
Dynaudio A/S

Sverigesvej 15, DK-8660 Skanderborg

Annual Report for 1 January - 31 December 2018

CVR No 27 21 55 56

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

Jian Guo
Chairman of the General
Meeting



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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 2018.

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 2018 of the Company and of the results of the Company operations for 2018.

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

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

Skanderborg, 8 April 2019

Executive Board

Jian Guo

Board of Directors

Bin Jiang
Chairman

Long Jiang

Peng Li

Independent Auditor's Report

To the 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 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 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 2018, 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 2 in the financial statements, which describes the uncertainty associated with measurement of assets, including particularly capitalized development projects, based on Management's expectations for sufficient positive results and cash flows in future years and retention of key customers. Our conclusion is not modified regarding this matter.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial

Independent Auditor's Report

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 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 dis-

Independent Auditor's Report

closures 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, 8 April 2019

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Claus Lyngsø Sørensen
State Authorised Public Accountant
mne34539

Company Information

The Company

Dynaudio 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
Peng Li

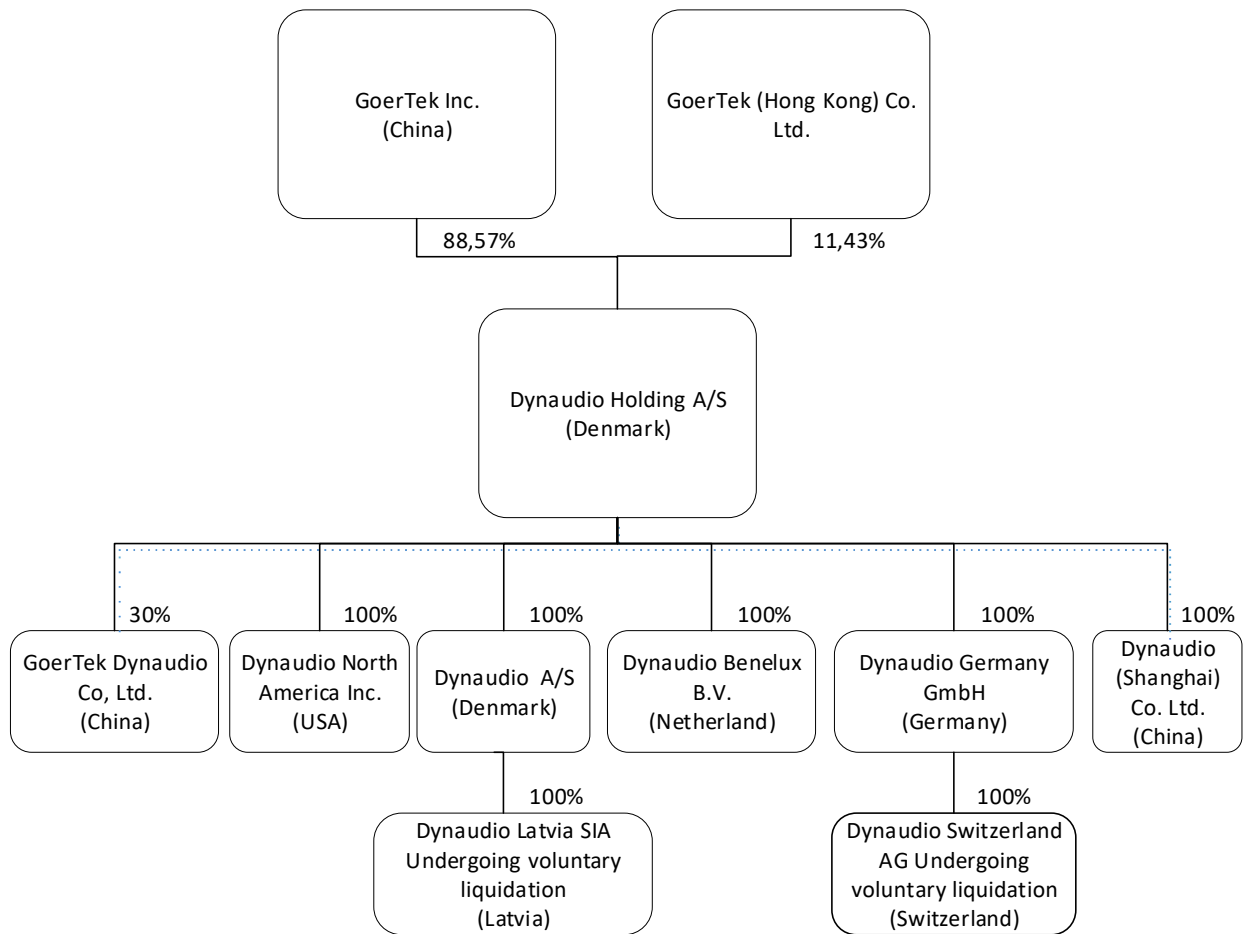
Executive Board

Jian Guo

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Nobelparken
Jens Chr. Skous Vej 1
DK-8000 Aarhus C

