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# ***Dynaudio A/S***

Sverigesvej 15, DK-8660 Skanderborg

## **Annual Report for 1 January - 31 December 2019**

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CVR No 27 21 55 56

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

Jian Guo  
Chairman of the General  
Meeting



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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 2019.

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 2019 of the Company and of the results of the Company operations for 2019.

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

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

Skanderborg, 25 August 2020

## Executive Board

Jian Guo

## Board of Directors

Xiaoguang Gao  
Chairman

Jian Guo

Peng Li

# Independent Auditor's Report

To the 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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 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 2019, 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, based on Management's expectations for sufficient positive results and cash flows in future years and retention of key customers. Our conclusion is not modified regarding this matter.

## Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

# Independent Auditor's Report

## Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the

# Independent Auditor's Report

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, 25 August 2020

**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**

Xiaoguang Gao, Chairman  
Jian Guo  
Peng Li

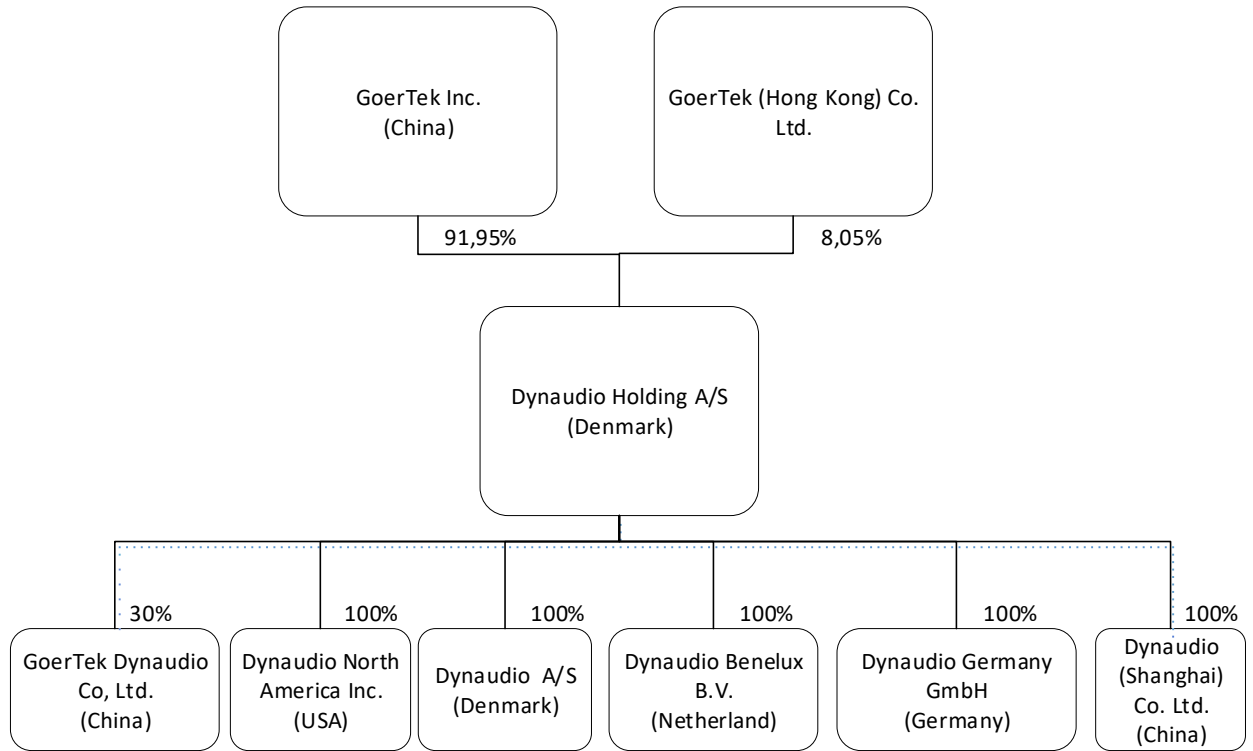
### **Executive Board**

Jian Guo

### **Auditors**

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

# Group Chart





## Financial Highlights

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

	2019	2018	2017	2016	2015
	kDKK	kDKK	kDKK	kDKK	kDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Revenue	272,785	333,117	351,034	258,082	224,931
Gross profit/loss	-7,723	46,068	58,764	38,853	25,943
Operating profit/loss	-212,974	-78,671	-58,094	-52,211	-33,803
Net financials	-18,058	-21,011	14,644	-33,179	-14,328
Net profit/loss for the year	-206,989	-105,461	-22,427	-83,926	-35,931
<b>Balance sheet</b>					
Balance sheet total	387,321	518,816	472,545	439,771	286,721
Equity	-82,698	-69,315	35,927	-66,521	19,061
Investment in property, plant and equipment	-4,278	-9,708	-6,643	-36,947	-22,498
<b>Ratios</b>					
Gross margin	-2.8%	13.8%	16.7%	15.1%	11.5%
Profit margin	-74.6%	-23.6%	-11.3%	-20.2%	-15.0%
Return on assets	-52.5%	-15.2%	-8.4%	-11.9%	-11.8%
Solvency ratio	-21.4%	-13.4%	7.6%	-15.1%	6.6%

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 2019 shows a loss of kDKK 206,989, and at 31 December 2019 the balance sheet of the Company shows negative equity of kDKK 82,698.

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

The management finds the loss unsatisfactory.

The investments in Dynaudio have been massive since our parent company, Goertek Inc., acquired us and the past year's losses are due to the high commitment and support from our owners to secure the further developing of Dynaudio. This will bring Dynaudio into a strong competitive position in the future.

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

The shareholders of the company have approved a plan for re-establishing the shareholder's equity via

