Libratone A/S

Sundkaj 9, Pakhus 48, 2150 Nordhavn

CVR no. 32 64 76 42

Annual report 2015

Approved at the annual general meeting of shareholders on 27 May 2016

Chairman:

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Henrik Starup

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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 Libratone A/S for the financial year 1 January - 31 December 2015.

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 31 December 2015 and of the results of the Company's operations for the financial year 1 January - 31 December 2015.

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, 27 May 2016
Executive Board:

Jan McNair

Song Liu

Board of Directors:

Johannes Huus Bodh
Chairman

Song Liu

Xun Jiang

Independent auditors' report

To the shareholders of Libratone A/S

Independent auditors' report on the financial statements

We have audited the financial statements of Libratone A/S for the financial year 1 January - 31 December 2015, which comprise an 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.

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 and for such internal control that Management 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 under Danish audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating 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 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 31 December 2015 and of the results of its operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

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, 27 May 2016
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR No. 30 70 02 28

Peter Gath
state authorised public accountant

Management's review

Company details

Name	Libratone A/S
Address, Postal code, City	Sundkaj 9, Pakhus 48, 2150 Nordhavn
CVR No.	32 64 76 42
Established	3 December 2009
Registered office	Copenhagen
Financial year	1 January - 31 December
Website	www.libratone.com
E-mail	info@libratone.com
Telephone	+45 70 26 63 33
Board of Directors	Johannes Huus Bogh, Chairman Song Liu Xun Jiang
Executive Board	Jan McNair Song Liu
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

The Company designs, develops and sells speakers and sound systems as well as related rights.

2015 ended in line with our expectations for the revenue and investment level for new products and technology.

The new line of multi-room products was launched in China and EMEA in Q4 as expected. As planned the new products used our in-house developed technology platform allowing us to differentiate the Libratone experience from that of our competitors. This was also demonstrated with the launch of our new App which allows the user to easily drag & drop speakers together for a seamless multi-room experience.

The new technology platform has been a major investment and will serve as base for the coming products and provides Libratone with a major flexibility in forming the user experiences. In addition, Libratone will no longer be depending on 3rd party solutions and timing of external developments. The investment into our platform will continue to make sure it stays relevant and in the forefront of what wireless speakers should offer.

We did not as expected launch the new Libratone products in the vast US market but decided to postpone this until Q1/2016.

The roll-out in major markets is as per plan and so is the retail and e-tail roll-out.

Unusual matters having affected the financial statements

Going concern

At 31 December 2015, the Company had a long-term credit facility with the parent company amounting to DKK 212,109 thousand, which falls due when the Company has the sufficient liquidity. Furthermore, the parent company has confirmed to support the Company financially to ensure that the Company can discharge its obligations as they fall due.

Reference is made to note 2 for more details.

Financial review

The revenue was in line with expectations, and a major part of our legacy products was sold at very low prices to prepare for the new products. The cooperation with our old manufacturer was terminated and ended in Q3, resulting in a write-down on spare parts for old products.

The Company incurred a gross loss of DKK 44,750 thousand for 2015, compared to a loss of DKK 38,024 thousand for 2014.

The operating result reflects the continued investments in both marketing, branding, design and R&D. The operating loss was at DKK 81,746 thousand compared to a loss of DKK 76,927 thousand for 2014.

The net result was negative DKK 113,078 thousand, and total assets were DKK 67,769 thousand.

Post balance sheet events

No events have occurred after the end of the financial year that could materially affect the Company's financial position.

Management's review

Operating review

Outlook

According to plan, 2016 will be another significant investment year where the company will introduce new products based on our new product platform.

