

Annual Report 2008

Danionics A/S

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Lersø Parkallé 42, 2.

2100 Copenhagen

Telephone: +45 70 23 81 30

Telefax: +45 70 30 05 56

E-mail: investor@danionics.dk

Web site: www.danionics.dk

VAT-no.: DK-71 06 47 19



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Company information

<i>The company:</i>	Danionics A/S Lersø Parkallé 42, 2. DK-2100 Copenhagen	<i>Auditors:</i>	KPMG Borups Allé 177 DK-2000 Frederiksberg
	Tel: +45 70 23 81 30 Fax: +45 70 30 05 56	<i>Bankers:</i>	Nordea Bank Danmark A/S Vestergade 64 DK-5100 Odense C
	Website: www.danionics.dk E-mail: investor@danionics.dk	<i>Registrar:</i>	Aktiebog Danmark A/S Kongevejen 418 DK-2840 Holte
	CVR-no.: 71 06 47 19 Financial year: 1 January – 31 December Reg. office: City of Copenhagen	<i>Legal advisers:</i>	Dahl law firm Gravene 2 DK-8800 Viborg
<i>Board of Directors:</i>	Karsten Borch, Chairman Frank Gad Henrik Ottosen		
<i>Management Board:</i>	Henning O. Jensen		
<i>Annual General Meeting:</i>	30 April 2008, at 3 p.m. at Dansk Arkitektur Center, Strandgade 27 B, DK-1401 Copenhagen K.		

Letter from the Chairman

The year 2008 was yet another very difficult, but also a poor year for Danionics.

The excuses are plentiful. We were hit by, among other things, technical problems, our sub-suppliers failed to perform and then, not least, there was the financial crisis. However, this is no different from what other companies have experienced, and some of them have handled their problems better than we have at Danionics.

One of the reasons for the many challenges is probably that our organisation has been held to an absolute minimum of activity in order to stretch our money. We all agree that if Danionics Asia Ltd. is to continue operations, the organisation in China will have to be strengthened. If it is not, Danionics Asia Ltd. will not be able to meet the growing requirements of our customers.

On the other hand, growing customer requirements may be the only thing that will enable Danionics Asia Ltd. to stay in operation. In fact, the tougher requirements should be to Danionics Asia Ltd.'s advantage, because the company meets the requirements of a number of its customers. Our company has been subjected to, and has passed, some very demanding audits.

Furthermore, the main competitor in the market has indicated that they intend to withdraw from Danionics Asia Ltd.'s market segment.

That is why we have decided to have another go to see if we can build a reasonable future for Danionics Asia Ltd. However, a difficult decision will have to be made at the Annual General Meeting on 30 April 2009: should Danionics Asia Ltd. continue in operation, should it be sold or be shut down? Naturally, the Board of Directors will announce its position and make its recommendation on this issue when we have completed the discussions with our Chinese business partners.

