Dynaudio Holding A/S

Sverigesvej 15, DK-8660 Skanderborg

Annual Report for 1 January - 31 December 2019

CVR No 27 21 55 48

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 25/8 2020

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 2019.

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 2019 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2019.

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, 25 August 2020

Executive Board

Jian Guo

Board of Directors

Xiaoguang Gao Chairman	Jian Guo	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 2019 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 2019 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 2019, 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, 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.

Independent Auditor's Report

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.

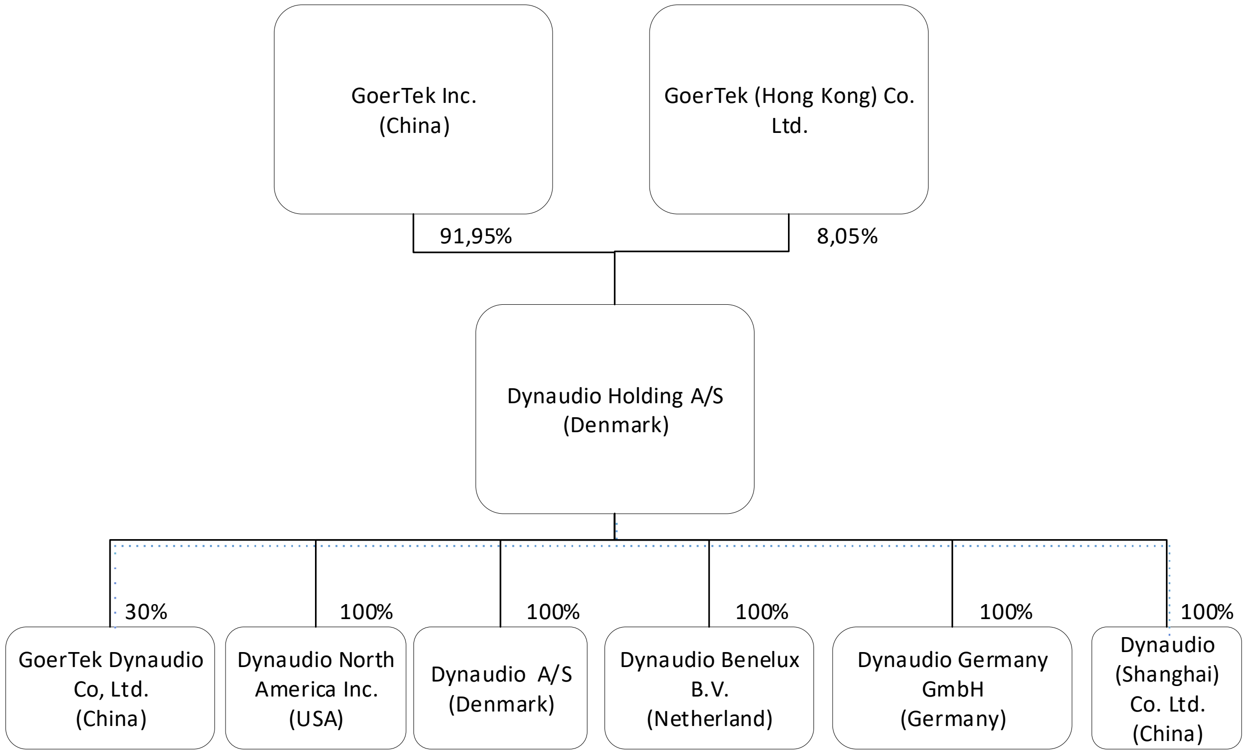
Aarhus, 25 August 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Claus Lindholm Jacobsen	Claus Lyngsø Sørensen
State Authorised Public Accountant	State Authorised Public Accountant
mne23328	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	Xiaoguang Gao, Chairman Jian Guo 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.
91,95%
8,05%
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)