## **Management's Review**

both ordinary operation and capital increase.

### **Special risks**

#### ***Currency risks***

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

#### ***Liquidity risks***

Liquidity in relation to the operations planned for 2020 has been secured through agreements with the owners of the enterprise.

### **Business review**

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

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

### **Impairment of invested capital**

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

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

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

# Management's Review

## Outlook

The Company's outlook for the future will be negatively affected by the COVID-19 outbreak and the measures taken by governments in most of the world to mitigate the impacts of the outbreak, see also subsequent events disclosures in note 22.

Before the COVID-19 outbreak, Management expected revenue of DKK 310 - 330 million and EBITDA of DKK -5 - 5 million. Many of the Company's customers have indicated that they will continue orders in progress, but there is still a risk that revenue and earnings will decline in consequence of COVID-19. Management is monitoring developments closely. It is, however, too early to give an opinion as to whether and, if so, to what extent COVID-19 will impact revenue and earnings in 2020. Management does, however, expect a negative impact on the Company's outlook.

## 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 regards 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.

## Management's Review

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.

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.

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

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

## Management's Review

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 2019 the board constituted of 3 persons representing the owners of Dynaudio Holding A/S. The goal for gender equality set in 2018 has not been met in 2019 as 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 and during 2019 at least 50 employees have participated in different competence courses. Unfortunately we have experienced two cases of stress related absence.

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

### ***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

## Management's Review

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.

### ***Human Rights***

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

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

In 2019, all Dynaudio suppliers have agreed to follow our Code of Conduct, which is a requirement for being a Dynaudio partner and it's included in our supplier terms & conditions. Our frequent supplier visits ensure non-conformities are assessed and all have planned corrective actions. According to ISO 14001 suppliers must document Code of Conduct are followed and future supplier audits will include a more detailed control to ensure this is indeed following the agreed Code of Conduct.

### ***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

## Management's Review

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.

In 2019, all new employees completed extensive business ethics training as a part of the on-boarding program.

