



Dynaudio Holding A/S

Sverigesvej 15
8660 Skanderborg
CVR No. 27215548

Annual report 2020

The Annual General Meeting adopted the
annual report on 24.06.2021

Jian Guo

Chairman of the General Meeting

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Entity details

Entity

Dynaudio Holding A/S

Sverigesvej 15

8660 Skanderborg

Business Registration No.: 27215548

Registered office: Skanderborg

Financial year: 01.01.2020 - 31.12.2020

Board of Directors

Xiaoguang Gao, Chairman

Jian Guo

Peng Li

Executive Board

Jian Guo, CEO

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

City Tower, Værkmestergade 2

8000 Aarhus C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Dynaudio Holding A/S for the financial year 01.01.2020 - 31.12.2020

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2020 and of the results of their operations and the consolidated cash flows for the financial year 01.01.2020 - 31.12.2020.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Skanderborg, 24 June 2021

Executive Board



Jian Guo
CEO

Board of Directors



Xiaoguang Gao
Chairman



Jian Guo



Peng Li

Independent auditor's report

To the shareholders of Dynaudio Holding A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Dynaudio Holding A/S for the financial year 01.01.2020 - 31.12.2020, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2020 and of the results of their operations and the consolidated cash flows for the financial year 01.01.2020 - 31.12.2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 the parent financial statements" section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of 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 responsibilities for the consolidated financial statements and the parent financial statements

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

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Entity 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 the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 consolidated financial statements and parent 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 consolidated financial statements and the parent 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 Entity'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 the parent 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 Entity'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 the parent 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient and 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.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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

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

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

Aarhus, 24.06.2021

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556



Henrik Vedel

State Authorised Public Accountant
Identification No (MNE) mne10052

Management commentary

Financial highlights

	2020	2019	2018	2017	2016
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Revenue	344,859	365,486	420,665	412,153	343,696
Gross profit/loss	120,400	60,620	81,041	98,849	80,975
Operating profit/loss	3,447	(219,060)	(88,834)	(68,840)	(75,097)
Net financials	4,201	(24,893)	(37,028)	9,687	(26,553)
Profit/loss for the year	4,416	(230,708)	(131,736)	(38,183)	(105,262)
Balance sheet total	318,493	308,747	478,823	423,875	428,550
Investments in property, plant and equipment	475	4,977	(9,062)	(14,543)	(40,513)
Equity	188,651	(189,610)	-152,034	-19,243	-104,348
Cash flows from operating activities	35,967	17,913	(133,979)	(8,138)	(81,217)
Cash flows from investing activities	(19,137)	(40,600)	(45,575)	(44,347)	(111,643)
Cash flows from financing activities	4,905	44,937	185,765	104,120	155,568
Change in cash and cash equivalents for the year	21,735	22,250	6,211	51,635	(37,292)
Ratios					
Gross margin (%)	34.7	16.6	19.3	24.0	23.6
Profit margin	1.0	(59.9)	(20.9)	(12.2)	(21.8)
Return on assets	1.1	(71.0)	(18.4)	(11.9)	(17.5)
Solvency ratio (%)	60.0	(61.4)	(31.8)	(4.5)	(24.3)

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the CFA Society Denmark.

Gross margin ratio (%):

$\frac{\text{Gross profit/loss} * 100}{\text{Revenue}}$

Profit margin (%):

$\frac{\text{Operating profit/loss} * 100}{\text{Revenue}}$

Return on asset (%):

$\frac{\text{Operating profit/loss} * 100}{\text{Total asset}}$

Solvency ratio (%):

$\frac{\text{Equity} * 100}{\text{Total asset}}$

Primary activities

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

In order to provide the premium loudspeaker products to our customers, Dynaudio's business model and business value chain includes product definition, research and development of new technologies, new drivers and new loudspeakers, supply chain management, production, quality control and sales & marketing & customer care service and etc.

The core competencies are based on sound systems, and the corporate vision is to enrich life through authentic sound. This has been the ambition ever since the formation of Dynaudio. Regardless of the segment in which the Dynaudio operates, ultimate demands are placed for the quality of the sound systems to promote sound reproduction which is as authentic as possible.

