Dynaudio A/S

Sverigesvej 15, DK-8660 Skanderborg

Annual Report for 1 January - 31 December 2017

CVR No 27 21 55 56

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 14/3 2018

Peng Peng
Chairman

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Dynaudio A/S for the financial year 1 January - 31 December 2017.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Company and of the results of the Company operations for 2017.

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, 14 March 2018

Executive Board

Peng Peng

Board of Directors

Bin Jiang Chairman	Long Jiang	Chao Jiang

Independent Auditor’s Report

To the Shareholder of Dynaudio A/S

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company’s operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Dynaudio A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies (”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 Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter
We draw attention to Note 1 in the financial statements, which describes the uncertainty associated with measurement of assets, including particularly capitalized development projects and deferred tax 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.

Based on the work we have performed, in our view, Management’s Review is in accordance with the 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.

Independent Auditor's Report

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the

Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Aarhus, 14 March 2018
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

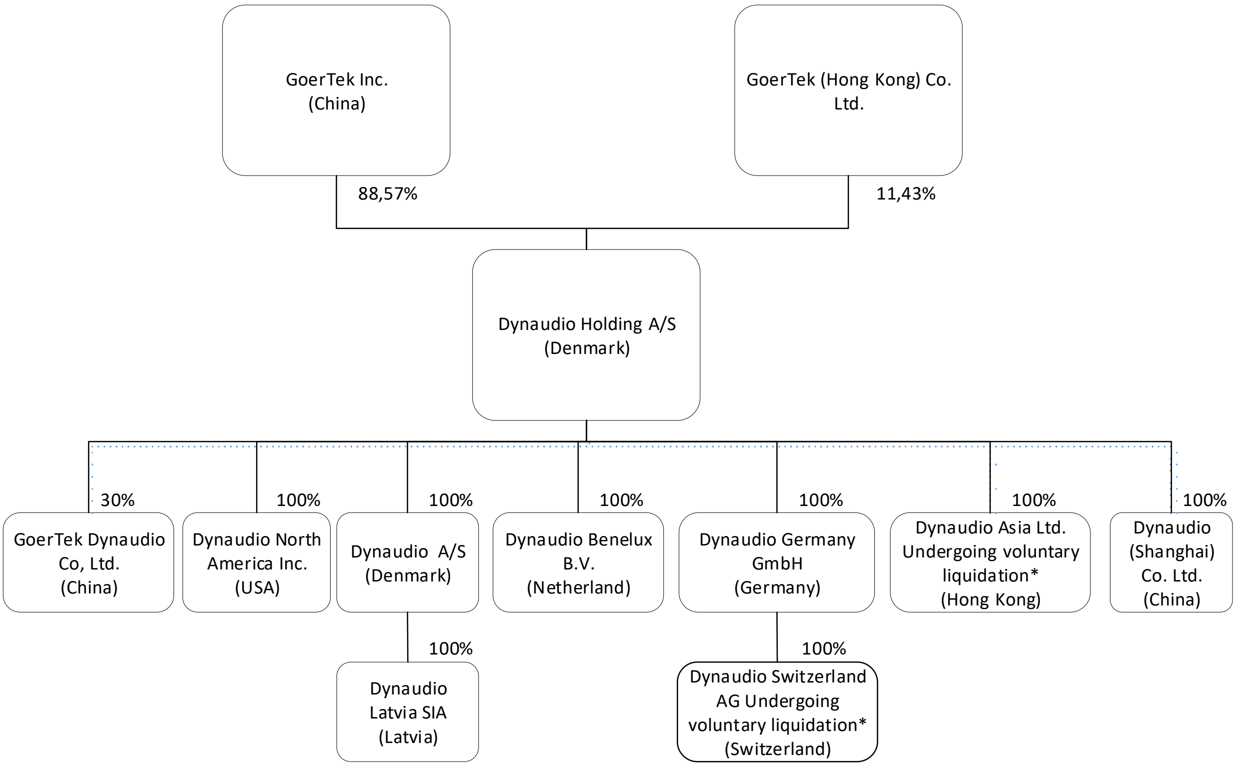
Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Claus Lyngsø Sørensen
State Authorised Public Accountant
mne34539