Financial Highlights

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

	Group				
	2019	2018	2017	2016	2015
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Revenue	365,486	420,665	412,153	343,696	268,130
Gross profit/loss	23,178	81,041	98,849	80,975	50,215
Operating profit/loss	-229,811	-88,834	-68,840	-75,097	-47,232
Net financials	-24,893	-37,028	9,687	-26,553	-10,350
Net profit/loss for the year	-230,708	-131,736	-38,183	-105,262	-42,134
Balance sheet					
Balance sheet total	308,747	478,823	423,875	428,550	301,822
Equity	-189,610	-152,034	-19,243	-104,348	2,329
Cash flows					
Cash flows from:					
- operating activities	17,913	-133,979	-8,138	-81,217	-35,717
- investing activities	-40,600	-45,575	-44,347	-111,643	-50,186
including investment in property, plant and equipment	-4,977	-9,062	-14,543	-40,513	-27,982
- financing activities	44,937	185,766	104,120	155,568	80,931
Change in cash and cash equivalents for the year	22,250	6,212	51,635	-37,292	-4,972
Ratios					
Gross margin	6.3%	19.3%	24.0%	23.6%	18.7%
Profit margin	-59.9%	-20.9%	-12.2%	-21.8%	-17.6%
Return on assets	-71.0%	-18.4%	-11.9%	-17.5%	-15.6%
Solvency ratio	-61.4%	-31.8%	-4.5%	-24.3%	0.8%

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 2019 shows a loss of kDKK 230,708, and at 31 December 2019 the balance sheet of the Group shows negative equity of kDKK 189,610.

The loss is higher than expected and is amongst others affected by external as well as internal supply challenges resulting in delays in deliveries of products during the year. Further the loss is significantly impacted by the extraordinary impairment write down of MDKK 130 on the invested capital, mentioned in "Impairment of invested capital" below.

The management finds the loss unsatisfactory.

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.

Restructuring and organizational changes have continued this year to support growth in all business areas and all major markets. Additionally, the Group has established sales in new sales channels and in Autumn 2019 the new Brand Flagship store was opened in Beijing to positioning our branding strategy.

Management's Review

The shareholders of the Group have approved a plan for re-establishing the shareholder's equity via both ordinary operation and capital increase.

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 2020 has been secured through agreements with the owners of the enterprise.

Business review

Several new products have been introduced during 2019 on the traditional hifi market. The organization was strengthened within multiple specialist areas.

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

Impairment of invested capital

Due to the market situation in which Dynaudio is in, management has assessed that there are indications of impairment of the Group's invested capital.

As a result of the impairment test conducted, the management has at 31 December 2019, estimated a total impairment need of MDKK 130 on the Group's invested capital.

There is some uncertainty in the valuation of the Group's invested capital. The valuation is based on the expected future cash flows in the Group. Management believes that the Group will be able to realize the future cash flows that are the basis for valuation.

Management’s Review

Outlook

The Group’s outlook for the future will be negatively affected by the COVID-19 outbreak and the measures taken by governments in most of the world to mitigate the impacts of the outbreak, see also subsequent events disclosures in note 25.

Before the COVID-19 outbreak, Management expected revenue of DKK 370 - 380 million and EBITDA of DKK -20 - -10 million. Many of the Group's customers have indicated that they will continue orders in progress, but there is still a risk that revenue and earnings will decline in consequence of COVID-19. Management is monitoring developments closely. It is, however, too early to give an opinion as to whether and, if so, to what extent COVID-19 will impact revenue and earnings in 2020. Management does, however, expect a negative impact on the Group’s outlook.

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.

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.

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.

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 several opportunities to further improve our internal processes, which we work to implement going forward. Moreover, we conducted two audits at our suppliers in 2019 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.

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 2020 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 2019, 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.

Management's Review

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 2019. In 2020 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.

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.

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 2018 the percentage was 28% and for 2019 it has been increased to 35%. For Senior Management the percentage is 20%.

For both Dynaudio Holding A/S and Dynaudio A/S the board constitutes of 3 persons representing the owners of Dynaudio Holding A/S. The goal for gender equality set in 2018 has not been met in 2019 as 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.