Dynaudio's business foundation comprises the following five business areas:

- Home Audio – Premium Sound Systems and loudspeakers for consumer electronics audio industry
- Car Audio – Premium Sound Systems for the automotive industry and car aftermarket
- PRO Audio– Systems for studios and other professional applications
- CUSTOM INSTALL – Systems for residential and commercial custom installation
- Co-Brand – co develop or co create with other brands to research and develop new audio products with premium sound quality.

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 activities and finances

The income statement of the Group for 2020 shows a profit of DKK 4,416t (2019: DKK 230,708t), and as of 31 December 2020 the balance sheet of the Company shows equity of DKK 188,651 (2019: DKK -189,610t).

In 2020, after outbreak of COVID-19, Management updated expectation of revenue of DKK 310 – 330 million, EBITDA of DKK -19 million. However, the company is still facing challenges resulting in delays in deliveries of products during the year. EBITDA is better than expected and improved due to cost saving during 2020. The Company has not been significantly affected by the COVID-19 outbreak. The management is satisfied with the improvement, especially during COVID-19 outbreak. All target were met and the company performed much better than expected.

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 development of Dynaudio. This will bring Dynaudio into a strong competitive position in the future.

Restructuring and organizational changes have continued this year to support growth in all business areas and all major markets. Additionally, in October 2020, shareholders decided to increase the equity of Dynaudio through conversion of debt, total amount is 370mDKK. After debt conversion, Goertek Group bought all shares from Goertek Inc. and Goertek Hongkong, and became the parent company of Dynaudio Holding A/S.

Dynaudio Shanghai, the head office of APAC, has seen rapid growth throughout the whole of 2020 and ended the year by achieving a very satisfying 13MDKK profit. Revenue from APAC accounts for more than 40% of the group revenue, and continues to display great potential for the immediate future. Through the development of close cooperation and partnerships with well-known companies such as Xpeng, OPPO and JMGO, we can expect a further development within the APAC market.

Dynaudio North America has also shown a strong improvement in 2020, nearing a break even scenario, when compared to the large net loss of 2020.

Dynaudio Germany is also displaying much better results for 2020, compared with 2019.

To conclude, all of the subsidiaries have had better results in 2020 compared with 2019, and we foresee a continual improvement in performance in the near future.

Outlook

The Group's outlook for the future is positive. Dynaudio's ambition is to enrich people's life through authentic sound and our mission is to bring the purest sound possible, to as many listeners as possible, with the world's most innovative premium loudspeakers. Dynaudio will continue to innovate within sound technologies and develop the best in class products to enrich people's life in HIFI, Automotive, Pro&CI, LifeStyle Audio and mobile segments.

For 2021, Management expected revenue of DKK 340 – 360 million, and EBITDA of DKK 2-3 million.

The effect of the COVID-19 outbreak has not yet been eliminated. Dynaudio is still at risk of being negatively affected by the COVID-19 outbreak. However, many of the Group's customers have indicated that they will continue to stand by orders currently in progress. Despite this, there is still a risk that revenue and earnings will decline as a consequence of COVID-19.

In 2021, investment in market and brand are expected to increase. Considering the increase of product margin and improvement in our operation efficiency. We still have confidence 2021 will be a year with positive result.

Vison, Mission and Core Value

In 2020, the corporate management team has redefined Dynaudio's vision, mission and core values to set our ambition and re-shape our culture. The conclusion is below.

Our vision

To enrich life through authentic sound.

Our mission

To bring the purest sound possible, to as many listeners as possible, with the world's most innovative premium loudspeakers.

Our core value

- | | | |
|------------------------|----------------|------------------|
| ▶ Customer Orientation | ▶ Craftmanship | ▶ Accountability |
| ▶ Proactivity | ▶ Efficiency | ▶ Cooperation |

Particular 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 2021 has been secured through agreements with the owners of the enterprise.

Knowledge resources

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

Research and development activities

Dynaudio puts great focus on research and development. As a rule, we invest more than 10% of our net revenue each year in technologies, research and product development. This practice was repeated in 2020. In order to have the best in class sound, Dynaudio has invested in our sound test lab, which is a 13 x 13 x 13m large chamber and guarantees a the purest possible sound performance. Dynaudio also puts great focus on developing our talents and ensuring the rapid improvement of their capabilities raising through participation in our innovative technology research and product development.