No cases of corruption and bribery has been reported during 2019, 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 actively sponsorships with:

- Continuation of the support to The Music Hall in Aarhus.
- Dynaudio Midsommer Stafet (running event), which is both a social and healthy event bringing people



## **Management's Review**

together, sharing fun and food and growing network across work areas, hieratic level.

### **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.

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

Our investments are in line with the Dynaudio strategy and ensure both positively impact on our environment as well as on our costs going forward. Further energy savings programs will be initiated in 2020 and onwards.

## Income Statement 1 January - 31 December

	Note	2019 kDKK	2018 kDKK
<b>Revenue</b>	3	<b>272,785</b>	<b>333,117</b>
Cost of sales	4	-280,508	-287,049
<b>Gross profit/loss</b>		<b>-7,723</b>	<b>46,068</b>
Distribution expenses	4	-40,281	-52,445
Development expenditure	4	-127,252	-43,880
Administrative expenses	4	-37,718	-28,414
<b>Operating profit/loss</b>		<b>-212,974</b>	<b>-78,671</b>
Other operating income		9,562	0
<b>Profit/loss before financial income and expenses</b>		<b>-203,412</b>	<b>-78,671</b>
Income from investments in subsidiaries		840	-3,337
Financial income	5	8,403	9,132
Financial expenses	6	-27,301	-26,806
<b>Profit/loss before tax</b>		<b>-221,470</b>	<b>-99,682</b>
Tax on profit/loss for the year	7	14,481	-5,779
<b>Net profit/loss for the year</b>		<b>-206,989</b>	<b>-105,461</b>

# Balance Sheet 31 December

## Assets

	Note	2019 kDKK	2018 kDKK
Completed development projects		0	43,534
Software		0	7,038
Development projects in progress		0	29,830
<b>Intangible assets</b>	<b>8</b>	<b>0</b>	<b>80,402</b>
Land and buildings		48,134	72,042
Plant and machinery		13,950	31,320
Other fixtures and fittings, tools and equipment		1,300	7,589
<b>Property, plant and equipment</b>	<b>9</b>	<b>63,384</b>	<b>110,951</b>
Investments in subsidiaries	10	0	0
Deposits	11	117	96
<b>Fixed asset investments</b>		<b>117</b>	<b>96</b>
<b>Fixed assets</b>		<b>63,501</b>	<b>191,449</b>
<b>Inventories</b>	<b>12</b>	<b>100,529</b>	<b>149,760</b>
Trade receivables		26,388	29,984
Receivables from group enterprises		159,532	143,145
Other receivables		1,507	1,701
Corporation tax		14,479	14
Prepayments	13	1,784	1,448
<b>Receivables</b>		<b>203,690</b>	<b>176,292</b>
<b>Cash at bank and in hand</b>		<b>19,601</b>	<b>1,315</b>
<b>Currents assets</b>		<b>323,820</b>	<b>327,367</b>
<b>Assets</b>		<b>387,321</b>	<b>518,816</b>

# Balance Sheet 31 December

## Liabilities and equity

	Note	2019 kDKK	2018 kDKK
Share capital		2,407	1,100
Reserve for development costs		0	56,355
Retained earnings		-85,105	-126,770
<b>Equity</b>	14	<b>-82,698</b>	<b>-69,315</b>
Provision for deferred tax	16	0	0
Other provisions	17	3,072	1,840
<b>Provisions</b>		<b>3,072</b>	<b>1,840</b>
Subordinate loan capital		150,587	147,057
Mortgage loans		12,179	13,548
Lease obligations		1,321	936
<b>Long-term debt</b>	18	<b>164,087</b>	<b>161,541</b>
Mortgage loans	18	1,357	1,333
Credit institutions		9	139,230
Lease obligations	18	941	520
Prepayments received from customers		22,533	17,138
Trade payables		20,531	44,472
Payables to group enterprises		231,745	179,199
Other payables		25,744	42,858
<b>Short-term debt</b>		<b>302,860</b>	<b>424,750</b>
<b>Debt</b>		<b>466,947</b>	<b>586,291</b>
<b>Liabilities and equity</b>		<b>387,321</b>	<b>518,816</b>
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		
Subsequent events	22		
Accounting Policies	23		

