AIAIAI ApS

Studiestræde 31, 1455 Copenhagen K, Denmark

CVR no. 29 53 55 66

Annual report 2017/18

Approved at the Company's annual general meeting on 19 September 2018

Chairman:

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Thomas Haderup

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of AIAIAI ApS for the financial year 1 July 2017 - 30 June 2018.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 30 June 2018 and of the results of the Company's operations for the financial year 1 July 2017 - 30 June 2018.

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

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 19 September 2018
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 auditor's report

To the shareholders of AIAIAI ApS

Opinion

We have audited the financial statements of AIAIAI ApS for the financial year 1 July 2017 - 30 June 2018, which comprise 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.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 30 June 2018 and of the results of the Company's operations for the financial year 1 July 2017 - 30 June 2018 in accordance with the Danish Financial Statements Act.

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

Independence

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 rules and requirements.

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 as to 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 the 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.

Independent auditor's report

- 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note 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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 19 September 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Peter Gath
State Authorised Public Accountant
MNE no.: mne19718

Anders Flymer-Dindler
State Authorised Public Accountant
MNE no.: mne35423

Management's review

Company details

Name	AIAIAI ApS
Address, Postal code, City	Studiestræde 31, 1455 Copenhagen K, Denmark
CVR no.	29 53 55 66
Established	17 May 2006
Registered office	Copenhagen
Financial year	1 July 2017 - 30 June 2018
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

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. This expansion of our market scope is something we expect to have enhanced focus on in the coming year, in order to expand our customer base and ensure growth.

Financial review

The income statement for 2017/18 shows a profit of DKK 2,095 thousand against a profit of DKK 267 thousand last year, and the balance sheet at 30 June 2018 shows equity of DKK 2,549 thousand.

The budget for 2018/19, including the liquidity budget, shows adequate liquidity for a period of 12 months from 30 June 2018, 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. On this basis, the financial statements have been prepared on a going concern assumption.

The financial result lived up to expectations. We continue to see increased interest in our modular headphones, which was also proven by the significant partnerships during the year. We also started a partnership with Google, which we have great expectations for, for the coming year.

We continue to have a strong focus on our own webshop, as this has high margins and great scaleability.

The result for the year is considered satisfactory compared to previous year, as it's a continuous result of the turnaround of the company.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Financial statements 1 July 2017 - 30 June 2018

Income statement

Note	DKK'000	2017/18	2016/17
	Gross margin	6,604	4,206
3	Staff costs	-3,188	-2,731
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-729	-668
	Profit before net financials	2,687	807
	Financial expenses	-592	-540
	Profit for the year	2,095	267
	Recommended appropriation of profit		
	Reserve for development costs	1,031	692
	Retained earnings/accumulated loss	1,064	-425
		2,095	267

Financial statements 1 July 2017 - 30 June 2018

Balance sheet

Note	DKK'000	2017/18	2016/17
	ASSETS		
	Fixed assets		
4	**Intangible assets**		
	Completed development projects	1,599	1,991
	Development projects in progress and prepayments for intangible assets	1,163	187
		2,762	2,178
5	**Property, plant and equipment**		
	Other fixtures and fittings, tools and equipment	73	97
	Leasehold improvements	76	84
		149	181
	Total fixed assets	2,911	2,359
	Non-fixed assets		
	Inventories		
	Finished goods and goods for resale	1,982	1,645
		1,982	1,645
	Receivables		
	Trade receivables	1,817	1,518
	Income taxes receivable	0	165
	Other receivables	0	92
	Prepayments	93	475
		1,910	2,250
	Cash	655	199
	Total non-fixed assets	4,547	4,094
	TOTAL ASSETS	7,458	6,453

Financial statements 1 July 2017 - 30 June 2018

Balance sheet

Note	DKK'000	2017/18	2016/17
	EQUITY AND LIABILITIES		
	Equity		
7	Share capital	800	800
	Reserve for development costs	1,723	692
	Retained earnings	26	-1,038
	Total equity	2,549	454
	Liabilities other than provisions		
8	**Non-current liabilities other than provisions**		
	Other credit institutions	1,625	2,108
		1,625	2,108
	Current liabilities other than provisions		
8	Current portion of long-term liabilities	710	340
	Bank debt	0	447
	Trade payables	1,531	990
	Payables to shareholders and management	200	200
	Other payables	843	668
	Deferred income	0	1,246
		3,284	3,891
	Total liabilities other than provisions	4,909	5,999
	TOTAL EQUITY AND LIABILITIES	7,458	6,453