Statutory report on corporate social responsibility

Company provides sound systems, and the corporate vision is to enrich life through authentic sound, and detail activities are described in the primarily activity section.

Corporate Social Responsibility (CSR) is a natural and integrated focus area for Dynaudio. Our CSR policies concern our engagement with customers, suppliers, the local community, the industry as well as our own staff. By its nature, the quality certification under IATF 16949 places heavy demands on the Company in terms of CSR, but Dynaudio has taken its social responsibility to an even higher level by introducing additional, relevant initiatives.

Environmental performance

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 Company has opted to implement a quality and environmental management system which is based on Dynaudio requirements and processes and certified under IATF16949, VDA and DS/EN ISO 14001.

Dynaudio is externally audited annually and has an annual self-assessment cycle implemented as well. This ensures that our quality in all aspects is 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 regards to e.g., but not limited to, product development, construction, production, procurement, delivery, IT etc.

Dynaudio never compromises on the product quality adopted nor the environmental regulations. Combined with a zero-error quality concept, authentic music and sound reproduction is 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 company and each staff member relies.

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

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

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

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

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 ISO14001.

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 improve their skills and achieve the best results. We invest in the skills and competence of our employees. We expect that each of our employees to maintain high personal standards for themselves, their performance and their health. That they actively participate in their own ongoing professional development.

Dynaudio is committed to creating a sound and positive working environment for all our employees. We believe it is vital for our company's success that we are perceived as a great place to work.

Dynaudio also make annual employee satisfaction surveys for all of our employees, worldwide. This is done as an anonymous survey at the end of each year. In 2020 the result of the annual employee satisfaction survey was on par with the previous result.

Dynaudio will continue to make annual satisfaction surveys at the end of the year. CMT will analyze the overall results and look for ways to improve the overall motivation and satisfaction of the employees. HR will support CMT and line management in identifying root causes for lack of engagement and motivation, and making plans for improvement of this.

The main risk is losing focus on making the improvements that have been identified after analysing each survey result. HR is taking charge of ensuring workshops with each line manager to identify the improvement points and to make the necessary adjustment plans.

Risk Related to CSR

Dynaudio operates within a competitive global market. In order to create and sustain a profitable growth.

Dynaudio consider risk management as key tool. Dynaudio considers the impact on Environment and Climate,

Human Rights, Equal Gender Representation and Anti-Corruption to be limited. The Company considers business risks together with these specific risks. In a 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

Dynaudio products generally have long lifespans, which minimizes negative effects on the environment. However, we recognize that when manufacturing 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 most recent audit of ISO14001 identified only 1 small challenge to be improved, which we have done it right after the audit. In the future, Dynaudio will continue following ISO14001 standard and try our best to only use environment friendly materials in our R&D of new technologies and products.

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 that the code of conduct is followed. In 2020, all Dynaudio suppliers agreed to follow our Code of Conduct, which is a requirement for being a Dynaudio partner and is included in our supplier terms & conditions. Our frequent supplier visits ensure nonconformities are assessed and all have planned corrective actions.

According to ISO 14001 suppliers must document that a Code of Conduct are followed and future supplier audits will include a more detailed control to ensure this they are indeed following the agreed Code of Conduct.

Dynaudio will continue act in accordance with the applicable requirements of the International Labor Organization and will improve human rights, emphasize Code of Conduct and do more related activities time to time in the future.

Anti-Corruption

It is important to us that the employment activities of our employees do not create a conflict between their private interests and those 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. No employee 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 no of our employee may grant or accept impermissible personal benefits (e.g., money, tangible

assets, or services) that are intended to influence a fact-based decision. In 2020, all new employees completed an extensive business ethics training as a part of the on-boarding program.

No case of corruption and bribery was reported during 2020, nor had any of our employees received excessive gifts/presents from our business partners, to the best of our knowledge.

Dynaudio will continue developing the anti-corruption training to all the new employees and hold an regular training for all the employees every year and keep whistleblower regulation in our employee manual.

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 in this way 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 local Job Centers.