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 and during 2019 at least 50 employees have participated in different competence courses. Unfortunately we have experienced two cases of stress related absence.

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.

In 2019, 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.

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.

Restructuring and organizational changes have continued this year to support growth in all business areas and all major markets. Additionally, the Company has established sales in new sales channels and in Autumn 2019 the new Brand Flagship store was opened in Beijing to positioning our branding strategy.

The shareholders of the company have approved a plan for re-establishing the shareholder's equity via both ordinary operation and capital increase.

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 regarding

Management's Review

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.

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.

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

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.

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.

Income Statement 1 January - 31 December

	Note	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
		kDKK	kDKK	kDKK	kDKK
Revenue	3	**365,486**	**420,665**	**0**	**0**
Cost of sales	4	-342,308	-339,624	0	0
Gross profit/loss		**23,178**	**81,041**	**0**	**0**
Distribution expenses	4	-85,319	-98,548	0	0
Development expenditure	4	-127,256	-37,282	0	0
Administrative expenses	4	-40,414	-34,045	-583	-697
Operating profit/loss		**-229,811**	**-88,834**	**-583**	**-697**
Other operating income		10,751	964	1,189	737
Profit/loss before financial income and expenses		**-219,060**	**-87,870**	**606**	**40**
Income from investments in subsidiaries		0	0	-228,961	-117,425
Income from investments in associates		0	-12,048	0	-12,048
Financial income	5	3,305	4,578	0	0
Financial expenses	6	-28,198	-29,558	-2,244	-2,213
Profit/loss before tax		**-243,953**	**-124,898**	**-230,599**	**-131,646**
Tax on profit/loss for the year	7	13,245	-6,838	-109	-90
Net profit/loss for the year		**-230,708**	**-131,736**	**-230,708**	**-131,736**

Balance Sheet 31 December

Assets

		Group		Parent Company	
	Note	2019	2018	2019	2018
		kDKK	kDKK	kDKK	kDKK
Completed development projects		0	43,534	0	0
Software		171	7,294	163	218
Goodwill		0	0	0	0
Development projects in progress		0	29,830	0	0
Intangible assets	8	**171**	**80,658**	**163**	**218**
Land and buildings		48,571	72,042	0	0
Plant and machinery		13,962	31,332	0	0
Other fixtures and fittings, tools and equipment		1,864	8,243	0	0
Property, plant and equipment	9	**64,397**	**111,617**	**0**	**0**
Investments in subsidiaries	10	0	0	12,816	13,464
Investments in associates	11	0	0	0	0
Deposits	12	353	334	0	0
Fixed asset investments		**353**	**334**	**12,816**	**13,464**
Fixed assets		**64,921**	**192,609**	**12,979**	**13,682**
Inventories	13	**133,149**	**206,314**	**0**	**0**
Trade receivables		45,696	56,376	0	0
Receivables from group enterprises		2,885	0	0	0
Other receivables		4,986	2,962	181	82
Corporation tax		14,479	0	0	0
Prepayments	14	1,784	1,965	0	0
Receivables		**69,830**	**61,303**	**181**	**82**
Cash at bank and in hand		**40,847**	**18,597**	**139**	**20**
Currents assets		**243,826**	**286,214**	**320**	**102**
Assets		**308,747**	**478,823**	**13,299**	**13,784**

Balance Sheet 31 December

Liabilities and equity

		Group		Parent Company	
	Note	2019	2018	2019	2018
		kDKK	kDKK	kDKK	kDKK
Share capital		4,418	3,111	4,418	3,111
Retained earnings		-194,028	-155,145	-194,028	-155,145
Equity	15	**-189,610**	**-152,034**	**-189,610**	**-152,034**
Provisions relating to investments in group enterprises		0	0	142,011	106,617
Provisions relating to investments in associates		4,067	4,067	4,067	4,067
Other provisions	17	3,072	1,840	0	0
Provisions		**7,139**	**5,907**	**146,078**	**110,684**
Subordinate loan capital		150,587	147,057	0	0
Mortgage loans		12,179	13,548	0	0
Lease obligations		2,277	957	0	0
Long-term debt	18	**165,043**	**161,562**	**0**	**0**