## Statement of Changes in Equity

	Share capital	Share premium account	Reserve for development costs	Retained earnings	Total
	kDKK	kDKK	kDKK	kDKK	kDKK
Equity at 1 January	1,100	0	56,355	-126,770	-69,315
Cash capital injection	1,307	192,374	0	0	193,681
Fair value adjustment of hedging instruments	0	0	0	-75	-75
Net profit/loss for the year	0	0	-56,355	-150,634	-206,989
Transfer from share premium account	0	-192,374	0	192,374	0
<b>Equity at 31 December</b>	<b>2,407</b>	<b>0</b>	<b>0</b>	<b>-85,105</b>	<b>-82,698</b>

# 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 2020. This is the basis for the company being a going concern.

The company needs further liquidity in the level of DKK 30 million by the end of August. Management expects this to be financed by Goertek Inc. in the consideration of the above mentioned letter of financial support.

## 2 Uncertainty relating to recognition and measurement

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

As described in Management's Review, massive investments have been made in Dynaudio to develop the company and prepare for future expansion. Consequently, Management expects financial losses the next couple of years and then afterwards positive results. However, in connection with the presentation of the annual report, Management has assessed the valuation of Dynaudio's assets. Management has decided to write-down the capitalized development projects as well as other fixed assets to reflect the recoverable amount of the assets. Management is of the opinion that the expected cash flows can support the carrying amount of the assets.

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

## Notes to the Financial Statements

	2019 kDKK	2018 kDKK
<b>3 Revenue</b>		
<b>Geographical segments</b>		
Europe	200,477	202,782
North America	17,680	33,401
Asia	45,088	78,326
Other	9,540	18,608
	<b>272,785</b>	<b>333,117</b>
<b>Business segments</b>		
Automotive	148,216	176,511
Consumer & Home	93,339	128,361
Other	31,230	28,245
	<b>272,785</b>	<b>333,117</b>
<b>4 Staff</b>		
Wages and Salaries	91,525	107,216
Pensions	11,915	11,201
Other social security expenses	2,515	2,367
Other staff expenses	1,509	732
	<b>107,464</b>	<b>121,516</b>
Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
Cost of sales	61,986	75,053
Distribution expenses	17,276	20,846
Development expenditure	6,593	9,502
Administrative expenses	21,609	16,115
	<b>107,464</b>	<b>121,516</b>
<b>Including remuneration to the Executive Board</b>	<b>1,276</b>	<b>1,143</b>
<b>Average number of employees</b>	<b>236</b>	<b>270</b>

## Notes to the Financial Statements

	2019 kDKK	2018 kDKK
<b>5 Financial income</b>		
Interest received from group enterprises	5,098	4,554
Other financial income	749	1,691
Exchange adjustments	2,556	2,887
	<b>8,403</b>	<b>9,132</b>
<b>6 Financial expenses</b>		
Interest paid to group enterprises	14,726	10,898
Other financial expenses	1,855	2,956
Exchange adjustments	10,720	12,952
	<b>27,301</b>	<b>26,806</b>
<b>7 Tax on profit/loss for the year</b>		
Current tax for the year	-4,400	4
Deferred tax for the year	0	5,775
Adjustment of tax concerning previous years	-10,081	0
	<b>-14,481</b>	<b>5,779</b>



