

Dynaudio A/S

Sverigesvej 15
8660 Skanderborg
CVR No. 27215556

Annual report 2023

The Annual General Meeting adopted the annual report on 01.07.2024



Chunqiang Qu

Chairman of the General Meeting

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Entity details

Entity

Dynaudio A/S
Sverigesvej 15
8660 Skanderborg

Business Registration No.: 27215556
Registered office: Skanderborg
Financial year: 01.01.2023 - 31.12.2023

Board of Directors

Xun Jiang
Zhenglei Hou
Shengbo Zhu

Executive Board

Chunqiang Qu

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of Dynaudio A/S for the financial year 01.01.2023 - 31.12.2023.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2023 and of the results of its operations for the financial year 01.01.2023 - 31.12.2023.

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

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

Skanderborg, 01.07.2024

Executive Board

Chunqiang Qu

Board of Directors

Xun Jiang

Zhenglei Hou

Shengbo Zhu

Independent auditor's report

To the shareholders of Dynaudio A/S

Opinion

We have audited the financial statements of Dynaudio A/S for the financial year 01.01.2023 - 31.12.2023, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2023 and of the results of its operations for the financial year 01.01.2023 - 31.12.2023 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Auditor's responsibilities for the audit of the 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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.

Statement on the management commentary

Management is responsible for the management commentary.

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

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required by relevant law and regulations.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements in the relevant law and regulations. We did not identify any material misstatement of the management commentary.

Aarhus, 01.07.2024

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Henrik Vedel

State Authorised Public Accountant
Identification No (MNE) mne10052

Mikael Møller

State Authorised Public Accountant
Identification No (MNE) mne47835

Management commentary

Financial highlights

	2023	2022	2021	2020	2019
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Gross profit/loss	40,017	90,916	126,383	76,052	25,473
Operating profit/loss	(114,806)	(48,106)	8,295	(19,144)	(203,412)
Net financials	(1,752)	4,429	5,957	13,460	(18,898)
Profit/loss for the year	(116,558)	(43,677)	14,233	(3,693)	(206,989)
Total assets	329,733	413,902	414,205	380,882	387,321
Investments in property, plant and equipment	1,267	1,886	1,058	207	4,278
Equity	157,310	274,049	316,279	280,703	(82,698)
Ratios					
Equity ratio (%)	47.71	66.21	76.36	73.70	(21.35)

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

Equity ratio (%):

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

Total assets

Primary activities

Dynaudio A/S' activities are to develop, produce and sell loudspeaker systems and loudspeaker drivers relying on advanced technology and high quality.

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

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

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

- Home Audio – Premium Sound Systems and loudspeakers for consumer electronics audio industry including HIFI and Custom Install.
- Automotive Audio – Premium Sound Systems and drivers for the automotive industry and car aftermarket.
- PRO Audio – Systems for studios and other professional applications.
- Lifestyle Audio – Stylish Sound Systems and loudspeakers for consumer electronics audio industry.
- Co-Brand – co-develop or co-create with other brands to research and develop new audio products with premium sound quality.

The majority of Dynaudio A/S employees are located in Skanderborg. Dynaudio A/S also has a branch in Sweden.

Development in activities and finances

The investments in Dynaudio have been massive since the parent company acquired the company and the owners continue to show a strong commitment and support to secure the further development of Dynaudio. This will put Dynaudio into a strong competitive position in the future.

Profit/loss for the year in relation to expected developments

The income statement of the Company in 2023 shows a loss of DKK 116,558k (2022: loss of DKK 43,677k), and at 31 December 2023 the balance sheet of the Company shows equity of DKK 157,310k (2022: DKK 274,049k).

In 2023, management updated expectations of the revenue to DKK 183m, with an EBITDA loss of DKK 79m and a net result of DKK 88m. Targets were not met, due to the development in the general financial situation, leading to a lower demand for high-end products as produced by Dynaudio. Finally, Management made the necessary steps to impair inventory and R&D projects in total of DKK 16,3m.

The Management is not satisfied with the financial performance of Dynaudio A/S.

Outlook

Dynaudio will continue to innovate within sound technologies and develop the best-in-class products in Home Audio, Automotive Audio, Pro Audio and Lifestyle Audio. For 2024, Management expects a revenue of DKK 222m, and an EBITDA loss of DKK 48m. The net income is expected to be a loss of DKK 60m. This is mainly driven by the general restraint by customers buying high-end consumer products in a period with uncertainty in the world economy and finally investments in a cost base set to support the ambition for long-term growth.

The corporate management team has redefined Dynaudio's vision, mission and core values to set the ambitions and reshape the culture.

Our vision:

To enrich life through authentic sound.

Our mission

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

Our core value

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

Knowledge resources

The development of new products is vital for the Company, and particularly within acoustics and electronics. Therefore, access to competent resources needs to be secured. This is done through Dynaudio's talented R&D resources, through partnerships with the universities in Aarhus and Aalborg, and through close cooperation with partners within the electronics sector.