Balance Sheet 31 December

Liabilities and equity

		Group		Parent Company	
	Note	2019	2018	2019	2018
		kDKK	kDKK	kDKK	kDKK
Mortgage loans	18	1,357	1,333	0	0
Credit institutions		9	149,524	0	577
Lease obligations	18	1,321	520	0	0
Prepayments received from customers		30,705	17,762	0	0
Trade payables		27,565	49,870	6	25
Payables to group enterprises		231,619	186,062	56,203	54,021
Payables to associates		0	16,541	0	0
Corporation tax		380	356	346	346
Other payables		33,219	41,420	276	165
Short-term debt		**326,175**	**463,388**	**56,831**	**55,134**
Debt		**491,218**	**624,950**	**56,831**	**55,134**
Liabilities and equity		**308,747**	**478,823**	**13,299**	**13,784**

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Statement of Changes in Equity

Group

	Share capital	Share premium account	Retained earnings	Total
	kDKK	kDKK	kDKK	kDKK
Equity at 1 January	3,111	0	-155,145	-152,034
Exchange adjustments	0	0	-474	-474
Cash capital increase	1,307	192,374	0	193,681
Fair value adjustment of hedging instruments	0	0	-75	-75
Net profit/loss for the year	0	0	-230,708	-230,708
Transfer from share premium account	0	-192,374	192,374	0
Equity at 31 December	**4,418**	**0**	**-194,028**	**-189,610**

Parent Company

	Share capital	Share premium account	Retained earnings	Total
Equity at 1 January	3,111	0	-155,145	-152,034
Exchange adjustments	0	0	-474	-474
Cash capital increase	1,307	0	192,374	193,681
Fair value adjustment of hedging instruments	0	0	-75	-75
Net profit/loss for the year	0	0	-230,708	-230,708
Equity at 31 December	**4,418**	**0**	**-194,028**	**-189,610**

Cash Flow Statement 1 January - 31 December

	Note	Group 2019	Group 2018
		kDKK	kDKK
Net profit/loss for the year		-230,708	-131,736
Adjustments	20	177,263	74,431
Change in working capital	21	91,731	-60,109
Cash flows from operating activities before financial income and expenses		**38,286**	**-117,414**
Financial income		749	1,692
Financial expenses		-19,912	-17,115
Cash flows from ordinary activities		**19,123**	**-132,837**
Corporation tax paid		-1,210	-1,142
Cash flows from operating activities		**17,913**	**-133,979**
Purchase of intangible assets		-35,602	-37,446
Purchase of property, plant and equipment		-4,977	-9,062
Fixed asset investments made etc		-21	-199
Sale of property, plant and equipment		0	1,132
Cash flows from investing activities		**-40,600**	**-45,575**
Repayment of mortgage loans		-1,345	-1,333
Repayment of loans from credit institutions		-149,521	0
Reduction of lease obligations		2,122	-696
Raising of loans from credit institutions		0	105,783
Raising of loans from group enterprises		0	72,426
Raising of loans from associates		0	2,555
Raising of other long-term debt		0	7,031
Cash capital increase		193,681	0
Cash flows from financing activities		**44,937**	**185,766**

Cash Flow Statement 1 January - 31 December

	Note	2019	2018
		kDKK	kDKK
Change in cash and cash equivalents		**22,250**	**6,212**
Cash and cash equivalents at 1 January		18,597	12,385
Cash and cash equivalents at 31 December		**40,847**	**18,597**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		40,847	18,597
Cash and cash equivalents at 31 December		**40,847**	**18,597**

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 2020. This is the basis for the company being af going concern.

