



Dynaudio A/S

Sverigesvej 15
8660 Skanderborg
CVR No. 27215556

Annual report 2020

The Annual General Meeting adopted the
annual report on 24.06.2021

Jian Guo

Chairman of the General Meeting

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Entity details

Entity

Dynaudio A/S
Sverigesvej 15
8660 Skanderborg

CVR No.: 27215556
Registered office: Skanderborg
Financial year: 01.01.2020 - 31.12.2020

Board of Directors

Xiaoguang Gao, Chairman
Jian Guo
Peng Li

Executive Board

Jian Guo, CEO

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 01.01.2020 - 31.12.2020.

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 31.12.2020 and of the results of its operations for the financial year 01.01.2020 - 31.12.2020.

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, 24.06.2021

Executive Board



Jian Guo
CEO

Board of Directors



Xiaoguang Gao
Chairman



Jian Guo

Peng Li



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 01.01.2020 - 31.12.2020, 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 31.12.2020 and of the results of its operations for the financial year 01.01.2020 - 31.12.2020 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 of 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.

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 under the Danish Financial Statements Act.

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 of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Aarhus, 24.06.2021

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556



Henrik Vedel

State Authorised Public Accountant
Identification No (MNE) mne10052

Management commentary

Financial highlights

	2020 DKK'000	2019 DKK'000	2018 DKK'000	2017 DKK'000	2016 DKK'000
Key figures					
Revenue	257,667	272,785	333,117	351,034	258,082
Gross profit/loss	64,104	15,911	46,068	58,764	38,853
Operating profit/loss	(19,144)	(203,412)	(78,671)	(58,094)	(52,211)
Net financials	13,460	(18,898)	(21,011)	14,644	(33,179)
Profit/loss for the year	(3,693)	(206,989)	(105,461)	(22,427)	(83,926)
Total assets	380,882	387,321	518,816	472,545	439,771
Investments in property, plant and equipment	207	4,278	(9,708)	(6,643)	(36,947)
Equity	280,703	(82,698)	(69,315)	35,927	-66,521
Ratios					
Gross margin (%)	24,9	5,8	13,8	16,7	15,1
Profit margin	-7,4	-74,6	-11,3	-20,2	-15,0
Return on assets (%)	-5,1	-52,5	-15,2	8,4	-11,9
Solvency ratio (%)	74,1	-21,4	-13,4	7,6	-15,1

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

Gross margin ratio (%):

$\frac{\text{Gross profit/loss} * 100}{\text{Revenue}}$

Revenue

Profit margin (%):

$\frac{\text{Operating profit/loss} * 100}{\text{Revenue}}$

Revenue

Return on asset (%):

$\frac{\text{Operating profit/loss} * 100}{\text{Total asset}}$

Total asset

Solvency ratio (%):

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

Total asset

Primary 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 enrich life through authentic sound. 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's business foundation comprises the following five business areas:

- Home Audio – Premium Sound Systems and loudspeakers for consumer electronics audio industry
- Car Audio – Premium Sound Systems for the automotive industry and car aftermarket
- PRO Audio– Systems for studios and other professional applications
- CUSTOM INSTALL – Systems for residential and commercial custom installation
- Co-Brand – co develop or co create with other brands to research and develop new audio products with premium sound quality. The company has Branch in Sweden. A majority of the employees in Dynaudio A/S is located in Skanderborg.

Development in activities and finances

The income statement of the Company for 2020 shows a loss of DKK 3,693t (2019: DKK 206,989t), and at 31 December 2020 the balance sheet of the Company shows equity of DKK 280,703 (2019: DKK -82,698t). The financial result is better than expected however the company still facing challenges resulting in delays in deliveries of products during the year.

In 2020, after outbreak of COVID-19, Management updated expectation of revenue DKK 250 – 270 million, EBITDA of breakeven. The Company's has not been significantly affected by the COVID-19 outbreak. The management is satisfied with the improvement, especially during COVID-19 outbreak. Targets were met and company performed much better than expected.