Dynaudio puts great focus on the development of young talent ensuring the improvement of their competences through participation in our innovative technology research and product development.

Research and development activities

Dynaudio puts great focus on research and development. As a rule, each year we invest a part of our net revenue in research and product development. In order to have the best in class sound, Dynaudio has invested in a sound test lab, which is a 13 x 13 x 13m large chamber and guarantees the purest possible sound performance.

Events after the balance sheet date

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

Income statement for 2023

	Notes	2023 DKK'000	2022 DKK'000
Gross profit/loss		40,017	90,916
Research and development costs		(42,110)	(30,801)
Distribution costs		(30,180)	(20,475)
Administrative expenses		(82,533)	(87,746)
Operating profit/loss		(114,806)	(48,106)
Other financial income	3	4,254	6,308
Other financial expenses	4	(6,006)	(1,879)
Profit/loss before fair value adjustments and tax		(116,558)	(43,677)
Tax on profit/loss for the year		0	0
Profit/loss for the year	5	(116,558)	(43,677)

Balance sheet at 31.12.2023

Assets

	Notes	2023 DKK'000	2022 DKK'000
Completed development projects	7	3,683	6,686
Acquired intangible assets		1,931	1,962
Development projects in progress	7	5,683	23,222
Intangible assets	6	11,297	31,870
Land and buildings		43,851	44,928
Plant and machinery		2,725	2,632
Other fixtures and fittings, tools and equipment		333	305
Property, plant and equipment in progress		358	1,485
Property, plant and equipment	8	47,267	49,350
Deposits		388	388
Financial assets	9	388	388
Fixed assets		58,952	81,608
Raw materials and consumables		61,745	69,874
Work in progress		11,802	3,223
Manufactured goods and goods for resale		15,098	55,345
Inventories		88,645	128,442
Trade receivables		13,572	19,846
Receivables from group enterprises		157,418	168,031
Other receivables		4,048	4,578
Prepayments	10	391	434
Receivables		175,429	192,889
Cash		6,707	10,963
Current assets		270,781	332,294
Assets		329,733	413,902

Equity and liabilities

	Notes	2023 DKK'000	2022 DKK'000
Contributed capital		6,003	6,003
Reserve for fair value adjustments of hedging instruments		1,997	2,176
Reserve for development expenditure		7,305	5,571
Retained earnings		142,005	260,299
Equity		157,310	274,049
Other provisions	11	2,375	4,689
Provisions		2,375	4,689
Mortgage debt		7,127	8,308
Other payables		9,645	9,172
Non-current liabilities other than provisions	12	16,772	17,480
Current portion of non-current liabilities other than provisions	12	1,208	1,215
Bank loans		284	90
Lease liabilities		100	100
Prepayments received from customers		0	206
Trade payables		18,136	26,064
Payables to group enterprises		118,923	72,720
Tax payable		29	34
Other payables		14,596	17,255
Current liabilities other than provisions		153,276	117,684
Liabilities other than provisions		170,048	135,164
Equity and liabilities		329,733	413,902
Events after the balance sheet date	1		
Staff costs	2		
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Statement of changes in equity for 2023

	Contributed capital DKK'000	Reserve for fair value adjustments of hedging instruments DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	6,003	2,176	5,571	260,299	274,049
Other adjustments on equity	0	0	0	(2)	(2)
Transfer to reserves	0	(179)	1,734	(1,734)	(179)
Profit/loss for the year	0	0	0	(116,558)	(116,558)
Equity end of year	6,003	1,997	7,305	142,005	157,310

Notes

1 Events after the balance sheet date

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

2 Staff costs

	2023	2022
	DKK'000	DKK'000
Wages and salaries	87,887	109,112
Pension costs	8,254	10,257
Other social security costs	1,032	1,635
Other staff costs	1,952	2,307
	99,125	123,311
Average number of full-time employees	163	196

	Remuneration of Management 2023 DKK'000	Remuneration of Management 2022 DKK'000
Executive Board	3,312	4,995
	3,312	4,995

3 Other financial income

	2023	2022
	DKK'000	DKK'000
Financial income from group enterprises	4,203	4,017
Other interest income	37	0
Exchange rate adjustments	0	2,291
Other financial income	14	0
	4,254	6,308

4 Other financial expenses

	2023 DKK'000	2022 DKK'000
Financial expenses from group enterprises	3,562	1,152
Other interest expenses	649	726
Exchange rate adjustments	1,788	1
Other financial expenses	7	0
	6,006	1,879