Leading

We are leaders within our field and have the best-of-the-best experts in our employ. 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 to educate the experts of the future. We work together with educational institutions at all level from seventh graders to PhD candidates, inviting them to Dynaudio, where possible for e.g. factory tours, assignment collaborations 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 sponsorship 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 active sponsorships with regards to:

- The continuation of the support of The Music Hall in Aarhus.
- Dynaudio Midsommer Stafet (running event), which is both a social and health-conscious event bringing people together, sharing fun and food, as well as expanding networks across work areas, hierarchy levels etc.

To Lead we need to continuously improve

Dynaudio A/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 upon on an ongoing basis.

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.

Our investments are in line with the Dynaudio strategy and ensure both positive impact on our environment as well as on our expenditure forward. Further energy savings programs will be initiated in 2020 and onwards. 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 in this way 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 local Job Centers.

Statutory report on the underrepresented gender

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. For the board of directors, company will consider introduce a female board member in the following several years to obtain a more equal gender representation.

At cooperate management team(CMT) level, policies have been introduced to ensure larger gender equality within the company. By the end of 2020, we have a more equal gender representation. 28% of CMT are female. We will have more efforts to obtain more equal gender representation of 40/60 percentage within 5 years.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Consolidated income statement for 2020

	Notes	2020 DKK'000	2019 DKK'000
Revenue	3	344,859	365,486
Cost of sales		(176,665)	(251,932)
Production costs		(47,794)	(52,934)
Gross profit/loss		120,400	60,620
Research and development costs		(15,464)	(127,256)
Distribution costs		(53,213)	(85,319)
Administrative expenses	4	(52,317)	(77,856)
Other operating income		4,041	10,751
Operating profit/loss		3,447	(219,060)
Other financial income	6	13,284	3,305
Other financial expenses	7	(9,083)	(28,198)
Profit/loss before tax		7,648	(243,953)
Tax on profit/loss for the year	8	(3,232)	13,245
Profit/loss for the year	9	4,416	(230,708)

Consolidated balance sheet at 31.12.2020

Assets

	Notes	2020 DKK'000	2019 DKK'000
Completed development projects	11	0	0
Acquired intangible assets		6,230	0
Acquired licences		0	171
Goodwill		0	0
Development projects in progress	11	13,315	0
Intangible assets	10	19,545	171
Land and buildings		47,221	48,571
Plant and machinery		9,882	13,962
Other fixtures and fittings, tools and equipment		799	1,864
Property, plant and equipment	12	57,902	64,397
Deposits		371	353
Financial assets	13	371	353
Fixed assets		77,818	64,921
Raw materials and consumables		52,849	50,752
Work in progress		2,250	5,412
Manufactured goods and goods for resale		60,325	76,985
Inventories		115,424	133,149
Trade receivables		50,026	45,696
Receivables from group enterprises		0	2,885
Other receivables		5,373	4,986
Tax receivable		371	14,479
Prepayments	14	6,899	1,784
Receivables		62,669	69,830
Cash		62,582	40,847
Current assets		240,675	243,826

Assets	318,493	308,747
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Equity and liabilities

	Notes	2020 DKK'000	2019 DKK'000
Contributed capital		7,014	4,418
Translation reserve		3,340	0
Reserve for fair value adjustments of hedging instruments		260	0
Reserve for development costs		10,386	0
Retained earnings		167,651	(194,028)
Equity		188,651	(189,610)
Other provisions	15	3,783	3,072
Provisions for investments in associates	16	0	4,067
Provisions		3,783	7,139
Subordinate loan capital		9,214	150,587
Mortgage debt		10,851	12,179
Lease liabilities		334	2,277
Non-current liabilities other than provisions	17	20,399	165,043
Current portion of non-current liabilities other than provisions	17	1,339	1,357
Bank loans		0	9
Lease liabilities		301	1,321
Prepayments received from customers		16,542	30,705
Trade payables		40,581	27,565
Payables to group enterprises		0	231,619
Tax payable		0	380
Other payables		46,897	33,219
Current liabilities other than provisions		105,660	326,175
Liabilities other than provisions		126,059	491,218
Equity and liabilities		318,493	308,747
Going concern	1		
Uncertainty relating to recognition and measurement	2		
Staff costs	5		
Financial instruments	19		
Contingent liabilities	20		
Assets charged and collateral	21		
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Consolidated statement of changes in equity for 2020