Outlook for Libratone remains very positive.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK	2015	2014
	Gross profit/loss	-44,749,710	-38,023,706
3	Staff costs	-25,354,867	-19,385,199
4	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-11,641,373	-19,517,704
	Operating profit/loss	-81,745,950	-76,926,609
	Income from investments in group entities	-11,318,475	-5,139,413
	Financial income	20,943,642	5,252,786
5	Financial expenses	-41,071,987	-27,586,210
	Profit/loss before tax	-113,192,770	-104,399,446
6	Tax for the year	2,314,858	-7,223,832
	Profit/loss for the year	-110,877,912	-111,623,278
	Proposed proft appropriation/distribution of loss		
	Retained earnings/accumulated loss	-110,877,912	-111,623,278
		-110,877,912	-111,623,278

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK	2015	2014
	ASSETS		
	Non-current assets		
7	**Intangible assets**		
	Completed development projects	17,210,232	4,019,849
	Development projects in progress	4,253,199	14,179,431
		21,463,431	18,199,280
8	**Property, plant and equipment**		
	Other fixtures and fittings, tools and equipment	2,260,730	1,643,177
	Leasehold improvements	0	357,633
		2,260,730	2,000,810
9	**Investments**		
	Investments in group entities	0	0
	Other receivables	1,456,364	177,201
		1,456,364	177,201
	Total non-current assets	25,180,525	20,377,291
	Current assets		
	Inventories		
	Finished goods and goods for resale	17,523,631	19,087,477
		17,523,631	19,087,477
	Receivables		
	Trade receivables	14,089,142	4,582,848
	Receivables from group entities	1,681,388	1,481,679
	Deferred tax assets	2,200,000	3,430,000
	Other receivables	4,792,552	691,221
		22,763,082	10,185,748
	Cash	4,501,503	17,184,462
	Total current assets	44,788,216	46,457,687
	TOTAL ASSETS	69,968,741	66,834,978

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK	2015	2014
	EQUITY AND LIABILITIES		
	Equity		
10	Share capital	32,525,923	32,525,923
	Retained earnings	-210,100,224	-96,592,992
	Total equity	-177,574,301	-64,067,069
	Liabilities other than provisions		
11	**Non-current liabilities other than provisions**		
	Other credit institutions	0	5,199,562
	Payables to group entities	212,109,187	84,010,680
		212,109,187	89,210,242
	Current liabilities other than provisions		
	Other credit institutions	2,987,401	13,744,323
	Trade payables	25,892,794	18,212,561
	Other payables	6,553,660	9,734,921
		35,433,855	41,691,805
	Total liabilities other than provisions	247,543,042	130,902,047
	TOTAL EQUITY AND LIABILITIES	69,968,741	66,834,978

1 Accounting policies
2 Capital resources
12 Collateral
13 Contractual obligations and contingencies, etc.
14 Related parties

Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Retained earnings	Total
Equity at 1 January 2014	2,639,147	362,225	3,001,372
Capital increase	29,886,776	15,984,434	45,871,210
Profit/loss for the year	0	-111,623,278	-111,623,278
Exchange adjustment	0	-1,316,373	-1,316,373
Equity at 1 January 2015	32,525,923	-96,592,992	-64,067,069
Profit/loss for the year	0	-110,877,912	-110,877,912
Exchange adjustment	0	-2,629,320	-2,629,320
Equity at 31 December 2015	32,525,923	-210,100,224	-177,574,301

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Libratone A/S for 2015 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.

Income statement

Revenue

Income from the sale of goods held for sale and finished goods is recognised in revenue at the time of delivery and when the risk passes to the buyer, provided that the income can be made up reliably. VAT, indirect taxes and discounts are excluded from revenue.

Gross profit/loss

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

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

The item includes amortisation/depreciation and write-downs of intangible assets and property, plant and equipment. Non-current assets are amortised/depreciated using the straight line method, based on the cost, measured by reference to the assessment of the useful lives and residual values of the assets.

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

Completed development projects	5 years

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

Leasehold improvements	5 years
Other fixtures and fittings, tools and equipment	3-5 years

Income from investments in group entities

The item include the parent company's proportionate share of the profit or loss for the year, net of tax and adjustment of intra-group gains/losses.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the reporting period. Net financials include interest income and expenses, realised and unrealised capital and exchange gains and losses on foreign currency transactions and surcharges and allowances under the advance payment of tax scheme, 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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The entity and its Danish group entities are taxed on a joint basis. The Danish income tax charge is allocated between profit-making and loss-making Danish entities in proportion to their taxable income (full allocation method).

