AIAIAI ApS

Studiestræde 31, 1455 København K

CVR No. 29 53 55 66

Annual report 2015/16

Approved at the annual general meeting of shareholders on 25 November 2016

Chairman:

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Thomas Haderup

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of AIAIAI ApS for the financial year 1 July 2015 - 30 June 2016.

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 Company's financial position at 30 June 2016 and of the results of the Company's operations for the financial year 1 July 2015 - 30 June 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend the adoption of the annual report at the annual general meeting.

Copenhagen, 25 November 2016
Executive Board:

Frederik S. Jørgensen

Board of Directors:

Michael Ritto
Chairman

Thomas E. N. Haderup

Frederik S. Jørgensen

Christian Buch Lorentzen

Wing Cheong Wong

Independent auditors' report

To the shareholders of AIAIAI ApS

Independent auditors' report on the financial statements

We have audited the financial statements of AIAIAI ApS for the financial year 1 July 2015 - 30 June 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility 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. Further, Management is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements according to Danish audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of financial statements that give a true and fair view. The purpose is to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by Management as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 30 June 2016 and of the results of its operations for the financial year 1 July 2015 - 30 June 2016 in accordance with the Danish Financial Statements Act.

Emphasis-of-matter paragraph concerning matters in the financial statements

Without modifying our opinion, we draw attention to note 2 to the financial statements, in which Management explains the Company's ability to continue as a going concern.

Independent auditors' report

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copenhagen, 25 November 2016
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR No. 30 70 02 28

Peter Gath
State Authorised Public Accountant

Anders Flymer-Dindler
State Authorised Public Accountant

Management's review

Company details

Name	AIAIAI ApS
Address, Postal code, City	Studiestræde 31, 1455 København K
CVR No.	29 53 55 66
Established	17 May 2006
Registered office	København
Financial year	1 July - 30 June
Website	www.aiaiai.dk
E-mail	contact@aiaiai.dk
Telephone	+45 35 34 63 54
Board of Directors	Michael Ritto, Chairman Thomas E. N. Haderup Frederik S. Jørgensen Christian Buch Lorentzen Wing Cheong Wong
Executive Board	Frederik S. Jørgensen
Auditors	Ernst & Young, Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Operating review

The Company's business review

As in previous years, the principal activity has been design, production and marketing of headphones to the DJ and consumer markets. Informed by our heritage of Scandinavian design, AIAIAI strives to create high quality, accessible audio products that deliver value far beyond trend-driven aesthetics. We are dedicated to developing high quality audio products with a modern, minimalist design. The headphone market is today a combination of lifestyle and tech, and it is our vision to create products that combine the two dimensions. AIAIAI is still positioned as a key and premium brand on the DJ market, and we will continue to build on this positioning, but at the same time we see an opportunity to expand into other segments and create a stronger and broader positioning based especially on our new modular headphones.

Financial review

The financial result lived up to expectations. Especially the introduction of the modular system and the radical changes to the distribution and product strategy have been the major contributors to the turnaround the Company has experienced.

The Company has made radical changes to the distribution and product strategy, which should lead to an increased profitability in the coming financial year.

The loss for the year of DKK 49 thousand (2014/15: DKK -3,000 thousand) is considered satisfactory compared to previous year.

The Company has fully implemented significant cost cuts as well as restructuring the staff and management structure.

The Company has fully implemented the planned changes to the distribution and product strategy, which the lead to the expected increased profitability.

Total assets amount to DKK 6.3 million at 30 June 2016 and equity amounts to DKK 0.2 million.

It is the Company's opinion that the financial statements have been prepared based on a going concern assumption as stated in note 2 to the financial statements.

Financial statements for the period 1 July 2015 - 30 June 2016

Income statement

Notes	DKK'000	2015/16	2014/15
	Gross profit	4,098	1,192
3	Staff costs	-3,066	-3,914
4	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-779	-776
	Operating profit/loss	253	-3,498
	Financial income	0	234
	Financial expenses	-451	-403
	Profit/loss before tax	-198	-3,667
5	Tax for the year	149	667
	Profit/loss for the year	-49	-3,000
	Proposed proft appropriation/distribution of loss		
	Retained earnings/accumulated loss	-49	-3,000
		-49	-3,000