## Notes to the Financial Statements

### 8 Intangible assets

	Completed development projects kDKK	Software kDKK	Development projects in progress kDKK
Cost at 1 January	147,698	23,461	29,844
Additions for the year	370	4,635	30,597
Transfers for the year	9,713	0	-9,713
Cost at 31 December	157,781	28,096	50,728
Impairment losses and amortisation at 1 January	104,164	16,425	14
Impairment losses for the year	34,963	10,749	52,936
Amortisation for the year	16,025	922	407
Transfers for the year	2,629	0	-2,629
Impairment losses and amortisation at 31 December	157,781	28,096	50,728
<b>Carrying amount at 31 December</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

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

## 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
Cost at 1 January	105,160	113,428	14,735
Additions for the year	81	1,092	3,105
Cost at 31 December	<u>105,241</u>	<u>114,520</u>	<u>17,840</u>
Impairment losses and depreciation at 1 January	33,118	82,108	7,146
Impairment losses for the year	21,296	11,181	6,977
Depreciation for the year	2,693	7,281	2,417
Impairment losses and depreciation at 31 December	<u>57,107</u>	<u>100,570</u>	<u>16,540</u>
<b>Carrying amount at 31 December</b>	<b><u>48,134</u></b>	<b><u>13,950</u></b>	<b><u>1,300</u></b>
Including assets under finance leases amounting to	<u>1,746</u>	<u>948</u>	<u>0</u>
		2019 kDKK	2018 kDKK
Depreciation and impairment of property, plant and equipment are recognised in the following items:			
Cost of sales		35,633	8,065
Distribution expenses		5,997	275
Development expenditure		5,260	1,207
Administrative expenses		4,956	1,217
		<u>51,846</u>	<u>10,764</u>

## Notes to the Financial Statements

	2019 kDKK	2018 kDKK
<b>10 Investments in subsidiaries</b>		
Cost at 1 January	21	21
Disposals for the year	-21	0
Cost at 31 December	<u>0</u>	<u>21</u>
Value adjustments at 1 January	-7,044	-3,692
Disposals for the year	6,204	0
Exchange adjustment	0	-14
Net profit/loss for the year	840	-3,338
Value adjustments at 31 December	<u>0</u>	<u>-7,044</u>
Equity investments with negative net asset value amortised over receivables	<u>0</u>	<u>7,023</u>
<b>Carrying amount at 31 December</b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>11 Other fixed asset investments</b>		
		Deposits kDKK
Cost at 1 January		96
Additions for the year		59
Disposals for the year		-38
Cost at 31 December		<u>117</u>
Impairment losses at 1 January		<u>0</u>
Impairment losses at 31 December		<u>0</u>
<b>Carrying amount at 31 December</b>		<b><u>117</u></b>

## Notes to the Financial Statements

	2019	2018
	kDKK	kDKK
<b>12 Inventories</b>		
Raw materials and consumables	50,752	67,569
Work in progress	5,412	7,861
Finished goods and goods for resale	44,365	74,330
	<b>100,529</b>	<b>149,760</b>

### 13 Prepayments

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

### 14 Equity

The share capital consists of 24,070 shares of a nominal value of kDKK 100. No shares carry any special rights.

The share capital has developed as follows:

	2019	2018	2017	2016	2015
	kDKK	kDKK	kDKK	kDKK	kDKK
Share capital at 1 January	1,100	1,100	1,100	1,100	1,100
Capital increase	1,307	0	0	0	0
Capital decrease	0	0	0	0	0
<b>Share capital at 31</b>					
<b>December</b>	<b>2,407</b>	<b>1,100</b>	<b>1,100</b>	<b>1,100</b>	<b>1,100</b>

### 15 Distribution of profit

Reserve for development projects	-56,355	14,458
Retained earnings	-150,634	-119,919
	<b>-206,989</b>	<b>-105,461</b>