Jointly taxed companies entitled to a tax refund are, as a minimum, reimbursed by the management company according to the current rates applicable to interest allowances, and jointly taxed companies having paid too little tax pay, as a maximum, a surcharge according to the current rates applicable to interest surcharges to the management company.

Balance sheet

Intangible assets

Development projects that are clearly defined and identifiable and in respect of which the technological feasibility, sufficient resources and a potential future market or development potential in the enterprise can be demonstrated, and where the intention is to produce, market or use the product, are recognised as intangible assets provided that it is sufficiently certain that future earnings are adequate to cover production, sales and administrative expenses and aggregate development costs. Other development costs are expensed in the income statement as incurred.

Development costs are measured at direct cost.

Completed development projects are amortised on a straight line basis over the expected useful life. The amortisation period is approx. 5 years. For development projects protected by intellectual rights, the maximum amortisation period is the remaining term of the rights concerned.

Property, plant and equipment

Property, plant and equipment comprise leasehold improvements and other fixtures and fittings, tools and equipment. Property, plant and equipment are measured at cost less accumulated depreciation and write downs.

Investments in group entities

Investments in subsidiaries are measured using the equity method at the parent company's proportionate share of such entities' equity. Entities whose equity is negative are measured at zero with the proportionate share corresponding to the negative value being set off against receivables, if any. Any additional amounts are recognised under 'Provisions' if the parent company is liable for the debt.

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 nominal value. The value is reduced by provisions for impairment losses.

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.

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 charges are recognised in the balance sheet at the estimated tax charge in respect of the expected taxable income for the year, adjusted for tax on prior years' taxable income and tax paid on account.

Provisions for deferred tax are calculated at 25% of all temporary differences between carrying amounts and tax values, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income.

Deferred tax assets are recognised at the value at which they are expected to be utilised, either through elimination against tax on future earnings or a set off against deferred tax liabilities.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. Interest bearing debt is subsequently measured at amortised cost, using the effective interest rate method. Other debt is subsequently measured at amortised cost corresponding to the nominal unpaid debt.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

2 **Capital resources**

At 31 December 2015, the Company had a long-term credit facility with the parent company amounting to DKK 212,109 thousand, which falls due when the Company has the sufficient liquidity. Furthermore, the parent company has confirmed to support the Company financially to ensure that the Company can discharge its obligations as they fall due.

Based on these conditions and the expected future cash-flow and earnings, Management has presented the financial statements for 2015 based on the going concern assumption.

The Company realised a loss of DKK 113,078 thousand in 2015. Equity amounted to negative DKK 179,774 thousand at 31 December 2015, which is less than half of the share capital. The Company is therefore covered by section 119 of the Danish Company Act. The Company expects to restore equity by a capital increase.

	DKK	2015	2014
3	**Staff costs**		
	Wages/salaries	22,970,502	23,629,817
	Pensions	2,045,149	1,656,244
	Other social security costs	300,666	227,986
	Other staff costs	38,550	26,354
	Staff costs transferred at the cost of development projects	0	-6,155,202
		25,354,867	19,385,199
4	**Amortisation/depreciation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	7,347,843	7,657,937
	Impairment of intangible assets	2,389,886	11,036,519
	Depreciation of property, plant and equipment	1,903,644	823,248
		11,641,373	19,517,704
5	**Financial expenses**		
	Interest expenses, group entities	10,765,599	17,599,627
	Exchange losses	29,642,756	7,197,691
	Other financial expenses	663,632	2,788,892
		41,071,987	27,586,210
6	**Tax for the year**		
	Deferred tax adjustments in the year	-2,200,000	7,223,832
	Tax adjustments, prior years	-114,858	0
		-2,314,858	7,223,832