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 development 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, in October 2020, shareholders decided to increase the equity of Dynaudio Holding through conversion of debt, total amount is 370mDKK and increased the equity of Dynaudio AS of 367m DKK due to EGM took place on a difference date. After debt conversion, Goertek Group bought all shares from Goertek Inc. and Goertek Hongkong, and became the parent company of Dynaudio Holding A/S.

Outlook

The Company's outlook for the future is positive. Dynaudio's ambition is to enrich people's life through authentic sound and our mission is to bring the purest sound possible, to as many listeners as possible, with the world's most innovative premium loudspeakers. Dynaudio will continue to innovate within sound technologies and develop the best in class products to enrich people's life in Home Audio, Car Audio, Pro Audio&Custom Install.

For 2021, Management expected revenue of DKK 280 – 300 million, and EBITDA of DKK -5 million to breakeven. The net income is expected to be negative is because we plan to increase the expense in marketing and brand maintenance.

The effect of the COVID-19 outbreak has not yet been eliminated. Dynaudio is still at risk of being negatively affected by the COVID-19 outbreak. However, many of the Company's customers have indicated that they will continue to stand by orders currently in progress. Despite this, there is still a risk that revenue and earnings will decline as a consequence of COVID-19.

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
- ▶ Proactivity
- ▶ Craftmanship
- ▶ Efficiency
- ▶ Accountability
- ▶ Cooperation

Particular 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 2021 has been secured through agreements with the owners of the enterprise.

Intellectual capital 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 Dynaudio talented R&D resources, partnerships with the universities in Aarhus and Aalborg, and close cooperation with knowledge-intensive partners within electronics, etc.

Research and development activities

Dynaudio puts great focus on research and development. As a rule, we invest more than 10% of our net revenue each year in technologies, research and product development. This practice was repeated in 2020. In order to have the best in class sound, Dynaudio has invested in our sound test lab, which is a 13 x 13 x 13m large chamber and guarantees the purest possible sound performance.

Dynaudio also puts great focus on developing our talents and ensuring the rapid improvement of their capabilities raising through participation in our innovative technology research and product development.

Statutory report on corporate social responsibility

This section please refer to Dynaudio Holding A/S annual report.

Statutory report on the underrepresented gender

This section please refer to Dynaudio Holding A/S annual report.

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 2020

	Notes	2020 DKK'000	2019 DKK '000
Revenue	3	257,667	272,785
Cost of sales		(145,769)	(194,888)
Production costs		(47,794)	(61,986)
Gross profit/loss		64,104	15,911
Research and development costs		(15,464)	(127,252)
Distribution costs		(18,769)	(40,281)
Administrative expenses		(49,820)	(61,352)
Other operating income		805	9,562
Operating profit/loss		(19,144)	(203,412)
Income from investments in group enterprises		0	840
Other financial income	5	22,528	8,403
Other financial expenses	6	(9,068)	(27,301)
Profit/loss before tax		(5,684)	(221,470)
Tax on profit/loss for the year	7	1,991	14,481
Profit/loss for the year	8	(3,693)	(206,989)

Balance sheet at 31.12.2020

Assets

	Notes	2020 DKK'000	2019 DKK'000
Completed development projects	10	0	0
Acquired intangible assets		6,226	0
Development projects in progress	10	13,315	0
Intangible assets	9	19,541	0
Land and buildings		46,914	48,135
Plant and machinery		9,881	13,950
Other fixtures and fittings, tools and equipment		205	1,300
Property, plant and equipment	11	57,000	63,385
Deposits		153	117
Financial assets	12	153	117
Fixed assets		76,694	63,502
Raw materials and consumables		52,848	50,756
Work in progress		2,250	5,412
Manufactured goods and goods for resale		19,952	44,361
Inventories		75,050	100,529
Trade receivables		13,444	26,387
Receivables from group enterprises		184,319	159,532
Other receivables		1,678	1,507
Tax receivable		0	14,479
Prepayments	13	5,134	1,784
Receivables		204,575	203,689
Cash		24,563	19,601
Current assets		304,188	323,819
Assets		380,882	387,321