Group Chart



Financial Highlights

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

	2018	2017	2016	2015	2014
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Revenue	333,117	351,034	258,082	224,931	247,669
Gross profit/loss	46,068	58,764	38,853	25,943	47,989
Operating profit/loss	-78,671	-58,094	-52,211	-33,803	4,446
Net financials	-21,011	14,644	-33,179	-14,328	-6,768
Net profit/loss for the year	-105,461	-22,427	-83,926	-35,931	-1,932
Balance sheet					
Balance sheet total	518,816	472,545	439,771	286,721	248,587
Equity	-69,315	35,927	-66,521	19,061	54,274
Investment in property, plant and equipment	-9,708	-12,862	-36,947	-22,498	-15,101
Ratios					
Gross margin	13.8%	16.7%	15.1%	11.5%	19.4%
Profit margin	-23.6%	-11.3%	-20.2%	-15.0%	1.8%
Return on assets	-15.2%	-8.4%	-11.9%	-11.8%	1.8%
Solvency ratio	-13.4%	7.6%	-15.1%	6.6%	21.8%

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
- PRO – 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.

The company has Branch in Sweden. A majority of the employees in Dynaudio Denmark A/S is located in Skanderborg.

Development in the year

The income statement of the Company for 2018 shows a loss of kDKK 105,461, and at 31 December 2018 the balance sheet of the Company shows negative equity of kDKK 69,315.

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

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

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

Management's Review

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

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

Special risks

Currency risks

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

Liquidity risks

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

Business review

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

Outlook

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

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

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

Management's Review

Intellectual resources

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

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

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

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

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

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

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

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

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

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

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

Management's Review

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

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

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

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

Business Model

Please refer to our section “Key Activities above”.

Risk Related to CSR

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

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

Environment and climate

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

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

Management's Review

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

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

Human Rights

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

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

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

Anti-Corruption

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

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

Management's Review

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

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

Supporting the community – we grow together

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

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

Leading

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

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

Sponsoring

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

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

To Lead we need to continuously improve

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

Management's Review

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

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

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

We will seek to reach our goal as follows:

- Organic growth. This means that in cases of retirement/new hires in the management group and/or executive group there will – until the above goal is reached – be a small positive “weighing” in regard to female candidates. That means that during recruitments where the final choice stands between a man and a woman, and where the competencies can be completely equated, there will be a small positive weighing towards women.
- That hiring procedures and recruitment contribute to visualizing female leadership talents so that both female and male candidates are represented in internal and external recruitment.
- There must be equal conditions for the genders when external candidates apply for executive positions within Dynaudio. 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.

In 2018 the board constituted of 3 persons representing the owners of Dynaudio Holding A/S. The three remaining positions were occupied by the existing members as all were reelected. No female candidates were listed for the board election. 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.

Management's Review

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

Income Statement 1 January - 31 December

	Note	2018 kDKK	2017 kDKK
Revenue	3	333,117	351,034
Cost of sales	4	-287,049	-292,270
Gross profit/loss		46,068	58,764
Distribution expenses	4	-52,445	-52,818
Development expenditure	4	-43,880	-39,980
Administrative expenses	4	-28,414	-24,060
Operating profit/loss		-78,671	-58,094
Other operating income		0	18,461
Profit/loss before financial income and expenses		-78,671	-39,633
Income from investments in subsidiaries		-3,337	-11,812
Financial income	5	9,132	38,363
Financial expenses	6	-26,806	-11,907
Profit/loss before tax		-99,682	-24,989
Tax on profit/loss for the year	7	-5,779	2,562
Net profit/loss for the year		-105,461	-22,427

Balance Sheet 31 December

Assets

	Note	2018 kDKK	2017 kDKK
Completed development projects		43,534	35,102
Software		7,038	4,718
Development projects in progress		29,830	33,861
Intangible assets	8	80,402	73,681
Land and buildings		72,042	73,075
Plant and machinery		31,320	28,079
Other fixtures and fittings, tools and equipment		7,589	3,704
Property, plant and equipment in progress		0	6,844
Property, plant and equipment	9	110,951	111,702
Investments in subsidiaries	10	0	0
Deposits	11	96	96
Fixed asset investments		96	96
Fixed assets		191,449	185,479
Inventories	12	149,760	111,517
Trade receivables		29,984	35,179
Receivables from group enterprises		143,145	117,519
Other receivables		1,701	545
Deferred tax asset	16	0	5,775
Corporation tax		14	0
Prepayments	13	1,448	2,032
Receivables		176,292	161,050
Cash at bank and in hand		1,315	14,499
Currents assets		327,367	287,066
Assets		518,816	472,545