The group needs further liquidity in the level of DKK 30 million by the end of August. Management expects this to be financed by Goertek Inc. 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, massive investments have been made in Dynaudio in recent years to develop the company and prepare for future expansion. Management expects financial losses the next couple of years and then afterwards positive results. However, in connection with the presentation of the annual report, Management has assessed the valuation of Dynaudio's assets. Management has decided to write-down the capitalized development projects as well as other fixed assets to reflect the recoverable amount of the assets. Management is of the opinion that the expected cash flows can support the carrying amount of the assets after the write down in 2019.

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.

Notes to the Financial Statements

	Group		Parent Company	
	2019	2018	2019	2018
	kDKK	kDKK	kDKK	kDKK
3 Revenue				
Geographical segments				
Europe	227,174	237,232	0	0
North America	27,860	27,786	0	0
Asia	100,912	137,039	0	0
Other	9,540	18,608	0	0
	365,486	**420,665**	**0**	**0**
Business segments				
Automotive	149,411	175,207	0	0
Consumer & Home	185,638	213,827	0	0
Other	30,437	31,631	0	0
	365,486	**420,665**	**0**	**0**

Notes to the Financial Statements

	Group		Parent Company	
	2019	2018	2019	2018
	kDKK	kDKK	kDKK	kDKK
4 Staff				
Wages and Salaries	113,921	127,406	0	0
Pensions	12,822	13,199	0	0
Other social security expenses	5,549	4,292	0	0
Other staff expenses	1,888	3,378	0	0
	134,180	**148,275**	**0**	**0**

Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:

Cost of sales	64,458	82,179	0	0
Distribution expenses	40,261	39,622	0	0
Development expenditure	6,593	9,502	0	0
Administrative expenses	22,868	16,972	0	0
	134,180	**148,275**	**0**	**0**
Including remuneration to the Executive Board	**2,552**	**2,286**	**1,276**	**1,143**
Average number of employees	**301**	**377**	**0**	**0**

Notes to the Financial Statements

	Group		Parent Company	
	2019	2018	2019	2018
	kDKK	kDKK	kDKK	kDKK
5 Financial income				
Other financial income	749	1,691	0	0
Exchange adjustments	2,556	2,887	0	0
	3,305	**4,578**	**0**	**0**
6 Financial expenses				
Interest paid to group enterprises	14,726	10,898	2,222	2,137
Other financial expenses	5,188	5,838	22	76
Exchange adjustments, expenses	8,284	12,822	0	0
	28,198	**29,558**	**2,244**	**2,213**
7 Tax on profit/loss for the year				
Current tax for the year	-3,164	1,063	109	90
Deferred tax for the year	0	5,775	0	0
Adjustment of tax concerning previous years	-10,081	0	0	0
	-13,245	**6,838**	**109**	**90**

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	147,698	31,280	829	29,844
Additions for the year	370	4,635	0	30,597
Transfers for the year	9,713	0	0	-9,713
Cost at 31 December	157,781	35,915	829	50,728
Impairment losses and amortisation at 1 January	104,164	23,986	829	14
Exchange adjustment	0	32	0	0
Impairment losses for the year	34,963	10,749	0	52,936
Amortisation for the year	16,025	977	0	407
Transfers for the year	2,629	0	0	-2,629
Impairment losses and amortisation at 31 December	157,781	35,744	829	50,728
Carrying amount at 31 December	**0**	**171**	**0**	**0**

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.