5 Proposed distribution of profit and loss

	2023 DKK'000	2022 DKK'000
Retained earnings	(116,558)	(43,677)
	(116,558)	(43,677)

6 Intangible assets

	Completed development projects DKK'000	Acquired intangible assets DKK'000	Development projects in progress DKK'000
Cost beginning of year	105,088	18,900	23,222
Transfers	15,565	0	(15,565)
Additions	0	213	5,953
Disposals	(7,863)	0	(7,927)
Cost end of year	112,790	19,113	5,683
Amortisation and impairment losses beginning of year	(98,403)	(16,938)	0
Impairment losses for the year	(8,883)	0	0
Amortisation for the year	(1,821)	(244)	0
Amortisation and impairment losses end of year	(109,107)	(17,182)	0
Carrying amount end of year	3,683	1,931	5,683

7 Development projects

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

8 Property, plant and equipment

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Property, plant and equipment in progress DKK'000
Cost beginning of year	105,702	115,023	16,226	1,485
Transfers	0	1,127	0	(1,127)
Additions	156	862	249	0
Disposals	0	(33)	0	0
Cost end of year	105,858	116,979	16,475	358
Depreciation and impairment losses beginning of year	(60,774)	(112,391)	(15,921)	0
Depreciation for the year	(1,233)	(1,863)	(221)	0
Depreciation and impairment losses end of year	(62,007)	(114,254)	(16,142)	0
Carrying amount end of year	43,851	2,725	333	358

9 Financial assets

	Deposits DKK'000
Cost beginning of year	388
Cost end of year	388
Carrying amount end of year	388

10 Prepayments

Prepayments consists of prepaid expenses concerning rent, insurance premiums, subscriptions etc.

11 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 1,354 (2022: kDKK 2,772) have been recognised for expected warranty claims.

12 Non-current liabilities other than provisions

	Due within 12 months 2023 DKK'000	Due within 12 months 2022 DKK'000	Due after more than 12 months 2023 DKK'000
Mortgage debt	1,208	1,215	7,127
Other payables	0	0	9,645
	1,208	1,215	16,772

13 Contingent liabilities

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

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 845k (2022: 625k.)

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

14 Assets charged and collateral

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

Bank loans are secured by way of a deposited mortgage deed registered to the mortgagor on plant of DKK 42,300k nominal. The carrying amount of mortgaged properties is DKK 43,851k.

Bank loans are secured by way of a deposited mortgage deed registered to the mortgagor on machinery of DKK 11,205k nominal. The carrying amount of mortgaged properties is DKK 2,725k.

15 Related parties with controlling interest

Goerdyna Holding A/S, Sverigesvej 15, 8660 Skanderborg owns all shares in the Entity, thus exercising control.

Goerdyna Group co., Ltd is the ultimate Parent Company.

16 Non-arm's length related party transactions

Only related party transactions not conducted on an arm's length basis are disclosed in the annual report. No such transactions have been conducted in the financial year.

17 Group relations

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

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Goerdyna Group co., Ltd

Accounting policies

Reporting class

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

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

Recognition and measurement

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

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

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

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

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

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Goodwill is considered belonging to the independent foreign entity and is translated using the exchange rate at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates and out of the translation of income statements from average rates to the exchange rates at the balance sheet date are recognised directly in the translation reserve in equity.

Exchange adjustments of outstanding accounts with independent foreign subsidiaries, which are considered part of the total investment in the subsidiary in question, are classified directly as equity.

When recognising foreign subsidiaries that are integral entities, monetary assets and liabilities are translated using the exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate at the time of acquisition or the time of any subsequent revaluation or writedown. The items of the income statement are translated at the average rates of the months; however, items deriving from non-monetary assets and liabilities are translated using the historical rates applicable to the relevant non-monetary items.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value, which has been calculated as the discounted value of expected future net cash flows by using an approximate risk-free interest rate adjusted for any factors that a potential market participant would attribute value to when acquiring the instrument. Derivative financial instruments are recognised in other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in the reserve for fair value adjustments of hedging instruments in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, production costs and other operating income.

Revenue

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

Production costs

Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease, and amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes normal write-down of inventories.

Cost of sales

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

Research and development costs

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

Distribution costs

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

Administrative expenses

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

Other operating income

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

Other financial income

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

Other financial expenses

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

Tax on profit/loss for the year

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

The Entity is jointly taxed with all Danish group enterprises. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet**Intellectual property rights etc**

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

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

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

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. If the useful life cannot be estimated reliably, it is fixed at 10 years. For development projects protected by intellectual property rights, the maximum period of amortisation is the remaining duration of the relevant rights. The amortisation periods used are 3-5 years.

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

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

Property, plant and equipment

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

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

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

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

Estimated useful lives and residual values are reassessed annually.

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

Inventories

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

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

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

Receivables

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

doubtful debts.

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

Other provisions

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

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

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

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

Mortgage debt

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

Lease liabilities

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

Other financial liabilities

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

Prepayments received from customers

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

Tax receivable or payable

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

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 Goertek Group Co., Ltd., the Company has not prepared a cash flow statement.