Karsten Borch
Chairman of the Board

Financial highlights

DKK '000 (except for financial ratios)	2008	2007	2006	2005	2004
Income statement					
Revenue	54	0	0	0	9,255
Production costs	-51	0	-236	-944	-24,301
Other operating income	0	0	3,853	665	7,034
Gross profit/(loss)	3	0	3,617	-279	-8,012
Selling costs	0	0	0	0	-4,707
Development costs, net	0	0	0	0	-5,723
Administrative expenses, net	-2,911	-2,776	-2,441	-3,690	-16,027
Operating profit/(loss) before impairment	-2,908	-2,776	1,176	-3,969	-34,469
Impairment of assets	0	0	0	0	-125,641
Operating profit/(loss)	-2,908	-2,776	1,176	-3,969	-160,110
Writedown relating to joint venture	-8,122	-32,029	0	-2,881	-62,352
Net financials	702	930	-7	-748	2,134
Profit/(loss) before tax	-10,328	-33,875	1,169	-7,598	-220,328
Tax on profit/(loss) for the year	0	0	0	0	-10,000
Net profit/(loss) for the year	-10,328	-33,875	1,169	-7,598	-230,328
Cash flow statement					
Cash flows regarding operating activities	-3,107	-8,787	4,515	-5,044	-3,073
Cash flows regarding investing activities	-8,118	-23,005	13,919	-2,877	-5,258
Cash flows regarding financing activities	0	-425	34,108	-485	-3,766
Balance sheet					
Total assets	13,568	24,862	86,619	25,862	35,293
Land and building	0	0	0	21,417	22,361
Cash	12,615	23,840	56,057	3,515	11,921
Long-term liabilities	0	0	0	23,242	23,758
Short-term liabilities	378	1,344	28,752	1,722	3,111
Share capital	13,965	13,965	13,946	9,255	9,255
Equity	13,190	23,518	57,867	898	8,424
Capital investments					
Intangible assets	0	0	0	0	5,136
Property, plant and equipment	0	0	0	0	124
Investments	8,118	-20,264	20,264	-2,877	-2
Total capital investments	8,118	-20,264	20,264	-2,877	5,258
Depreciation, amortisation and impairment	0	0	-236	-944	-134,610
Financial ratios:					
EBITDA margin (%)	-	-	-	-	-275.5
EBIT margin (%)	-	-	-	-	-1,730.0
Equity ratio (%)	97.2	94.6	66.8	3.5	23.9
Return on invested capital (%)	-1,951.7	-28.0	17.7	-19.4	-24.6
Return on equity (%)	-56.3	-83.3	4.0	-157.9	-181.1
Net earnings per share (EPS) (DKK)	-0.74	-2.43	0.08	-0.82	-24.89
Net asset value per share (DKK)	0.94	1.68	4.15	0.10	0.91
Market price per share, year end (DKK)	2.50	11.60	28.20	2.44	4.02
Average number of employees	1	1	1	1	38

Management's report

Prospects are gloomy

In the annual report for 2007, we wrote that Danionics Asia Ltd.'s future depended on the results we would achieve in 2008.

Unfortunately, at the end of 2008 we had not achieved satisfactory results and at the same time, the customers we are in contact with have announced strong reductions of their sales estimates for 2009 due to the financial crisis.

Hence, prospects for Danionics Asia Ltd.'s are gloomy.

2008 was characterised by problems.

The second quarter was particularly challenging due to technical problems with one of Danionics Asia Ltd.'s trial batteries. Unfortunately, a sub-supplier of electrodes had changed its material without informing Danionics Asia Ltd.

Once the problem was solved, Danionics Asia Ltd. had planned to ramp up production in the third quarter, but once again we saw supply chain difficulties and were unable to deliver according to the orders achieved. Hence, out of total order volumes of 140,000 batteries in September, we were only able to deliver 80,000 batteries.

The financial crisis began to have a serious effect in the fourth quarter. Customers had announced cutbacks throughout the previous months and for this reason, Danionics Asia Ltd. budgeted for only about 50,000 batteries per month instead of a production ramp-up.

In 2008, Danionics Asia Ltd. worked actively to attract new customers and expand relations with existing ones. However, we saw a disappointing end to 2008.

Our largest customer, based in Taiwan, which took a fixed, stable supply every month, discontinued its operations in this segment in late 2008 and Danionics Asia Ltd. more or less had to start over and find new projects.

One of the large customers, which has performed an audit of our production facilities, has indicated an interest in placing a very large order with Danionics Asia Ltd. – mainly because their previous supplier has announced that it wishes to concentrate on the production of other battery types. Danionics Asia Ltd. must meet very strict battery safety requirements and has focused on pursuing this opportunity in the first quarter of 2009. The final trial batteries have been delivered to the customer for testing but the results are as yet unknown. If the results are acceptable, Danionics is likely to win an order equal, on an annual basis, to about one-third of the volume needed for the factory to operate at a profit – of course depending on the price achieved.

Two customers are currently buying additional batteries and we estimate that they could increase their purchases.

Also, a large customer has performed an audit and has indicated an interest in doing business with us.

Management's report

Capitalisation

After having made the investment required under the shareholders' agreement between Danionics A/S and GP Batteries Ltd., the Board of Directors of Danionics A/S resolved to extend another loan to Danionics Asia Ltd. The loan was mentioned in Danionics A/S' interim report for the third quarter of 2008.