Equity and liabilities

	Notes	2020 DKK'000	2019 DKK'000
Contributed capital	14	5,003	2,407
Reserve for fair value adjustments of hedging instruments		260	(75)
Reserve for development expenditure		10,386	0
Retained earnings		265,054	(85,030)
Equity		280,703	(82,698)
Other provisions	15	3,783	3,072
Provisions		3,783	3,072
Subordinate loan capital		9,214	150,587
Mortgage debt		10,851	12,179
Lease liabilities		334	1,321
Non-current liabilities other than provisions	16	20,399	164,087
Current portion of non-current liabilities other than provisions	16	1,339	1,357
Bank loans		0	9
Lease liabilities		301	941
Prepayments received from customers		7,208	22,533
Trade payables		31,487	20,531
Payables to group enterprises		0	231,745
Other payables		35,662	25,744
Current liabilities other than provisions		75,997	302,860
Liabilities other than provisions		96,396	466,947
Equity and liabilities		380,882	387,321
Going concern	1		
Uncertainty relating to recognition and measurement	2		
Staff costs	4		
Financial instruments	17		
Contingent liabilities	18		
Assets charged and collateral	19		
Related parties with controlling interest	20		
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Statement of changes in equity for 2020

	Contributed capital DKK'000	Share premium DKK'000	Reserve for fair value adjustments of hedging instruments DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000
Equity beginning of year	2,407	0	0	0	(85,105)
Capital increase by debt conversion	2,596	364,238	0	0	0
Transferred from share premium	0	(364,238)	0	0	364,238
Transfer to reserves	0	0	260	10,386	(10,386)
Profit/loss for the year	0	0	0	0	(3,693)
Equity end of year	5,003	0	260	10,386	265,054

	Total DKK'000
Equity beginning of year	(82,698)
Capital increase by debt conversion	366,834
Transferred from share premium	0
Transfer to reserves	260
Profit/loss for the year	(3,693)
Equity end of year	280,703

Notes

1 Going concern

The company had a debt conversion of DKK 366,834 thousand from Dynaudio Holding A/S as of 21 October 2020 in order to improve the financial position. The debt conversion has increased share capital of DKK 2,596k and DKK 364,235k.

On 22 October 2020, the shares in Dynaudio Holding A/S was transferred from GoerTek Inc. and GoerTek HK Co., Ltd to Goertek Group Co., Ltd.. As of the end of 2020, Goertek Group Co., Ltd is the ultimate shareholder of Dynaudio Holding A/S and Dynaudio A/S.

The parent company to Dynaudio Holding A/S has signed a letter of financial support stating that Goertek Group Co., Ltd. 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 2021. This is the basis for the company being a going concern.

The company needs further liquidity in the level of DKK 15 million by the end of August. The liquidity is primarily for preparation of new sales orders. Management expects this to be financed by Goertek Group Co., Ltd. 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, lots of improvement has been implemented during 2020 and planned for next couple of years to improve the financial performance and enhance the branding worldwide. A turn-around situation is expected by the management in next five years with a positive result.

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.

3 Revenue

	2020 DKK'000	2019 DKK'000
Europe	139,473	200,477
North America	16,580	17,680
Asia	97,234	45,088
Other	4,380	9,540
Total revenue by geographical market	257,667	272,785
Automotive	116,930	148,216
Consumer & Home	133,562	93,339
Other	7,175	31,230
Total revenue by activity	257,667	272,785

4 Staff costs

	2020 DKK'000	2019 DKK'000
Wages and salaries	79,803	91,525
Pension costs	7,844	11,915
Other social security costs	1,805	2,515
Other staff costs	3,922	1,509
	93,374	107,464
Average number of full-time employees	189	236

	Remuneration of management 2020 DKK'000	Remuneration of management 2019 DKK'000
Executive Board	1,701	1,276
	1,701	1,276

5 Other financial income

	2020 DKK'000	2019 DKK'000
Financial income from group enterprises	5,518	5,098
Exchange rate adjustments	17,010	2,556
Other financial income	0	749
	22,528	8,403