	Contributed capital DKK'000	Share premium DKK'000	Translation reserve DKK'000	Reserve for fair value adjustments of hedging instruments DKK'000	Reserve for development costs DKK'000
Equity beginning of year	4,418	0	0	0	0
Capital increase by debt conversion	2,596	367,649	0	0	
Transferred from share premium	0	(367,649)	0	0	0
Exchange rate adjustments	0	0	3,340	0	0
Transfer to reserves	0	0	0	260	10,386
Profit/loss for the year	0	0	0	0	0
Equity end of year	7,014	0	3,340	260	10,386

	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	(194,028)	(189,610)
Capital increase by debt conversion	0	370,245
Transferred from share premium	367,649	0
Exchange rate adjustments	0	3,340
Transfer to reserves	(10,386)	260
Profit/loss for the year	4,416	4,416
Equity end of year	167,651	188,651

Consolidated cash flow statement for 2020

	Notes	2020 DKK'000	2019 DKK'000
Operating profit/loss		3,447	(219,060)
Amortisation, depreciation and impairment losses		5,656	168,251
Working capital changes	18	23,380	91,731
Other adjustments		(6,039)	(2,636)
Cash flow from ordinary operating activities		26,444	38,286
Financial income received		0	749
Financial expenses paid		(843)	(19,912)
Taxes refunded/(paid)		10,366	(1,210)
Cash flows from operating activities		35,967	17,913
Acquisition etc. of intangible assets		(19,541)	(35,602)
Acquisition etc. of property, plant and equipment		(475)	(4,977)
Sale of property, plant and equipment		879	0
Acquisition of fixed asset investments		0	(21)
Cash flows from investing activities		(19,137)	(40,600)
Free cash flows generated from operations and investments before financing		16,830	(22,687)
Repayments of loans etc.		(1,346)	(150,866)
Repayment of lease liabilities		(2,963)	2,122
Cash capital increase		0	193,681
Increase of subordinate loan		9,214	0
Cash flows from financing activities		4,905	44,937
Increase/decrease in cash and cash equivalents		21,735	22,250
Cash and cash equivalents beginning of year		40,847	18,597
Cash and cash equivalents end of year		62,582	40,847
Cash and cash equivalents at year-end are composed of:			
Cash		62,582	40,847

Cash and cash equivalents end of year	62,582	40,847
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Notes to consolidated financial statements

1 Going concern

The company had a debt conversion of DKK 370,245 thousand from Goertek Group as of 16 October 2020 in order to improve the financial position. The debt conversion has increased share capital of DKK 2,596k and DKK 367,649k.

On 22 October 2020, the shares in Dynaudio Holding A/S was transferred from GoerTek Inc. and GoerTek HK Co., Ltd to Goertek Group Co., Ltd.. As of the end of 2020, Goertek Group Co., Ltd is the ultimate shareholder of Dynaudio Holding A/S and Dynaudio A/S.

The parent company to Dynaudio Holding A/S has signed a letter of financial support stating that Goertek Group Co., Ltd. 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 2021. This is the basis for the company being of going concern.

The company needs further liquidity in the level of DKK 15 million by the end of August. The liquidity is primarily for preparation of new sales orders. Management expects this to be financed by Goertek Group Co., Ltd. in the consideration of the above mentioned letter of financial support.

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, lots of improvement has been implemented during 2020 and planned for next couple of years to improve the financial performance and enhance the branding worldwide. A turn-around situation is expected by the management in next five years with a positive result.

Management is of the opinion that the expected cash flows can support the carrying amount of the assets. Valuation of fixed asset investments is however still impacted by uncertainties, and based on budgets and forecasts for the years to come. If activities are not realized as expected, or recoverable amounts are lowered further, this might impact the valuation of fixed assets investments, leading to further impairments. Further, Dynaudio has high customer dependency and valuation of assets is therefore highly dependent on retention of key customers.