Financial statements for the period 1 July 2015 - 30 June 2016

Balance sheet

Notes	DKK'000	2015/16	2014/15
	ASSETS		
	Non-current assets		
6	**Intangible assets**		
	Completed development projects	1,835	1,146
	Development projects in progress and prepayments for intangible assets	113	557
		1,948	1,703
7	**Property, plant and equipment**		
	Other fixtures and fittings, tools and equipment	236	459
	Leasehold improvements	48	113
		284	572
	Investments		
	Income taxes receivable	162	269
		162	269
	Total non-current assets	2,394	2,544
	Current assets		
	Inventories		
	Finished goods and goods for resale	1,762	1,724
		1,762	1,724
	Receivables		
	Trade receivables	1,752	2,216
	Income taxes receivable	256	210
	Other receivables	64	174
	Prepayments	59	46
		2,131	2,646
	Cash	27	144
	Total current assets	3,920	4,514
	TOTAL ASSETS	6,314	7,058

Financial statements for the period 1 July 2015 - 30 June 2016

Balance sheet

Notes	DKK'000	2015/16	2015
	EQUITY AND LIABILITIES		
	Equity		
8	Share capital	800	800
	Retained earnings	-613	-564
	Total equity	187	236
	Liabilities other than provisions		
9	**Non-current liabilities other than provisions**		
	Other credit institutions	2,197	2,500
		2,197	2,500
	Current liabilities other than provisions		
9	Current portion of long-term liabilities	250	0
	Bank debt	433	568
	Subordinate loan capital	200	403
	Trade payables	1,721	1,655
	Other payables	596	1,696
	Deferred income	730	0
		3,930	4,322
	Total liabilities other than provisions	6,127	6,822
	TOTAL EQUITY AND LIABILITIES	6,314	7,058

1 Accounting policies
2 Capital resources
10 Collateral
11 Contractual obligations and contingencies, etc.

Financial statements for the period 1 July 2015 - 30 June 2016

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 July 2015	800	-564	236
Profit/loss for the year	0	-49	-49
Equity at 30 June 2016	800	-613	187

Financial statements for the period 1 July 2015 - 30 June 2016

Notes

1 **Accounting policies**

The annual report of AIAIAI ApS for 2015/16 has been presented in accordance with the provisions of the Danish Financial Statements Act as regards reporting class B enterprises.

The accounting policies applied by the Company are consistent with those of last year.

Consolidated financial statements

Pursuant to Section 110 of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

Income statement

Revenue

Income from the sale of goods for resale and finished goods, comprising sale of headphones and related products, is recognised in revenue when transfer of the most significant rewards and risks to the buyer has taken place and provided that the income can be reliably measured and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

Revenue is measured net of all types of discounts/rebates granted. Also, revenue is measured net of VAT and other indirect taxes charged on behalf of third parties.

Gross profit

With reference to section 32 of the Danish Financial Statements Act, the items 'Revenue', 'Cost of sales' and 'Other external expenses' are consolidated into one item designated 'Gross profit'.

Other external expenses

Other external expenses include the year's expenses relating to the entity's core activities, including expenses relating to distribution, sale, advertising, administration, entertainment, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

Amortisation/depreciation and impairment of intangible assets and property, plant and equipment

The item comprises amortisation/depreciation and impairment of intangible assets and property, plant and equipment.

The cost net of the expected residual value for completed development projects and acquired IP rights is amortised over the expected useful life. Acquired IP rights include patents, rights and licences.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses, etc.

Financial statements for the period 1 July 2015 - 30 June 2016

Notes

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Intangible assets

Development projects are capitalised if they are clearly defined and identifiable and the following recognition criteria can be satisfied:

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Development costs that are recognised in the balance sheet are measureed at cost less accumulated amortisation and impairment losses.

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated usefull life. The amortisation period is usually 4 years and is not to exceed 5 years.

Gains and losses on the sale of intangible assets are recognised in the income statement under 'Other operating income' or 'Other operating expenses', respectively. Gains and losses are calculated by reference to the difference between the selling price less selling expenses and the carrying amount at the time of sale.

Property, plant and equipment

Items of equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

The basis of depreciation, which is calculated as costs less any residual value, is depreciated on the straight-line basis over the expected usefull life. The expected usefull lives are as follows:

Fixtures and fittings, tools and equipment:	5 years
Leasehold improvements:	5 years

Gains or losses are made up as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating costs.

Investments in group entities and associates

Investments in subsidiaries are measured at cost. Dividends received which exceed the accumulated earnings in the subsidiary or the associate in the period of ownership are treated as a cost reduction.