### 16 Provision for deferred tax

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

## Notes to the Financial Statements

	<u>2019</u>	<u>2018</u>
	kDKK	kDKK
<b>17 Other provisions</b>		
Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Based on previous experience in respect of the level of repairs and returns, other provisions of kDKK 3,072 (2018: kDKK 1,840) have been recognised for expected warranty claims.		
Other provisions	<u>3,072</u>	<u>1,840</u>
	<b><u>3,072</u></b>	<b><u>1,840</u></b>
<b>18 Long-term debt</b>		
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:		
<b>Subordinate loan capital</b>		
After 5 years	<u>150,587</u>	<u>147,057</u>
Long-term part	150,587	147,057
Within 1 year	<u>0</u>	<u>0</u>
	<b><u>150,587</u></b>	<b><u>147,057</u></b>
<b>Mortgage loans</b>		
After 5 years	6,753	8,217
Between 1 and 5 years	<u>5,426</u>	<u>5,331</u>
Long-term part	12,179	13,548
Within 1 year	<u>1,357</u>	<u>1,333</u>
	<b><u>13,536</u></b>	<b><u>14,881</u></b>
<b>Lease obligations</b>		
Between 1 and 5 years	<u>1,321</u>	936
Long-term part	1,321	936
Within 1 year	<u>941</u>	<u>520</u>
	<b><u>2,262</u></b>	<b><u>1,456</u></b>

# Notes to the Financial Statements

## 19 Derivative financial instruments

An agreement on interest swap has been entered into to secure future interest payments on a floating-rate loan. The agreement expires in 2030 and is recognised at a fair value of DKK -2,249k at the balance sheet date. In the agreement a floating interest, at the balance sheet date -0.23 % p.a., is swapped with a fixed interest of 3.12 % p.a. on a loan with a principal of DKK 13,794k.

	2019 kDKK	2018 kDKK
<b>20 Contingent assets, liabilities and other financial obligations</b>		

### Charges and security

The following assets have been placed as security with mortgage credit institutes:

Floating company charge	70,000	70,000
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The following assets have been placed as security with bankers:

As collateral for bank loans, the company has deposited a mortgage registered to the owner of a nominal amount of DKK 42,300k secured in property. The carrying amount of mortgage property amounts to	69,430	72,042
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As collateral for bank loans, the company has deposited a mortgage registered to the owner of a nominal amount of DKK 11,205k secured in machinery. The carrying amount of mortgage machinery amounts to	11,113	15,160
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### 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 1.047k.

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

	<b>Basis</b>
<b>Controlling interest</b>	
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:

	2019	2018
	kDKK	kDKK
Revenue	48,824	76,989
Management fee, sale	11,930	2,186
Purchase cabinets and other material	4,056	78,730
Marketing grant + warranty support	1,401	419
Sales services purchases	3,426	4,987
Interest income	5,098	4,546
Interest expenses	14,726	10,898

### Consolidated Financial Statements

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

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

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

[www.goertek.com](http://www.goertek.com)

# Notes to the Financial Statements

## 22 Subsequent events

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

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



# Notes to the Financial Statements

## 23 Accounting Policies

The Annual Report of Dynaudio A/S for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2019 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

## 23 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

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

## Income Statement

### Revenue

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

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

# Notes to the Financial Statements

## 23 Accounting Policies (continued)

### 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

## 23 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.

Patents are amortised over the remaining patent period or a shorter useful life. The amortisation period

# Notes to the Financial Statements

## 23 Accounting Policies (continued)

is years. Software licences are amortised over the period of the agreement, which is 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 13,800 are expensed in the year of acquisition.

### Impairment of fixed assets

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

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

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

# Notes to the Financial Statements

## 23 Accounting Policies (continued)

### Investments in subsidiaries

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

The item “Investments in subsidiaries” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to “Reserve for net revaluation under the equity method” under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

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

### Other fixed asset investments

Other fixed asset investments consist of deposits.

### Inventories

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

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

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

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

# Notes to the Financial Statements

## 23 Accounting Policies (continued)

### Receivables

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

### Prepayments

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

### Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the 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.

# Notes to the Financial Statements

## 23 Accounting Policies (continued)

### Financial debts

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

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

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

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