3 Revenue

	2020 DKK'000	2019 DKK'000
Europe	148,645	227,174
North America	29,334	27,860
Asia	161,555	100,912
Other	5,325	9,540
Total revenue by geographical market	344,859	365,486
Automotive	113,863	149,411
Consumer & Home	214,334	185,638
Other	16,662	30,437
Total revenue by activity	344,859	365,486

4 Fees to the auditor appointed by the Annual General Meeting

	2020 DKK'000	2019 DKK'000
Statutory audit services	376	340
Other assurance engagements	27	36
Tax services	511	1,187
Other services	271	176
	1,185	1,739

5 Staff costs

	2020 DKK'000	2019 DKK'000
Wages and salaries	99,274	113,921
Pension costs	7,844	12,822
Other social security costs	1,805	5,549
Other staff costs	5,228	1,888
	114,151	134,180

Average number of full-time employees	258	301
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	Remuneration of manage- ment 2020 DKK'000	Remuneration of manage- ment 2019 DKK'000
Executive Board	1,701	1,276
	1,701	1,276

6 Other financial income

	2020	2019
	DKK'000	DKK'000
Other interest income	175	749
Exchange rate adjustments	13,109	2,556
	13,284	3,305

Exchange gain during 2020 is primarily from the debt conversion of USDt 58,412 end of July 2020. Exchange rate on USD to DKK has been depreciated by 6% compared to end of 2019.

7 Other financial expenses

	2020	2019
	DKK'000	DKK'000
Financial expenses from group enterprises	7,993	14,726
Other interest expenses	1,090	5,188
Exchange rate adjustments	0	8,284
	9,083	28,198

8 Tax on profit/loss for the year

	2020	2019
	DKK'000	DKK'000
Current tax	5,459	(3,164)
Adjustment concerning previous years	(2,227)	(10,081)
	3,232	(13,245)

9 Proposed distribution of profit/loss

	2020	2019
	DKK'000	DKK'000
Retained earnings	4,416	(230,708)
	4,416	(230,708)

10 Intangible assets

	Completed development projects DKK'000	Acquired intangible assets DKK'000	Goodwill DKK'000	Development projects in progress DKK'000
Cost beginning of year	157,781	35,915	829	50,728
Exchange rate adjustments	0	(154)	0	3
Additions	0	6,226	0	13,315
Cost end of year	157,781	41,987	829	64,046
Amortisation and impairment losses beginning of year	(157,781)	(35,744)	(829)	(50,728)
Exchange rate adjustments	0	0	0	(3)
Amortisation for the year	0	(13)	0	0
Amortisation and impairment losses end of year	(157,781)	(35,757)	(829)	(50,731)
Carrying amount end of year	0	6,230	0	13,315

11 Development projects

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.

12 Property, plant and equipment

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000
Cost beginning of year	105,743	114,539	22,654
Exchange rate adjustments	(45)	(19)	(63)
Additions	0	0	475
Disposals	0	0	(1,952)
Cost end of year	105,698	114,520	21,114
Depreciation and impairment losses beginning of year	(57,172)	(100,577)	(20,790)
Exchange rate adjustments	6	8	100
Depreciation for the year	(1,311)	(4,069)	(276)
Reversal regarding disposals	0	0	651
Depreciation and impairment losses end of year	(58,477)	(104,638)	(20,315)
Carrying amount end of year	47,221	9,882	799

13 Financial assets

	Deposits DKK'000
Cost beginning of year	353
Additions	18
Cost end of year	371
Carrying amount end of year	371

14 Prepayments

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

15 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 2,115 (2019: kDKK 3,072) have been recognised for expected warranty claims.

16 Provisions for investments in associates

The associate company GoerTek Dynaudio Co., Ltd. is dissolved during 2020.

17 Non-current liabilities other than provisions

	Due within 12 months 2020 DKK'000	Due within 12 months 2019 DKK'000	Due after more than 12 months 2020 DKK'000
Subordinate loan capital	0	0	9,214
Mortgage debt	1,339	1,357	10,851
Lease liabilities	0	0	334
	1,339	1,357	20,399

18 Changes in working capital

	2020 DKK'000	2019 DKK'000
Increase/decrease in inventories	22,408	73,166
Increase/decrease in receivables	(7,631)	5,956
Increase/decrease in trade payables etc.	7,817	11,452
Other changes	786	1,157
	23,380	91,731

19 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 -1,989k (2019: -2,249k) at the balance sheet date.

In the agreement a floating interest, at the balance sheet date -0,11 % p.a. (2019: -0.23 % p.a.), is swapped with a

fixed interest of 3.12 % p.a. on a loan with a principal of DKK 12,474k (2019: 13,794k.).

20 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 company has entered into lease contracts as well as operating leases. The total commitment relating to these contracts and leases amounts to DKK 12,111k (2019: DKK 1.047k).