Company Information

The Company	Dynaudio A/S Sverigesvej 15 DK-8660 Skanderborg CVR No: 27 21 55 56 Financial period: 1 January - 31 December Municipality of reg. office: Skanderborg
Board of Directors	Bin Jiang, Chairman Long Jiang Chao Jiang
Executive Board	Peng Peng
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Nobelparken Jens Chr. Skous Vej 1 DK-8000 Aarhus C

Group Chart


GoerTek Inc.
(China)
GoerTek (Hong Kong) Co. Ltd.
88,57%
11,43%
Dynaudio Holding A/S
(Denmark)
30%
100%
100%
100%
100%
100%
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 Asia Ltd. Undergoing voluntary liquidation*
(Hong Kong)
Dynaudio (Shanghai) Co. Ltd.
(China)
100%
100%
Dynaudio Latvia SIA
(Latvia)
Dynaudio Switzerland AG Undergoing voluntary liquidation*
(Switzerland)

Financial Highlights

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

	2017	2016	2015	2014	2013
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Gross profit/loss	77,225	38,853	25,943	47,989	53,344
Operating profit/loss	-39,633	-52,211	-33,803	4,446	10,246
Net financials	14,644	-33,179	-14,328	-6,768	-4,680
Net profit/loss for the year	-22,427	-83,926	-35,931	-1,932	3,912
Balance sheet					
Balance sheet total	472,545	439,771	286,721	248,587	195,435
Investment in property, plant and equipment	-12,862	-36,947	-22,498	-15,101	-14,483
Equity	35,927	-66,521	19,061	54,274	56,202
Ratios					
Return on assets	-8.4%	-11.9%	-11.8%	1.8%	5.2%
Solvency ratio	7.6%	-15.1%	6.6%	21.8%	28.8%

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

Dynaudio A/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 Dynaudio operates, ultimate demands are placed for the quality of the sound systems to promote sound reproduction which is as authentic as possible.

Dynaudio A/S' business foundation comprises the following five business areas:
•Car – Premium Sound Systems for the car industry
•Consumer – Premium Sound Systems for consumers
•Professional – Systems for studios and other professional applications
•Install – Systems for residential and commercial installation
•Multimedia – External loudspeakers for multimedia and tuning of sound in computers.

Development in the year

The income statement of the Company for 2017 shows a loss of kDKK 22,427, and at 31 December 2017 the balance sheet of the Company shows equity of kDKK 35,927.

The loss is slightly lower than expected and the performance is still in line with our strategy of promoting and supporting future growth.

Net revenue increased significantly in 2017 and was aligned with the Group's strategy. The key drivers were increase of car business in China and new premium Consumer products.

In 2017, Dynaudio continued massive investments to strengthen the organizational set up and especially in the production, R&D and sales to invest in future growth. In December 2016 the new Research & Development Center of 1,600 square meters was opened. This is one of Europe's state of the art audio facilities.

Organizational changes in the sales organization have continued this year to support growth in all business areas and all major markets. Additionally, Dynaudio is establishing sales in new sales channels e.g. introducing our new web show.

Our development center in Copenhagen, GoerTek Europe ApS, was divested to our parent company (Goertek Inc.). This is a part of the strategy focusing on Dynaudio's core business areas.

Our production subsidiary, Dynaudio Latvia, ensures internal supply of high quality cabinets to our group production facility in Skanderborg in Denmark. This facility has increased the volume and capacity throughout 2017 due to increased demand in our Consumer segment.

Management's Review

The company further has a branch in Sweden.

The net loss for 2017 is better than budgeted and still within the scope of the prepared strategy, which initially is planned to foster growth in the long term. The investments in Dynaudio have been massive since our parent company, Goertek Inc., acquired us and the past year's losses are due to the high commitment and support from our owners to secure the further developing of Dynaudio. This will bring Dynaudio into a strong competitive position in the future.