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

Financial statements 1 July 2017 - 30 June 2018

Statement of changes in equity

DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 July 2016	800	0	-613	187
Transfer through appropriation of profit	0	692	-425	267
Equity at 1 July 2017	800	692	-1,038	454
Transfer through appropriation of profit	0	1,031	1,064	2,095
Equity at 30 June 2018	800	1,723	26	2,549

Financial statements 1 July 2017 - 30 June 2018

Notes to the financial statements

1 Accounting policies

The annual report of AIAIAI ApS for 2017/18 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

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

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

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 margin

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'.

External expenses

Other external expenses include the year's expenses relating to the Company'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 pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation

The item comprises amortisation/depreciation 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 statements 1 July 2017 - 30 June 2018

Notes to the financial statements

1 Accounting policies (continued)

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Completed development projects	4-5 years
Other fixtures and fittings, tools and equipment	5 years
Leasehold improvements	5 years

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Financial 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.

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 identifiable 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.

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated useful 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 as 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 useful life. The expected useful lives are as follows:

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

Financial statements 1 July 2017 - 30 June 2018

Notes to the financial statements

1 Accounting policies (continued)

Gains or losses are calculated 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 expenses.

Impairment of fixed 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.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

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 expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

Goods for resale are measured at cost, which comprises the cost of acquisition plus delivery costs as well as other expenses directly attributable to the acquisition.

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 evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses 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.

Financial statements 1 July 2017 - 30 June 2018

Notes to the financial statements

1 Accounting policies (continued)

Prepayments

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

Cash

Cash primarily consists of cash in bank.

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base 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.

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. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. 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. On subsequent recognition, 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 lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Deferred income

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

Financial statements 1 July 2017 - 30 June 2018

Notes to the financial statements

2 Capital resources

In 2017/18, the Company realised a profit of DKK 2,095 thousand compared to a profit for the year of DKK 267 thousand in 2016/17.

The budget for 2018/19, including the liquidity budget, shows adequate liquidity for a period of 12 months from 30 June 2018, 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. On this basis, the financial statements have been prepared on a going concern assumption.

	DKK'000	2017/18	2016/17
3	**Staff costs**		
	Wages/salaries	2,937	2,409
	Pensions	27	26
	Other social security costs	30	49
	Other staff costs	194	247
		3,188	2,731
	Average number of full-time employees	7	7

4 Intangible assets

DKK'000	Completed development projects	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 July 2017	3,473	187	3,660
Additions in the year	0	1,231	1,231
Transfer from other accounts	255	-255	0
Cost at 30 June 2018	3,728	1,163	4,891
Impairment losses and amortisation at 1 July 2017	1,482	0	1,482
Amortisation in the year	647	0	647
Impairment losses and amortisation at 30 June 2018	2,129	0	2,129
Carrying amount at 30 June 2018	1,599	1,163	2,762
Amortised over	4-5 years		

Financial statements 1 July 2017 - 30 June 2018

Notes to the financial statements

5 Property, plant and equipment

DKK'000	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
Cost at 1 July 2017	1,805	284	2,089
Additions in the year	23	27	50
Cost at 30 June 2018	1,828	311	2,139
Impairment losses and depreciation at 1 July 2017	1,708	200	1,908
Depreciation in the year	47	35	82
Impairment losses and depreciation at 30 June 2018	1,755	235	1,990
Carrying amount at 30 June 2018	73	76	149
Depreciated over	5 years	5 years	

6 Deferred tax assets

The Company has an unrecognised deferred tax asset at a value of DKK 2.361 thousand (2016/2017: DKK 2,681 thousand). The deferred tax asset is not recognised in the balance sheet due to uncertainty as to whether it can be capitalised within the coming 3-5 years.

7 Share capital

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

DKK'000	2017/18	2016/17	2015/16	2014/15	2013/14
Opening balance	800	800	595	555	401
Capital increase	0	0	595	555	401
Capital reduction	0	0	205	40	154
	800	800	1,395	1,150	956

8 Non-current liabilities other than provisions

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

9 Contractual obligations and contingencies, etc.

Contingent liabilities

The Company has entered into operating leases with remaining terms amounting to DKK 78 thousand (2016/17: DKK 78 thousand).

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.