Exchange gain during 2020 is primarily from the debt conversion of USDt 58,412 end of July 2020. Exchange rate on USD to DKK has been depreciated by 6% compared to end of 2019-

6 Other financial expenses

	2020 DKK'000	2019 DKK'000
Financial expenses from group enterprises	7,992	14,726
Other interest expenses	1,076	0
Exchange rate adjustments	0	10,720
Other financial expenses	0	1,855
	9,068	27,301

7 Tax on profit/loss for the year

	2020 DKK'000	2019 DKK'000
Current tax	28	(4,400)
Adjustment concerning previous years	(2,019)	(10,081)
	(1,991)	(14,481)

8 Proposed distribution of profit and loss

	2020 DKK'000	2019 DKK'000
Retained earnings	(3,694)	(206,989)
	(3,694)	(206,989)

9 Intangible assets

	Completed development projects DKK'000	Acquired intangible assets DKK'000	Development projects in progress DKK'000
Cost beginning of year	157,781	28,095	50,731
Additions	0	6,226	13,315
Cost end of year	157,781	34,321	64,046
Amortisation and impairment losses beginning of year	(157,781)	(28,095)	(50,731)
Amortisation and impairment losses end of year	(157,781)	(28,095)	(50,731)
Carrying amount end of year	0	6,226	13,315

10 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.

11 Property, plant and equipment

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000
Cost beginning of year	105,241	114,520	17,840
Additions	0	0	207
Disposals	0	0	(1,952)
Cost end of year	105,241	114,520	16,095
Depreciation and impairment losses beginning of year	(57,107)	(100,570)	(16,540)
Depreciation for the year	(1,220)	(4,069)	(1)
Reversal regarding disposals	0	0	651
Depreciation and impairment losses end of year	(58,327)	(104,639)	(15,890)
Carrying amount end of year	46,914	9,881	205

12 Financial assets

	Deposits DKK'000
Cost beginning of year	117
Additions	36
Cost end of year	153
Carrying amount end of year	153

13 Prepayments

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

14 Share capital

The share capital consists of 50,030 shares of a nominal value of kDKK 100. No shares carry any special rights. As of 21 October 2020, the company converted kDKK 366,834 loan into equity, among which kDKK 2,596 increases of capital.

15 Other provisions

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Based on previous experience in respect of the level of repairs and returns, other provisions of kDKK 2,115 (2019: kDKK 3,072) have been recognised for expected warranty claims.

16 Non-current liabilities other than provisions

	Due within 12 months 2020 DKK'000	Due within 12 months 2019 DKK'000	Due after more than 12 months 2020 DKK'000
Subordinate loan capital	0	0	9,214
Mortgage debt	1,339	1,357	10,851
Lease liabilities	0	0	334
	1,339	1,357	20,399

17 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 -1,989k (2019: -2,249k) at the balance sheet date.

In the agreement a floating interest, at the balance sheet date -0,11 % p.a. (2019: -0.23 % p.a.), is swapped with a fixed interest of 3.12 % p.a. on a loan with a principal of DKK 12,474k (2019: 13,794k.)

18 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 527k (2019: 1.047k.)

The Entity participates in a Danish joint taxation arrangement where Dynaudio 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.

19 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 46,915k.

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 4,112k.

20 Related parties with controlling interest

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

Goertek Group Co., Ltd. is the Ultimate Parent Company

21 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.

22 Transactions with related parties

	Other related parties
	DKK'000
Revenue	109,537
Management fee income	1,008
Management fee cost	2,041
Interest income	5,518
Interest expense	7,993

During the year, the Company had the above transactions with its ultimate Parent Company and its subsidiaries.

23 Group relations

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

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Dynaudio Holding A/S, Skanderborg, Denmark

Copies of the consolidated financial statements of Dynaudio Holding and Goertek may be ordered at the following address:
www.goertek.com

Accounting policies

Reporting class

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

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 classified directly as 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.

Income statement

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 ordinary write-down of inventories.

Cost of sales

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

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of intra-group profits or losses.

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.

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 under 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:

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.

Tax payable or receivable

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

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 commitments 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 commitments 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.

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.