Financial statements for the period 1 January - 31 December

Notes to the financial statements

7 Intangible assets

DKK	Completed development projects	Development projects in progress	Total
Cost at 1 January 2015	30,292,631	14,179,431	44,472,062
Additions in the year	0	13,001,881	13,001,881
Transfer from other accounts	22,928,113	-22,928,113	0
Cost at 31 December 2015	53,220,744	4,253,199	57,473,943
Impairment losses and amortisation at 1 January 2015	26,272,782	0	26,272,782
Impairment losses in the year	2,389,886	0	2,389,886
Amortisation in the year	7,347,844	0	7,347,844
Impairment losses and amortisation at	36,010,512	0	36,010,512
Carrying amount at 31 December 2015	17,210,232	4,253,199	21,463,431

8 Property, plant and equipment

DKK	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
Cost at 1 January 2015	2,565,448	534,651	3,100,099
Additions in the year	2,141,504	22,060	2,163,564
Cost at 31 December 2015	4,706,952	556,711	5,263,663
Impairment losses and depreciation at 1 January 2015	922,271	177,018	1,099,289
Impairment losses in the year	443,047	325,229	768,276
Depreciation in the year	1,080,904	54,464	1,135,368
Impairment losses and depreciation at 31 December 2015	2,446,222	556,711	3,002,933
Carrying amount at 31 December 2015	2,260,730	0	2,260,730

Financial statements for the period 1 January - 31 December

Notes to the financial statements

9 **Investments**

DKK	Investments in group entities	Other receivables	I alt
Cost at 1 January 2015	5,762	177,201	182,963
Additions in the year	0	1,279,163	1,279,163
Cost at 31 December 2015	5,762	1,456,364	1,462,126
Value adjustments at 1 January 2015	-5,762	0	-5,762
Exchange adjustment	-2,629,320	0	-2,629,320
Share of the profit/loss for the year	-11,318,475	0	-11,318,475
Other adjustments, investments	13,947,795	0	13,947,795
Value adjustments at 31 December 2015	-5,762	0	-5,762
Carrying amount at 31 December 2015	0	1,456,364	1,456,364

DKK	Legal form	Domicile	Interest	Equity	Profit/loss
Subsidiaries					
Libratone	Inc.	USA	100.00 %	-25,639,586	-11,318,475

DKK	2015	2014
10 **Share capital**		
The share capital consists of the following:		
32,525,923 A- shares of DKK 1.00 each	32,525,923	32,525,923
	32,525,923	32,525,923

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

DKK	2015	2014	2013	2012	2011
Opening balance	32,525,923	2,639,147	1,919,398	1,194,440	789,961
Capital increase	0	29,886,776	719,749	724,958	404,479
	32,525,923	32,525,923	2,639,147	1,919,398	1,194,440

Financial statements for the period 1 January - 31 December

Notes to the financial statements

11 Long-term liabilities

Breakdown of certain liabilities by long-term and short-term liabilities:

DKK	Total debt at 31/12 2015	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Payables to group entities	212,109,187	0	212,109,187	0
	212,109,187	0	212,109,187	0

As descriped in the Management's review and note 2, debt to the parent company amounting to DKK 212,109 thousand falls due when the Company has the sufficient liquidity. Furthermore, the parent company has confirmed to support the Company financially to ensure that the Company can discharge its obligations as they fall due.

12 Collateral

The following assets have been put up as security for the Company's debt to other credit institutions:

A business charge of DKK 20,000 thousand, including unsecured claims, raw material stocks, semi manufactured and finished products and intellectual property rights, has been put up as security for the Company's debt to other credit institutions amounting to DKK 2,987 thousand at 31 December 2015.

The total carrying amount of these assets is DKK 53,312 thousand.

13 Contractual obligations and contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with its group company DynAudio Holding A/S, which acts as management company, and is jointly and severally liable with other jointly taxed group entities for payment of income taxes for the income year 2014 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment.

Other financial obligations

The Company has liabilities under operating leases for cars totalling DKK 188 thousand, with remaining contract terms of 3 years.

The Company has liabilities under rent commitments totalling DKK 12,428 thousand, with remaing contract terms of 5 years.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

14 Related parties

Libratone A/S' related parties comprise the following:

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

Name	Domicile
Dotcom Development Limited	Hong Kong