The Parent and the Danish subsidiaries participate in a Danish joint taxation arrangement in which Dynaudio Holding A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Parent and the Danish subsidiaries are therefore liable for income taxes etc. for the jointly taxed entities, and also for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for the jointly taxed entities. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

21 Assets charged and collateral

Floating company charge of DKK 70,000k has been placed as security with mortgage credit institutes.

Bank loans are secured by way of a deposited mortgage deed registered to the mortgagor on plant of DKK 42,300k nominal. The carrying amount of mortgaged properties is DKK 46,915k.

Bank loans are secured by way of a deposited mortgage deed registered to the mortgagor on machinery of DKK 11,205 nominal. The carrying amount of mortgaged properties is DKK 4,112.

22 Transactions with related parties

	Other related parties DKK'000
Revenue	7,616
Interest expense	7,993

23 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Goertek Group Ltd. Co., China

The consolidated financial statements of Goertek Inc. may be ordered at this address:
www.goertek.com

24 Subsidiaries

	Registered in	Ownership %
Dynaudio A/S	Denmark	100%
Dynaudio Germany GmbH	Germany	100%
Dynaudio (Shanghai) Co. Ltd.	China	100%
Dynaudio North America Inc.	USA	100%
Dynaudio Benelux B.V.	Netherlands	100%

Parent income statement for 2020

	Notes	2020 DKK'000	2019 DKK'000
Revenue		5,622	1,189
Gross profit/loss		5,622	1,189
Administrative expenses		(1,215)	(692)
Other operating income		4,068	0
Operating profit/loss		8,475	497
Income from investments in group enterprises		1,213	(228,961)
Other financial expenses	1	(5,272)	(2,244)
Profit/loss before tax		4,416	(230,708)
Tax on profit/loss for the year		0	0
Profit/loss for the year	2	4,416	(230,708)

Parent balance sheet at 31.12.2020

Assets

	Notes	2020 DKK'000	2019 DKK'000
Acquired licences		162	164
Intangible assets	3	162	164
Investments in group enterprises		297,061	12,816
Financial assets	4	297,061	12,816
Fixed assets		297,223	12,980
Trade receivables		3,150	0
Other receivables		232	181
Receivables		3,382	181
Cash		3,184	139
Current assets		6,566	320
Assets		303,789	13,300

Equity and liabilities

	Notes	2020 DKK'000	2019 DKK'000
Contributed capital		7,014	4,418
Translation reserve		3,340	0
Reserve for fair value adjustments and hedging instruments		260	0
Retained earnings		178,037	(194,028)
Equity		188,651	(189,610)
Provisions for investments in group enterprises	5	54,612	142,011
Provisions for investments in associates	6	0	4,067
Provisions		54,612	146,078
Prepayments received from customers		1,716	0
Trade payables		37	6
Payables to group enterprises		58,099	56,203
Tax payable		0	346
Other payables		674	277
Current liabilities other than provisions		60,526	56,832
Liabilities other than provisions		60,526	56,832
Equity and liabilities		303,789	13,300
Contingent liabilities	7		

Parent statement of changes in equity for 2020

	Contributed capital DKK'000	Share premium DKK'000	Translation reserve DKK'000	Reserve for fair value adjustments of hedging instruments DKK'000	Retained earnings DKK'000
Equity beginning of year	4,418	0	0	0	(194,028)
Capital increase by debt conversion	2,596	367,649	0	0	0
Transferred from share premium	0	(367,649)	0	0	367,649
Exchange rate adjustments	0	0	3,340	0	0
Transfer to reserves	0	0	0	260	0
Profit/loss for the year	0	0	0	0	4,416
Equity end of year	7,014	(367,649)	3,340	260	178,037

	Total DKK'000
Equity beginning of year	(189,610)
Capital increase by debt conversion	370,245
Transferred from share premium	0
Exchange rate adjustments	3,340
Transfer to reserves	260
Profit/loss for the year	4,416
Equity end of year	188,651

Notes to parent financial statements

1 Other financial expenses

	2020 DKK'000	2019 DKK'000
Financial expenses from group enterprises	1,646	2,222
Other interest expenses	70	20
Exchange rate adjustments	3,556	2
	5,272	2,244

