AIAIAI ApS

Studiestræde 31, 1455 Copenhagen K, Denmark

CVR no. 29 53 55 66

Annual report 2016/17

Approved at the annual general meeting of shareholders on 14 September 2017

Chairman:

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Thomas Haderup

Building a better
working world

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 2016 - 30 June 2017.

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 2017 and of the results of the Company's operations for the financial year 1 July 2016 - 30 June 2017.

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, 14 September 2017
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 2016 - 30 June 2017, 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.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 30 June 2017 and of the results of the Company's operations for the financial year 1 July 2016 - 30 June 2017 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 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. 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- 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 conclusion is 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 our procedures, 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, 14 September 2017
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 Copenhagen K, Denmark
CVR no.	29 53 55 66
Established	17 May 2006
Registered office	Copenhagen
Financial year	1 July 2016 - 30 June 2017
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

Management commentary

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 2016/17 shows a profit of DKK 267 thousand against a loss of DKK -49 thousand last year, and the balance sheet at 30 June 2017 shows equity of DKK 454 thousand.

The financial results 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 ran a successful Kickstarter campaign in order to fund our new Bluetooth headband for the TMA-2 modular, 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 Company has fully implemented significant cost cuts as well as a restructuring of the staff and management structure.

The Company has fully implemented the planned changes to the distribution and product strategy, which will lead to the expected growth in both turnover and gross profit.

Events after the balance sheet date

The loan agreement regarding the long-term loan was renegotiated in August 2017. No other events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Financial statements 1 July 2016 - 30 June 2017

Income statement

Note	DKK'000	2016/17	2015/16
	Gross margin	4,206	4,327
3	Staff costs	-2,731	-3,066
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-668	-779
	Profit before net financials	807	482
	Financial expenses	-540	-680
	Profit/loss before tax	267	-198
	Tax for the year	0	149
	Profit/loss for the year	267	-49

	2016/17	2015/16
Recommended appropriation of profit/loss		
Reserve for development costs	692	0
Retained earnings/accumulated loss	-425	-49
	267	-49

Financial statements 1 July 2016 - 30 June 2017

Balance sheet

Note	DKK'000	2016/17	2015/16
	ASSETS		
	Fixed assets		
4	**Intangible assets**		
	Completed development projects	1,991	1,835
	Development projects in progress and prepayments for intangible assets	187	113
		2,178	1,948
5	**Property, plant and equipment**		
	Other fixtures and fittings, tools and equipment	97	235
	Leasehold improvements	84	50
		181	285
	Total fixed assets	2,359	2,233
	Non-fixed assets		
	Inventories		
	Finished goods and goods for resale	1,645	1,762
		1,645	1,762
	Receivables		
	Trade receivables	1,518	1,752
	Income taxes receivable	165	417
	Other receivables	92	64
	Prepayments	475	59
		2,250	2,292
	Cash	199	27
	Total non-fixed assets	4,094	4,081
	TOTAL ASSETS	6,453	6,314

Financial statements 1 July 2016 - 30 June 2017

Balance sheet

Note	DKK'000	2016/17	2015/16
	EQUITY AND LIABILITIES		
	Equity		
7	Share capital	800	800
	Reserve for development costs	692	0
	Retained earnings	-1,038	-613
	Total equity	454	187
	Liabilities other than provisions		
8	**Non-current liabilities other than provisions**		
	Other credit institutions	2,108	2,197
	Subordinate loan capital	200	200
		2,308	2,397
	Current liabilities other than provisions		
8	Current portion of long-term liabilities	340	250
	Bank debt	447	433
	Trade payables	990	1,721
	Other payables	668	596
	Deferred income	1,246	730
		3,691	3,730
	Total liabilities other than provisions	5,999	6,127
	TOTAL EQUITY AND LIABILITIES	6,453	6,314

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

Financial statements 1 July 2016 - 30 June 2017

Statement of changes in equity

DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 July 2015	800	0	-564	236
Transfer through appropriation of loss	0	0	-49	-49
Equity at 1 July 2016	800	0	-613	187
Transfer through appropriation of profit	0	692	-425	267
Equity at 30 June 2017	800	692	-1,038	454

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 **Accounting policies**

The annual report of AIAIAI ApS for 2016/17 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.

Changes in accounting policies

Effective 1 July 2016, the Company has adopted act no. 738 of 1 June 2015. This implies the following changes in the recognition and measurement:

An amount corresponding to development costs recognised will in future be tied up in a special reserve under equity called "Reserve for development costs". The amount is tied up in a special reserve, which cannot be used to distribute dividend or cover losses. If the recognised development costs are sold or in some other way no longer form part of the Company's operations, the reserve will be dissolved or reduced by a transfer directly to distributable reserves under equity. If the recognised development costs are written down, part of the reserve for development costs must be reversed. The reversed portion corresponds to the write-down of the development costs. If a write-down of the development costs is subsequently reversed, the reserve for development costs must be re-established. The reserve for development costs is also reduced by amortisation charges. In doing so, the equity reserve will not exceed the amount recognised in the balance sheet as development costs.

Apart from the above changes in accounting policy and new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

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.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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.

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 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

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.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Prepayments

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

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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.

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. Subordinate loan capital is recognised using 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.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

2 Capital resources

In 2016/17, the Company realised a profit of DKK 267 thousand compared to a loss for the year of DKK 49 thousand in 2015/16.

The budget for 2017/18, including the liquidity budget, shows adequate liquidity for a period of 12 months from 30 June 2017, 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. Furthermore, the loan agreement regarding the long-term loan has been renegotiated in August 2017.

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

	DKK'000	2016/17	2015/16
3	**Staff costs**		
	Wages/salaries	2,672	2,970
	Pensions	26	31
	Other social security costs	33	65
		2,731	3,066
	Average number of full-time employees	7	9

4 Intangible assets

DKK'000	Completed development projects	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 July 2016	2,818	113	2,931
Additions in the year	0	729	729
Transfer from other accounts	655	-655	0
Cost at 30 June 2017	3,473	187	3,660
Impairment losses and amortisation at 1 July 2016	983	0	983
Amortisation in the year	499	0	499
Impairment losses and amortisation at 30 June 2017	1,482	0	1,482
Carrying amount at 30 June 2017	1,991	187	2,178
Amortised over	4-5 years		

Financial statements 1 July 2016 - 30 June 2017

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 2016	1,788	236	2,024
Additions in the year	17	48	65
Cost at 30 June 2017	1,805	284	2,089
Impairment losses and depreciation at 1 July 2016	1,553	186	1,739
Depreciation in the year	155	14	169
Impairment losses and depreciation at 30 June 2017	1,708	200	1,908
Carrying amount at 30 June 2017	97	84	181
Depreciated over	5 years	5 years	

6 Deferred tax assets

The Company has an unrecognised deferred tax asset at a value of DKK 2,681 thousand (2015/2016: DKK 2,692 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	2016/17	2015/16	2014/15	2013/14	2012/13
Opening balance	800	800	595	555	401
Capital increase	0	0	205	40	154
	800	800	800	595	555

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 85 thousand (2015/16: DKK 85 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.