables, etc	-1,471	-901
Fair value adjustments of hedging instruments	233	461
	-60,109	**-5,392**

Notes to the Financial Statements

	Group		Parent Company	
	2018	2017	2018	2017
	kDKK	kDKK	kDKK	kDKK

23 Contingent assets, liabilities and other financial obligations

Charges and security

The following assets have been placed as security with mortgage credit institutes:

Floating company charge	70,000	70,000	0	0

The following assets have been placed as security with bankers:

As collateral for bank loans, the company has deposited a mortgage registered to the owner of a nominal amount of DKK 42,300k secured in property. The carrying amount of mortgage property amounts to	72,042	73,075	0	0
As collateral for bank loans, the company has deposited a mortgage registered to the owner of a nominal amount of DKK 12,205k secured in machinery. The carrying amount of mortgage machinery amounts to	15,160	19,237	0	0

Contingent assets

According to the tax legislation the Group can receive a cash amount from the Danish Tax Authorities corresponding to the tax value of research and development expenses up to DKK 25 million a year. For the income years 2015 - 2018 the Group has a potential accumulated tax receivable of approximately DKK 16 million. Due to some uncertainty no receivable has been recognized on the Balance Sheet.

	Group		Parent Company	
	2018	2017	2018	2017
	kDKK	kDKK	kDKK	kDKK

23 Contingent assets, liabilities and other financial obligations (continued)

Contingent liabilities

The Parent Company has entered into a joint several guarantee of payment towards the subsidiaries Dynaudio A/S and Dynaudio Germany GmbH.

The Group has entered into lease contracts as well as operating leases. The total commitment relating to these contracts and leases amounts to DKK 16,839k (2017: DKK 19,659k).

The Group Companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable by the Group amounts to kDKK 0. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company’s liability.

Notes to the Financial Statements

24 Related parties

	Basis
Controlling interest	
Goertek Inc.	Parent Company

Transactions

During the year, the Company had the following transactions with its ultimate Parent Company and its subsidiaries:

	Group		Parent Company	
	2018	2017	2018	2017
	kDKK	kDKK	kDKK	kDKK
Revenue	156	5,361	0	0
Management fee, sale	28	315	12	12
Purchase cabinets and other material	57,966	15,060	0	0
Interest income	475	869	0	0
Interest expenses	10,898	7,554	2,137	2,007
Equity investment (Dynaudio Shanghai)	0	9,869	0	9,869
Sale of company (Goertek Europe)	0	50	0	0

Consolidated Financial Statements

Dynaudio Holding A/S is part of the consolidated financial statements of Goertek Inc.

Name	Place of registered office
Goertek Inc.	China

The Group Annual Report of Goertek Inc. may be obtained at the following webaddress:

www.goertek.com

	Group 2018 kDKK	Group 2017 kDKK
25 Fee to auditors appointed at the general meeting		
PricewaterhouseCoopers		
Audit fee	325	286
Other assurance engagements	32	0
Tax advisory services	1,017	209
Non-Audit services	421	23
	1,795	**518**
Others		
Audit fee	22	91
Non-Audit services	0	171
	22	**262**
	1,817	**780**

Notes to the Financial Statements

26 Accounting Policies

The Annual Report of Dynaudio Holding A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

The Consolidated and Parent Company Financial Statements for 2018 are presented in kDKK.

Recognition and measurement

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.

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, Dynaudio Holding A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Notes to the Financial Statements

26 Accounting Policies (continued)

Business combinations

Book value method

Intragroup business combinations are accounted for under the book value method. Under this method, the enterprises are combined at carrying amounts, and no differences are identified. Any consideration which exceeds the carrying amount of the acquired enterprise is recognised directly in equity. The book value method is applied at the date of acquisition, and comparative figures have not been restated.

Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Group.

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 at the exchange rates at the dates of transaction. Exchange differences 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. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

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 rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Notes to the Financial Statements

26 Accounting Policies (continued)

Hedge accounting

Changes in the fair values of 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 related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Changes in the fair values of financial instruments that are designated and qualify as hedges of net investments in independent foreign subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is recognised in the income statement.

Revenue

According to Management's assessment, disclosure of business segments can cause substantial competitive damage to Dynaudio, as direct market shares can be concluded on this basis. Referencing to section 96, litra 1 of the Danish Financial Statements Act, business segments are for that reason not disclosed in the Annual Report.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Group.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Cost of sales

Cost of sales comprises 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.

Notes to the Financial Statements

26 Accounting Policies (continued)

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. Amortisation of goodwill is also included to the extent that goodwill relates to distribution activities.

Development expenditure

Development expenditure indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to administrative activities.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Group, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries and associates

The items "Income from investments in subsidiaries" and "Income from investments in associates" in the income statement include the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in 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 Company is jointly taxed with all Danish Companies in the joint taxation. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

26 Accounting Policies (continued)

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 5 years.

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 3-5 years.

Development costs and costs relating to rights developed by the Group are recognised in the income statement as costs in the year of acquisition.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated 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.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

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:

Production buildings	50	years
Other buildings	50	years
Plant and machinery	5-10	years
Other fixtures and fittings, tools and equipment	3-5	years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,500 are expensed in the year of acquisition.

Notes to the Financial Statements

26 Accounting Policies (continued)

Impairment of fixed assets

The carrying amounts of 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 amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method.

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 on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total positive 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. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries and the associates.

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.

Other fixed asset investments

Other fixed asset investments consist of deposits.

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 at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

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 indi-

Notes to the Financial Statements

26 Accounting Policies (continued)

rect 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.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

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.

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Provisions are measured and recognised based on experience with guarantee work.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets 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 within the same legal tax entity.

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. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Notes to the Financial Statements

26 Accounting Policies (continued)

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

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

Cash Flow Statement

The cash flow statement shows the Group´s cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group´s cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Notes to the Financial Statements

26 Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise ”Cash at bank and in hand” and ”Overdraft facilities”.

The cash flow statement cannot be immediately derived from the published financial records.

Notes to the Financial Statements

26 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$