2 Proposed distribution of profit and loss

	2020 DKK'000	2019 DKK'000
Retained earnings	4,417	(230,708)
	4,417	(230,708)

3 Intangible assets

	Acquired licences DKK'000
Cost beginning of year	162
Cost end of year	162
Carrying amount end of year	162

4 Financial assets

	Investments in group enterprises DKK'000
Cost beginning of year	12,816
Additions	366,834
Cost end of year	379,650
Adjustments on equity	3,339
Share of profit/loss for the year	2,790
Adjustment of intra-group profits	(1,577)
Fair value adjustments	260
Reversal regarding disposals	(87,399)
Impairment losses end of year	(82,587)
Carrying amount end of year	297,063

A specification of investments in subsidiaries is evident from the notes to the consolidated financial statements.

5 Provisions for investments in group enterprises

The provision is made in relation to the impairment test at Group level.

6 Provisions for investments in associates

The provision is made in 2018 in relation to the contingent liability of associate company in China- GODY. The company is dissolved in 2020.

7 Contingent liabilities

The Entity serves as the administration company in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc. for the jointly taxed entities, and also for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for these entities.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements

The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence. Enterprises in which the Group, directly or indirectly, holds between 20% and 50% of the voting rights and exercises significant, but not controlling influence, are regarded as associates.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the takeover date, with net assets having been calculated at fair value.

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer.

Production costs

Production costs comprise cost of sales for the financial year, including ordinary writedown of inventories and other costs incurred to earn revenue for the financial year, including wages and salaries and amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment.

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory writedowns.

Research and development costs

Research and development costs comprise research costs, costs of development projects not qualifying for recognition in the balance sheet, and amortisation and impairment losses relating to development projects.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc., and amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment involved in the distribution process.

Administrative expenses

Administrative expenses comprise expenses incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies, and amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises'

profit/loss after full elimination of intra-group profits or losses.

Other financial income

Other financial income comprises dividends etc. received on other investments, interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets, and tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities, and tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet**Goodwill**

Goodwill is the positive difference between cost and fair value of assets and liabilities arising from acquisitions. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. Useful lives are reassessed annually. The amortisation periods used are 5 years.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Intellectual property rights etc.

Intellectual property rights etc. comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred less deferred tax is taken to equity under reserve for development costs that is reduced as the development projects are amortised and written down.

The cost of development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Indirect production costs in the form of indirectly attributable staff costs and amortisation of intangible assets and depreciation on property, plant and equipment used in the development process are recognised in cost based on time spent on each project.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised on a straight-line basis over their remaining duration, and licences are amortised on a straight-line basis over the term of the agreement.

Intellectual property rights etc. are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

Indirect production costs in the form of indirectly attributable staff costs and amortisation of intangible assets and depreciation on property, plant and equipment used in the manufacturing process are recognised in cost based on time spent on each asset.

Interest expenses on loans for the financing of the manufacture of property, plant and equipment are included in cost if they relate to the manufacturing period. All other finance costs are recognised in the income statement.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

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

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are recognised and measured in the parent financial statements according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus unamortised goodwill and plus or minus unrealised intra-group profits or losses. Reference is made to the above section on business combinations for more details about the accounting policies applied to acquisitions of investments in group enterprises.

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation will involve a loss, a provision is recognised that is measured at present value of the costs necessary to settle the obligations at the balance sheet date.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to reserve for net revaluation according to the equity method in equity.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value, less writedowns for bad and doubtful debts.

Tax payable or receivable

Current tax payable or receivable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Other provisions

Other provisions comprise anticipated costs of non-recourse guarantee commitments, returns, loss on contract work in progress, decided and published restructuring, etc.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Non-recourse guarantee commitments comprise commitments to remedy defects and deficiencies within the guarantee period.

On acquisition of enterprises and investments in group enterprises, provisions are made for costs relating to restructuring in the acquired enterprise that were decided and published at the acquisition date at the latest.

Once it is probable that total costs will exceed total income from a contract in progress, provision is made for the total loss estimated to result from the relevant contract.

Mortgage debt

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Lease liabilities

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities, and cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments, and purchase, development, improvement and sale, etc. of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs, and the raising of loans, inception of finance leases, repayments of interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.