	2019	2018
	kDKK	kDKK
Amortisation and impairment of intangible assets are recognised in the following items:		
Distribution expenses	366	394
Development expenditure	115,128	29,994
Administrative expenses	445	482
	115,939	**30,870**

Notes to the Financial Statements

9 Property, plant and equipment

Group

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment
	kDKK	kDKK	kDKK
Cost at 1 January	105,160	113,447	19,811
Exchange adjustment	0	0	-4
Additions for the year	583	1,092	3,301
Disposals for the year	0	0	-454
Cost at 31 December	105,743	114,539	22,654
Impairment losses and depreciation at 1 January	33,118	82,115	11,568
Impairment losses for the year	21,296	11,181	6,977
Depreciation for the year	2,758	7,281	2,699
Reversal of impairment and depreciation of sold assets	0	0	-454
Impairment losses and depreciation at 31 December	57,172	100,577	20,790
Carrying amount at 31 December	**48,571**	**13,962**	**1,864**
Including assets under finance leases amounting to	1,746	948	0

	2019	2018
	kDKK	kDKK
Depreciation and impairment of property, plant and equipment are recognised in the following items:		
Cost of sales	35,633	8,065
Distribution expenses	5,997	275
Development expenditure	5,260	1,207
Administrative expenses	5,335	1,217
	52,225	**10,764**

Notes to the Financial Statements

	Parent Company	
	2019	2018
	kDKK	kDKK
10 Investments in subsidiaries		
Cost at 1 January	204,072	204,072
Disposals for the year	-257	0
Cost at 31 December	203,815	204,072
Value adjustments at 1 January	-297,226	-172,677
Disposals for the year	45	0
Exchange adjustment	-474	-1,288
Net profit/loss for the year	-228,492	-117,436
Dividend to the Parent Company	0	-6,067
Other equity movements, net	-75	233
Change in intercompany profit on inventories	-469	10
Capital injection	193,681	0
Value adjustments at 31 December	-333,010	-297,225
Equity investments with negative net asset value transferred to provisions	142,011	106,617
Carrying amount at 31 December	**12,816**	**13,464**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and 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%

	Group		Parent Company	
	2019	2018	2019	2018
	kDKK	kDKK	kDKK	kDKK
11 Investments in associates				
Cost at 1 January	20,850	20,850	20,850	20,850
Cost at 31 December	20,850	20,850	20,850	20,850
Value adjustments at 1 January	-24,917	-12,869	-24,917	-12,869
Net profit/loss for the year	0	-12,048	0	-12,048
Value adjustments at 31 December	-24,917	-24,917	-24,917	-24,917
Equity investments with negative net asset value transferred to provisions	4,067	4,067	4,067	4,067
Carrying amount at 31 December	**0**	**0**	**0**	**0**

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	332
Additions for the year	59
Disposals for the year	-38
Cost at 31 December	353
Carrying amount at 31 December	**353**

13 Inventories

	Group		Parent Company	
	2019	2018	2019	2018
	kDKK	kDKK	kDKK	kDKK
Raw materials and consumables	50,752	67,568	0	0
Work in progress	5,412	7,861	0	0
Finished goods and goods for resale	76,985	130,885	0	0
	133,149	**206,314**	**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.

Notes to the Financial Statements

15 Equity

The share capital consists of 4,418,118 shares of a nominal value of kDKK 1. No shares carry any special rights.

The share capital has developed as follows:

	2019	2018	2017	2016	2015
	kDKK	kDKK	kDKK	kDKK	kDKK
Share capital at 1 January	3,111	3,111	2,222	2,222	2,222
Capital increase	1,307	0	889	0	0
Capital decrease	0	0	0	0	0
Share capital at 31 December	**4,418**	**3,111**	**3,111**	**2,222**	**2,222**

16 Distribution of profit

	Group		Parent Company	
	2019	2018	2019	2018
	kDKK	kDKK	kDKK	kDKK
Retained earnings	-230,708	-131,736	-230,708	-131,736
	-230,708	**-131,736**	**-230,708**	**-131,736**

17 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 3,072 (2018: kDKK 1,840) have been recognised for expected warranty claims.