This commitment was highly underlined by the Capital Increase made by Goertek in September 2017 at mDKK 124.8. mDKK 0.9 was injected as share capital increase in our parent company, Dynaudio Holding A/S, and mDKK 123.9 as capital injection in Dynaudio A/S.

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.

Credit risks

Liquidity in relation to the operations planned for 2018 has been secured through agreements with the owners of the enterprise.

Business review

Several new products have been launched in all business areas and Music Line has been introduced as new in the range of intelligent wireless music system for the mass market which is the first time Dynaudio go outside the traditional hifi market. The organization was strengthened within multiple specialist areas. This development is expected to continue in 2018.

Outlook

We expect a significant revenue increase in 2018 within all our business areas and a correspondingly stable profit development.

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

We expect profit/loss in 2018 to be sligthly improved compared to 2017.

Management's Review

Intellectual resources

Development of new products represents a significant parameter for Dynaudio, 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, Dynaudio has opted to implement a quality and environmental management system which is based on Dynaudio A/S' requirements and processes and certified under DS/ISO/TS 16949 (future IATF 16949) and DS/EN ISO 14001.

Dynaudio is audited bi-yearly and assess bi-yearly as well. This ensure our quality in all aspect are at the highest level possible to benefit all our business partners.

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

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

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

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

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

Management's Review

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

Respect for our environment and climate

Dynaudio'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 (including in 2017), we perform internal audits according to our ISO 14001 environmental certification. The audit identified a number of opportunities to further improve our internal processes, which we work to implement going forward. Moreover, we conducted nine audits at our suppliers in 2017 to evaluate their processes ensuring they comply with our rules as well as the terms and conditions they are covered by – all in order to ensure future improvement.

In 2017, we completed several energy saving projects at our production facility in Denmark that will reduce our energy consumption by 10% in the Production facility, or about 63.500 kWh of electricity annually. Furthermore, we have replaced traditional light balls with LED in most of our Danish facilities in order to save energy and costs. Finally, our new RD building is fulfilling the current standards and in order to do so we have put up solar panels on the roof of our new building in 2017.

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 2018 and onwards.

Income Statement 1 January - 31 December

	Note	2017	2016
		kDKK	kDKK
Gross profit/loss		**77,225**	**38,853**
Distribution expenses	2	-52,818	-47,555
Development expenditure	2	-39,980	-21,978
Administrative expenses	2	-24,060	-21,531
Operating profit/loss		**-39,633**	**-52,211**
Profit/loss before financial income and expenses		**-39,633**	**-52,211**
Income from investments in subsidiaries		-11,812	-13,824
Financial income	3	38,363	3,737
Financial expenses	4	-11,907	-23,092
Profit/loss before tax		**-24,989**	**-85,390**
Tax on profit/loss for the year	5	2,562	1,464
Net profit/loss for the year		**-22,427**	**-83,926**

Balance Sheet 31 December

Assets

	Note	2017	2016
		kDKK	kDKK
Completed development projects		35,102	30,055
Software		4,718	2,714
Development projects in progress		33,861	35,332
Intangible assets	6	**73,681**	**68,101**
Land and buildings		73,075	76,237
Plant and machinery		28,079	35,771
Other fixtures and fittings, tools and equipment		3,704	1,334
Property, plant and equipment in progress		6,844	3,597
Property, plant and equipment	7	**111,702**	**116,939**
Investments in subsidiaries	8	0	0
Deposits	9	96	96
Fixed asset investments		**96**	**96**
Fixed assets		**185,479**	**185,136**
Inventories	10	**111,517**	**66,839**
Trade receivables		35,179	25,861
Receivables from group enterprises		117,519	149,541
Other receivables		545	5,436
Deferred tax asset	14	5,775	5,775
Corporation tax		0	29
Prepayments	11	2,032	1,087
Receivables		**161,050**	**187,729**
Cash at bank and in hand		**14,499**	**67**
Currents assets		**287,066**	**254,635**
Assets		**472,545**	**439,771**