Balance Sheet 31 December

Liabilities and equity

	Note	2018 kDKK	2017 kDKK
Share capital		1,100	1,100
Reserve for development costs		56,355	41,897
Retained earnings		-126,770	-7,070
Equity	14	-69,315	35,927
Other provisions	17	1,840	1,845
Provisions		1,840	1,845
Subordinate loan capital		147,057	140,026
Mortgage loans		13,548	14,900
Lease obligations		936	1,540
Long-term debt	18	161,541	156,466
Mortgage loans	18	1,333	1,313
Credit institutions		139,230	50,669
Lease obligations	18	520	597
Prepayments received from customers		17,138	19,955
Trade payables		44,472	59,576
Payables to group enterprises		179,199	114,649
Corporation tax		0	4
Other payables		42,858	31,544
Short-term debt		424,750	278,307
Debt		586,291	434,773
Liabilities and equity		518,816	472,545
Going concern	1		
Uncertainty relating to recognition and measurement	2		
Distribution of profit	15		
Contingent assets, liabilities and other financial obligations	20		
Related parties	21		
Accounting Policies	22		

Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	kDKK	kDKK	kDKK	kDKK
Equity at 1 January	1,100	41,897	-7,070	35,927
Exchange adjustments	0	0	-14	-14
Fair value adjustment of hedging instruments	0	0	233	233
Net profit/loss for the year	0	14,458	-119,919	-105,461
Equity at 31 December	1,100	56,355	-126,770	-69,315

Notes to the Financial Statements

1 Going concern

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

2 Uncertainty relating to recognition and measurement

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

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

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

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

3 Revenue

Geographical segments

	2018 kDKK	2017 kDKK
Europe	202,782	224,111
North America	33,401	21,903
Asia	78,326	89,197
Other	18,608	15,823
	333,117	351,034

Notes to the Financial Statements

	2018 kDKK	2017 kDKK
4 Staff		
Wages and Salaries	107,216	86,636
Pensions	11,201	12,029
Other social security expenses	2,367	2,343
Other staff expenses	732	1,144
	121,516	102,152
Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
Cost of sales	75,053	61,945
Distribution expenses	20,846	20,328
Development expenditure	9,502	5,585
Administrative expenses	16,115	14,294
	121,516	102,152
Including remuneration to the Executive Board	2,286	2,601
Average number of employees	270	237
	2018 kDKK	2017 kDKK
5 Financial income		
Interest received from group enterprises	4,554	5,218
Other financial income	1,691	1,014
Exchange adjustments	2,887	32,131
	9,132	38,363
6 Financial expenses		
Interest paid to group enterprises	10,898	7,554
Other financial expenses	2,956	3,508
Exchange adjustments	12,952	845
	26,806	11,907

Notes to the Financial Statements

	2018 <u>kDKK</u>	2017 <u>kDKK</u>
7 Tax on profit/loss for the year		
Current tax for the year	4	6
Deferred tax for the year	5,775	0
Adjustment of tax concerning previous years	0	-2,568
	<u>5,779</u>	<u>-2,562</u>

8 Intangible assets

	Completed development projects <u>kDKK</u>	Software <u>kDKK</u>	Development projects in progress <u>kDKK</u>
Cost at 1 January	96,692	19,082	47,638
Additions for the year	9,439	4,379	24,145
Transfers for the year	41,567	0	-41,939
Cost at 31 December	<u>147,698</u>	<u>23,461</u>	<u>29,844</u>
Impairment losses and amortisation at 1 January	61,590	14,364	13,777
Impairment losses for the year	12,500	888	0
Amortisation for the year	16,311	1,171	0
Transfers for the year	13,763	0	-13,763
Impairment losses and amortisation at 31 December	<u>104,164</u>	<u>16,423</u>	<u>14</u>
Carrying amount at 31 December	<u>43,534</u>	<u>7,038</u>	<u>29,830</u>

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.