Warranty obligations	3,072	1,840	0	0
	3,072	**1,840**	**0**	**0**

Notes to the Financial Statements

18 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	
	2019	2018	2019	2018
	kDKK	kDKK	kDKK	kDKK
Subordinate loan capital				
After 5 years	150,587	147,057	0	0
Long-term part	150,587	147,057	0	0
Within 1 year	0	0	0	0
	150,587	**147,057**	**0**	**0**
Mortgage loans				
After 5 years	6,753	8,217	0	0
Between 1 and 5 years	5,426	5,331	0	0
Long-term part	12,179	13,548	0	0
Within 1 year	1,357	1,333	0	0
	13,536	**14,881**	**0**	**0**
Lease obligations				
Between 1 and 5 years	2,277	957	0	0
Long-term part	2,277	957	0	0
Within 1 year	1,321	520	0	0
	3,598	**1,477**	**0**	**0**

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 -2,249k at the balance sheet date. In the agreement a floating interest, at the balance sheet date -0.23 % p.a., is swapped with a fixed interest of 3.12 % p.a. on a loan with a principal of DKK 13,794k.

Notes to the Financial Statements

	Group	
	2019	2018
	kDKK	kDKK
20 Cash flow statement - adjustments		
Financial income	-3,305	-4,578
Financial expenses	28,198	29,558
Depreciation, amortisation and impairment losses, including losses and gains on sales	168,251	41,788
Income from investments in associates	0	12,048
Tax on profit/loss for the year	-13,245	6,838
Other adjustments	-2,636	-11,223
	177,263	**74,431**

21 Cash flow statement - change in working capital

	2019	2018
Change in inventories	73,166	-53,331
Change in receivables	5,956	-5,373
Change in other provisions	1,232	-167
Change in trade payables, etc	11,452	-1,471
Fair value adjustments of hedging instruments	-75	233
	91,731	**-60,109**

Notes to the Financial Statements

	Group		Parent Company	
	2019	2018	2019	2018
	kDKK	kDKK	kDKK	kDKK

22 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	69,430	72,042	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	11,113	15,160	0	0

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 15,936k (2018: DKK 16,883k).

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

23 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	
	2019	2018	2019	2018
	kDKK	kDKK	kDKK	kDKK
Revenue	1,194	156	0	0
Management fee, sale	29	28	118	12
Purchase cabinets and other material	20,762	57,966	0	0
Interest income	0	475	0	0
Interest expenses	14,726	10,898	2,222	2,137

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

Notes to the Financial Statements

24 Fee to auditors appointed at the general meeting

	Group 2019 kDKK	Group 2018 kDKK
PricewaterhouseCoopers		
Audit fee	340	325
Other assurance engagements	36	32
Tax advisory services	1,187	1,017
Non-Audit services	176	421
	1,739	**1,795**
Others		
Audit fee	0	22
	0	**22**
	1,739	**1,817**

25 Subsequent events

The implications of COVID-19 with many governments across the world deciding to ”close down their countries” will have great impact on the global economy. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company.

Many of the Company’s customers have indicated that they will continue projects in progress, but there is still a risk that COVID-19 will have negative impacts on the Company’s revenue and earnings in 2020. Management is monitoring developments closely. It is, however, too early yet to give an opinion as to whether and, if so, to what extent COVID-19 will impact revenue and earnings in 2020. Naturally, Management will make an effort to recapture any lost revenue later in the year.

Notes to the Financial Statements

26 Accounting Policies

The Annual Report of Dynaudio Holding A/S for 2019 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 2019 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.

Business combinations

Book value method

Notes to the Financial Statements

26 Accounting Policies (continued)

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.

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

Notes to the Financial Statements

26 Accounting Policies (continued)

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

Information on business segments and geographical segments based on the Group´s risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

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.

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.

Notes to the Financial Statements

26 Accounting Policies (continued)

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.

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 state-

Notes to the Financial Statements

26 Accounting Policies (continued)

ment 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 13,800 are expensed in the year of acquisition.

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, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Notes to the Financial Statements

26 Accounting Policies (continued)

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 indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Notes to the Financial Statements

26 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

26 Accounting Policies (continued)

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 and credit facilities at credit institutions as well as payments to and from shareholders.

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