Balance Sheet 31 December

Liabilities and equity

	Note	2017	2016
		kDKK	kDKK
Share capital		1,100	1,100
Reserve for development costs		41,897	40,828
Retained earnings		-7,070	-108,449
Equity	12	**35,927**	**-66,521**
Other provisions	15	1,845	585
Provisions		**1,845**	**585**
Subordinate loan capital		140,026	66,674
Mortgage loans		14,900	16,251
Credit institutions		0	6,000
Lease obligations		1,540	2,136
Payables to group enterprises		113,483	210,362
Long-term debt	16	**269,949**	**301,423**
Mortgage loans	16	1,313	1,296
Credit institutions	16	50,669	88,094
Lease obligations	16	597	579
Prepayments received from customers		19,955	24,020
Trade payables		59,730	37,985
Payables to group enterprises	16	1,012	18,899
Corporation tax		4	0
Other payables		31,544	33,411
Short-term debt		**164,824**	**204,284**
Debt		**434,773**	**505,707**
Liabilities and equity		**472,545**	**439,771**

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Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	kDKK	kDKK	kDKK	kDKK
Equity at 1 January	1,100	40,828	-92,239	-50,311
Net effect of correction of material misstatements	0	0	-16,210	-16,210
Adjusted equity at 1 January	1,100	40,828	-108,449	-66,521
Exchange adjustments	0	0	540	540
Cash capital injection	0	0	123,874	123,874
Fair value adjustment of hedging instruments	0	0	461	461
Net profit/loss for the year	0	1,069	-23,496	-22,427
Equity at 31 December	**1,100**	**41,897**	**-7,070**	**35,927**

Notes to the Financial Statements

1 Uncertainty relating to recognition and measurement

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

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

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

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

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 2018.

Notes to the Financial Statements

2 Staff

	2017	2016
	kDKK	kDKK
Wages and Salaries	86,636	67,831
Pensions	12,029	11,193
Other social security expenses	2,343	1,996
Other staff expenses	1,144	912
	102,152	**81,932**
Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
Cost of sales	61,945	52,792
Distribution expenses	20,328	12,987
Development expenditure	5,585	4,556
Administrative expenses	14,294	11,597
	102,152	**81,932**
Including remuneration to the Executive Board	**2,601**	**3,150**
Average number of employees	**237**	**198**

3 Financial income

	2017	2016
	kDKK	kDKK
Interest received from group enterprises	5,218	3,004
Other financial income	2,064	733
Exchange adjustments	31,081	0
	38,363	**3,737**

4 Financial expenses

	2017	2016
Interest paid to group enterprises	7,554	9,198
Other financial expenses	3,508	2,890
Exchange adjustments	845	11,004
	11,907	**23,092**

Notes to the Financial Statements

		2017	2016
		kDKK	kDKK
5	**Tax on profit/loss for the year**		
	Current tax for the year	6	0
	Deferred tax for the year	0	606
	Adjustment of tax concerning previous years	-2,568	-2,070
		-2,562	**-1,464**

6 Intangible assets

	Completed development projects	Software	Development projects in progress
	kDKK	kDKK	kDKK
Cost at 1 January	77,863	16,182	39,261
Additions for the year	5,146	2,900	22,504
Disposals for the year	-444	0	0
Transfers for the year	14,127	0	-14,127
Cost at 31 December	96,692	19,082	47,638
Impairment losses and amortisation at 1 January	47,805	13,468	3,929
Impairment losses for the year	222	0	10,560
Amortisation for the year	12,634	896	217
Transfers for the year	929	0	-929
Impairment losses and amortisation at 31 December	61,590	14,364	13,777
Carrying amount at 31 December	**35,102**	**4,718**	**33,861**

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

	2017	2016
	kDKK	kDKK
Amortisation and impairment of intangible assets are recognised in the following items*:*		
Cost of sales	-69	498
Distribution expenses	352	0
Development expenditure	23,893	11,409
Administrative expenses	354	166
	24,530	**12,073**