	2018 <u>kDKK</u>	2017 <u>kDKK</u>
Amortisation and impairment of intangible assets are recognised in the following items:		
Cost of sales	0	-69
Distribution expenses	394	352
Development expenditure	29,994	23,893
Administrative expenses	482	354
	<u>30,870</u>	<u>24,530</u>

Notes to the Financial Statements

9 Property, plant and equipment

	Land and buildings kDKK	Plant and machinery kDKK	Other fixtures and fittings, tools and equipment kDKK	Property, plant and equipment in progress kDKK
Cost at 1 January	103,425	103,145	9,895	6,844
Additions for the year	1,735	4,029	3,944	0
Disposals for the year	0	0	-65	0
Transfers for the year	0	6,254	961	-6,844
Cost at 31 December	105,160	113,428	14,735	0
Impairment losses and depreciation at 1 January	30,350	75,066	6,191	0
Depreciation for the year	2,768	7,042	955	0
Impairment losses and depreciation at 31 December	33,118	82,108	7,146	0
Carrying amount at 31 December	72,042	31,320	7,589	0
Including assets under finance leases amounting to	2,026	1,291	0	0
			2018 kDKK	2017 kDKK
Depreciation and impairment of property, plant and equipment are recognised in the following items:				
Cost of sales			8,065	9,845
Distribution expenses			275	252
Development expenditure			1,207	1,477
Administrative expenses			1,217	305
			10,764	11,879

Notes to the Financial Statements

	2018 kDKK	2017 kDKK
10 Investments in subsidiaries		
Cost at 1 January	21	11,972
Disposals for the year	0	-11,951
Cost at 31 December	21	21
Value adjustments at 1 January	-3,692	-22,245
Disposals for the year	0	29,825
Exchange adjustment	-14	540
Net profit/loss for the year	-3,338	-10,887
Change in intercompany profit on inventories	0	-925
Value adjustments at 31 December	-7,044	-3,692
Equity investments with negative net asset value amortised over receivables	7,023	3,671
Carrying amount at 31 December	0	0

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
Dynaudio Latvia SIA	Latvia	100%	0	0

11 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

	2018 kDKK	2017 kDKK
12 Inventories		
Raw materials and consumables	67,569	69,730
Work in progress	7,861	10,627
Finished goods and goods for resale	74,330	31,160
	149,760	111,517

13 Prepayments

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

14 Equity

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

15 Distribution of profit

Reserve for development projects	14,458	1,069
Retained earnings	-119,919	-23,496
	-105,461	-22,427

16 Provision for deferred tax

Provision for deferred tax at 1 January	-5,775	-5,775
Impairment for the year	5,775	0
Provision for deferred tax at 31 December	0	-5,775

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 1,840 (2017: kDKK 1,845) have been recognised for expected warranty claims.

Other provisions	1,840	1,845
	1,840	1,845

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:

	2018 kDKK	2017 kDKK
Subordinate loan capital		
After 5 years	147,057	140,026
Long-term part	147,057	140,026
Within 1 year	0	0
	147,057	140,026
Mortgage loans		
After 5 years	8,217	9,682
Between 1 and 5 years	5,331	5,218
Long-term part	13,548	14,900
Within 1 year	1,333	1,313
	14,881	16,213
Lease obligations		
Between 1 and 5 years	936	1,540
Long-term part	936	1,540
Within 1 year	520	597
	1,456	2,137

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 -2,175k at the balance sheet date. In the agreement a floating interest, at the balance sheet date -0.12 % p.a., is swapped with a fixed interest of 3.12 % p.a. on a loan with a principal of DKK 15,109k.

Notes to the Financial Statements

	2018 kDKK	2017 kDKK
20 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	72,042	73,075
As collateral for bank loans, the company has deposited a mortgage registered to the owner of a nominal amount of DKK 12,205k secured in machinery. The carrying amount of mortgage machinery amounts to	15,160	19,327

Contingent assets

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

Contingent liabilities

The company has entered into a joint and several guarantee of payment towards the group entities 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 867k.

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

21 Related parties

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

Transactions

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

	<u>2018</u>	<u>2017</u>
	kDKK	kDKK
Revenue	76,989	67,268
Management fee, sale	2,186	1,667
Purchase cabinets and other material	78,730	42,078
Marketing grant + warranty support	419	2,147
Sales services purchases	4,987	4,999
Interest income	4,546	5,218
Interest expenses	10,898	7,554
Sale of company (Goertek Europe)	0	50

Consolidated Financial Statements

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

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

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

www.goertek.com

Notes to the Financial Statements

22 Accounting Policies

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

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2018 are presented in kDKK.

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 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.

Notes to the Financial Statements

22 Accounting Policies (continued)

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.

Revenue

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

Income Statement

Revenue

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

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of

Notes to the Financial Statements

22 Accounting Policies (continued)

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.

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 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.

Notes to the Financial Statements

22 Accounting Policies (continued)

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

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.

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.

Notes to the Financial Statements

22 Accounting Policies (continued)

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 13,500 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, 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 acqui-

Notes to the Financial Statements

22 Accounting Policies (continued)

tion 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 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.

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.

Notes to the Financial Statements

22 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

22 Accounting Policies (continued)

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

Financial Highlights

Explanation of financial ratios

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