Financial statements for the period 1 July 2015 - 30 June 2016

Notes

Impairment of non-current assets

Every year, intangible assets and property, plant and equipment as well as investments in subsidiaries are reviewed for impairment. Where there is indication of impairment, an impairment test is made for each individual asset or group of assets, respectively, generating independent cash flows. The assets are written down to the higher of the value in use and the net selling price of the asset or group of assets (recoverable amount) if it is lower than the carrying amount. Where an impairment loss is recognised on a group of assets, a loss must first be allocated to goodwill and then to the other assets on a pro rata basis.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value. Provisions are made for bad debts on the basis of objective evidence that a receivable is impaired. Provisions are made to the lower of the net realisable value and the carrying amount.

An impairment loss is recognised if there is objective indication that a receivable or a group of receivables is impaired. If there is objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are tested for objective indication of impairment on a portfolio basis. The portfolios are primarily composed on the basis of debtors' domicile and credit ratings in accordance with the Company's risk management policy. The objective indicators used for portfolios are determined based on historical loss experience.

Write-downs are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments recognised under 'Assets' comprise prepaid expenses regarding subsequent financial reporting years.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities which are subject to an insignificant risk of changes in value.

Corporation tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Financial statements for the period 1 July 2015 - 30 June 2016

Notes

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Subordinate loan capital

Liabilities where the creditors have stated they are willing to subordinate their claim to rank after all the entity's other creditors are presented as subordinate loan capital. Recognition is made according to the same method as applies to liabilities.

Deferred income

Deferred income recognised as a liability comprises payments received concerning income in subsequent financial reporting years.

2 Capital resources

In 2015/16, the Company realised a loss for the year of DKK 49 thousand compared to a loss for the year of DKK 3,000 thousand in 2014/15.

The budget for 2016/17, including the liquidity budget, shows adequate liquidity for a period of 12 months from 30 June 2016, and even though the budget naturally contains a certain amount of uncertainty, it is Management's opinion that it is realistic and reachable with the current liquidity available.

Based on this, the financial statements have been prepared on a going concern assumption.

	DKK'000	2015/16	2014/15
3	**Staff costs**		
	Wages/salaries	2,970	3,809
	Pensions	31	43
	Other social security costs	65	62
		3,066	3,914
	Average number of full-time employees	9	16
4	**Amortisation/depreciation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	449	246
	Impairment of intangible assets	0	170
	Depreciation of property, plant and equipment	330	360
		779	776

Financial statements for the period 1 July 2015 - 30 June 2016

Notes

DKK'000	2015/16	2014/15
5 Tax for the year		
Estimated tax charge for the year	-162	-269
Tax adjustments, prior years	13	-398
	-149	-667

The Company has an unrecognised deferred tax asset. The deferred tax asset is not recognised in the balance sheet due to uncertainty whether it can be capitalised within the coming 3-5 years.

6 Intangible assets

DKK'000	Completed development projects	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 July 2015	1,680	642	2,322
Additions in the year	0	694	694
Transfer from other accounts	1,138	-1,138	0
Cost at 30 June 2016	2,818	198	3,016
Impairment losses and amortisation at 1 July 2015	534	85	619
Amortisation in the year	449	0	449
Impairment losses and amortisation at	983	85	1,068
Carrying amount at 30 June 2016	1,835	113	1,948

7 Property, plant and equipment

DKK'000	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
Cost at 1 July 2015	1,746	236	1,982
Additions in the year	33	0	33
Disposals in the year	9	0	9
Cost at 30 June 2016	1,788	236	2,024
Impairment losses and depreciation at 1 July 2015	1,287	123	1,410
Depreciation in the year	265	65	330
Impairment losses and depreciation at 30 June 2016	1,552	188	1,740
Carrying amount at 30 June 2016	236	48	284

Financial statements for the period 1 July 2015 - 30 June 2016

Notes

8 Share capital

Analysis of changes in the share capital over the past 5 years:

DKK'000	2015/16	2014/15	2013/14	2012/13	2011/12
Opening balance	800	595	555	401	401
Capital increase	0	205	40	154	0
	800	800	595	555	401

9 Long-term liabilities

Of the long-term liabilities, all debt falls due for payment before 5 years after the balance sheet date.

10 Collateral

As security for the Company's debt to banks, creditors and other suppliers, the Company has placed assets or other as security, worth a total of up to DKK 6.3 million.

11 Contractual obligations and contingencies, etc.

Contingent liabilities

The Company has entered into operating leases with remaining terms amounting to DKK 85 thousand (2015/16: DKK 85 thousand).