Notes to the Financial Statements

7 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
	kDKK	kDKK	kDKK	kDKK
Cost at 1 January	103,734	97,166	6,894	3,597
Additions for the year	635	5,979	3,001	3,247
Disposals for the year	-944	0	0	0
Cost at 31 December	103,425	103,145	9,895	6,844
Impairment losses and depreciation at 1 January	27,498	61,395	5,560	0
Impairment losses for the year	49	543	0	0
Depreciation for the year	2,803	7,853	631	0
Impairment and depreciation of sold assets for the year	0	5,275	0	0
Impairment losses and depreciation at 31 December	30,350	75,066	6,191	0
Carrying amount at 31 December	**73,075**	**28,079**	**3,704**	**6,844**
Including assets under finance leases amounting to	831	1,964	0	0

	2017	2016
	kDKK	kDKK
Depreciation and impairment of property, plant and equipment are recognised in the following items:		
Cost of sales	9,845	5,714
Distribution expenses	252	199
Development expenditure	1,477	355
Administrative expenses	305	485
	11,879	**6,753**

Notes to the Financial Statements

8 Investments in subsidiaries

	2017	2016
	kDKK	kDKK
Cost at 1 January	11,972	71
Additions for the year	0	11,901
Disposals for the year	-11,951	0
Cost at 31 December	21	11,972
Value adjustments at 1 January	-22,245	-6,959
Disposals for the year	29,825	0
Exchange adjustment	540	-1,463
Net profit/loss for the year	-10,887	-4,841
Change in intercompany profit on inventories	-925	-8,982
Value adjustments at 31 December	-3,692	-22,245
Equity investments with negative net asset value amortised over receivables	3,671	10,273
Carrying amount at 31 December	**0**	**0**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership
Dynaudio Latvia SIA	Latvia	100%

9 Other fixed asset investments

	Deposits
	kDKK
Cost at 1 January	96
Cost at 31 December	96
Impairment losses at 1 January	0
Impairment losses at 31 December	0
Carrying amount at 31 December	**96**

Notes to the Financial Statements

		2017	2016
		kDKK	kDKK

10 Inventories

	2017 kDKK	2016 kDKK
Raw materials and consumables	69,730	46,034
Work in progress	10,627	7,349
Finished goods and goods for resale	31,160	13,456
	111,517	**66,839**

11 Prepayments

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

12 Equity

The share capital consists of 11,000 shares of a nominal value of DKK 100. No shares carry any special rights.

13 Distribution of profit

	2017 kDKK	2016 kDKK
Reserve for development projects	1,069	40,828
Retained earnings	-23,496	-124,754
	-22,427	**-83,926**

14 Deferred tax asset

	2017 kDKK	2016 kDKK
Deferred tax asset at 1 January	5,775	6,361
Amounts recognised in the income statement for the year	0	-606
Amounts recognised in equity for the year	0	20
Deferred tax asset at 31 December	**5,775**	**5,775**

Notes to the Financial Statements

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 1,845 (2016: kDKK 585) have been recognised for expected warranty claims.

	2017 kDKK	2016 kDKK
Other provisions	1,845	585
	1,845	**585**

16 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:

	2017 kDKK	2016 kDKK
Subordinate loan capital		
After 5 years	140,026	72,070
Between 1 and 5 years	0	-5,396
Long-term part	140,026	66,674
Within 1 year	0	0
	140,026	**66,674**
Mortgage loans		
After 5 years	9,682	11,006
Between 1 and 5 years	5,218	5,245
Long-term part	14,900	16,251
Within 1 year	1,313	1,296
	16,213	**17,547**
Credit institutions		
Between 1 and 5 years	0	6,000
Long-term part	0	6,000
Within 1 year	6,000	6,000
Other short-term debt to credit institutions	44,669	82,094
Short-term part	50,669	88,094
	50,669	**94,094**

Notes to the Financial Statements

16 Long-term debt (continued)

	2017	2016
	kDKK	kDKK
Lease obligations		
After 5 years	0	332
Between 1 and 5 years	1,540	1,804
Long-term part	1,540	2,136
Within 1 year	597	579
	2,137	**2,715**
Payables to group enterprises		
Between 1 and 5 years	113,483	210,362
Long-term part	113,483	210,362
Other short-term debt to group enterprises	1,012	18,899
	114,495	**229,261**

17 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

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	73,075	76,237
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	19,327	23,547

	2017	2016
	kDKK	kDKK

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

Contingent liabilities

The company has entered into a joint and several guarantee of payment towards the subsidiaries Dynaudio Holding 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 847k.

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 is disclosed in the Annual Report of Dynaudio Holding A/S, which is the management company of the joint taxation purposes. 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

18 Related parties

	Basis
Controlling interest	
Dynaudio Holding A/S, Sverigesvej 15, 8660 Skanderborg	Parent Company
Goertek Inc., China	Ultimate Parent Company

Transactions

	2017	2016
	kDKK	kDKK
Revenue	67,268	31,609
Sales minor items, goods from stock etc	0	23
Management fee, sale	1,667	1,562
Purchase cabinets and other material	42,078	15,147
Marketing grant + warranty support	2,147	1,400
Sales services purchases	4,999	4,421
Interest income	5,218	2,678
Interest expenses	7,554	0
Sale of company (Goertek Europe)	50	0

Consolidated Financial Statements

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

Name	Place of registered office
GoerTek Inc.	China
Dynaudio Holding A/S	Skanderborg, Denmark

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

www.goertek.com

Notes to the Financial Statements

19 Accounting Policies

The Annual Report of Dynaudio A/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2017 are presented in kDKK.

Correction of material misstatements

The deferred tax asset, primarily related to tax losses carry-forward, is impaired based on expected utilization within 3-4 years. Management has assessed that the impairment also existed before 2017. Due to the materiality of the impairment the correction is treated as a material misstatement related to prior years, which impacts equity beginning of 2017 and with restatement of 2016 figures. The effect on 2016 figures compared with the published Financial Statements of 2016 is as follows:

(kDKK)	Change	Book Value
Income from investments in subsidiaries	-947	-13,824
Tax on profit for the year	-15,263	1,464
Net profit/loss for the year	-16,210	-83,926
Investment in subsidiaries	-947	-10,273
Deferred tax asset	-15,263	5,775
Equity	-16,210	-66,521

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Dynaudio Holding A/S, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Dynaudio Holding A/S, the Company has not prepared a cash flow statement.

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

Notes to the Financial Statements

19 Accounting Policies (continued)

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.

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 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.

Notes to the Financial Statements

19 Accounting Policies (continued)

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 Company.

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.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to distribution activities.

Development expenditure

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

Administrative expenses

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

Notes to the Financial Statements

19 Accounting Policies (continued)

Other operating income and expenses

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

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes 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 wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Development projects, patents and licences

Costs of development projects comprise salaries, amortisation and other expenses directly or indirectly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Notes to the Financial Statements

19 Accounting Policies (continued)

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount. An amount corresponding to the recognised development costs is allocated to the equity item "Reserve for development costs". The reserve comprises only development costs recognised in financial years beginning on or after 1 January 2016. The reserve is reduced by amortisation of and impairment losses on the development projects on a continuing basis together with the tax effect.

As of the date of completion, capitalised development costs are amortised on a straight-line basis over the period of the expected economic benefit from the development work. The amortisation period is 3-5 years.

Patents and licences are measured at cost less accumulated amortisation and less any accumulated impairment losses or at a lower value in use.

Software licences are amortised over the period of the agreement, which is 3-10 years.

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
Leasehold improvements	3-5	years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,200 are expensed in the year of acquisition.

Notes to the Financial Statements

19 Accounting Policies (continued)

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

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

Investments in subsidiaries

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

The item“Investments in subsidiaries” 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 net revaluation of investments in subsidiaries 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.

Subsidiaries with a negative net asset value are recognised at DKK 0 and the carrying amount of any receivables assessed to be a part of the net investment from these entities is reduced. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Other fixed asset investments

Other fixed asset investments consist of deposits.

Inventories

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

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

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indi-

Notes to the Financial Statements

19 Accounting Policies (continued)

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

Receivables

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

Prepayments

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

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

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

Deferred tax assets and liabilities

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

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Notes to the Financial Statements

19 Accounting Policies (continued)

Current tax receivables and liabilities

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

Financial debts

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

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

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

Financial Highlights

Explanation of financial ratios

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