The loan is for USD 500,000 and an agreement has been made for GP Batteries Ltd. to provide a similar loan to Danionics Asia Ltd. Both loans were provided in February 2009 on terms identical to previous loans, so Danionics Asia Ltd. can continue operations, initially until the end of May 2009. Danionics A/S has not made any commitment to provide any additional capital to Danionics Asia Ltd.

At the Annual General Meeting, the Board of Directors will present its views on the future of Danionics Asia Ltd. The options being considered are to continue operations, divest the company or to close it down.

Naturally, the Board of Directors will announce its position and make its recommendation on this issue when we have completed the discussions with our Chinese business partners.

At the Annual General Meeting, management also hopes to have clarified the situation with the large customer which has received the trial batteries. This would have a significant effect on the decisions to be made.

Financial performance

Danionics recorded a loss of DKK 2.2 million in 2008 before value adjustments of the investment in Danionics Asia Ltd.

This is in line with our expectations at the beginning of the year of a loss of DKK 2–3 million.

During 2008, Danionics injected DKK 8.1 million into Danionics Asia Ltd. Based on the uncertain expectations to the future, Danionics has recognised the value of its investment in Danionics Asia Ltd. at DKK 0 in the balance sheet, which means that the capital injection made by Danionics in 2008 has been written down over the income statement. At the beginning of the year, Danionics expected the capital injection into Danionics Asia Ltd. to amount to DKK 5–10 million for 2008.

The write-down of the investment resulted in a loss of DKK 10.3 million for Danionics in 2008. This loss led to a reduction of the equity to DKK 13.2 million from DKK 23.5 million in 2007. Hence, the share capital is no longer intact.

At the end of the year, Danionics A/S had cash of DKK 12.6 million, down from DKK 23.8 million in 2007. The decline was mainly due to injections of operating capital into Danionics Asia Ltd.

Events after the balance sheet date

No significant events have occurred between the balance sheet date and the publication of the annual report for 2008 that have not been included and disclosed in the annual report and that materially affect the income statement or the balance sheet.

Outlook for 2009

The result for 2009 will be affected by marketing and sales costs related to the joint venture and administrative costs of around DKK 2.5 million. All in all, Danionics expects a loss in the range of DKK 2–3 million after interest income but before recognition of the share of the profit/loss for the year or value adjustment in Danionics Asia Ltd.

Moreover, the company may still generate sales revenue if the sales efforts undertaken by Danionics A/S should result in new orders.

Under any circumstances, Danionics A/S expects to have sufficient capital to continue in business for the next 12 months.

Risk factors

This section describes a number of risk factors that could have a material effect on the results of operations, financial position and cash flows of Danionics A/S. These factors do not constitute an exhaustive list of risks, and they are not set out in any order of priority or listed according to size or probability. However, they are the risks that the management believes are most significant.

Risks associated with Danionics A/S

➤ Insurance

The company has taken out a product liability insurance covering any damage caused by defective batteries manufactured by the former Danionics factory in Odense. If someone were to file a product liability claim for compensation that falls outside the policy coverage, Danionics may suffer a loss. However, no such claims have been filed since Danionics discontinued its own production in Odense in May 2004. As no claims have been received and five years have passed since batteries were last produced, the product liability insurance has been terminated effective from April 2009 on a recommendation by the company's insurance advisers.

➤ Key personnel

The three members of the Board of Directors and the CEO have all participated intensely in recent years' developments of the company and the restructuring in 2005–2006, and they possess extensive knowledge about Danionics and the joint venture, and they have also established close relations with the business partner GP Batteries. Danionics would be vulnerable if one or more of these key persons ceased to be connected to the company.

➤ Foreign exchange risks

Danionics reports its financial results in DKK. The company's sole activity – the joint venture – has its earnings in USD, and the production costs and overheads are primarily denominated in RMB and purchases in USD. Thus, the translation of the financial results and value of the joint venture into DKK involves a foreign exchange risk. Danionics is not exposed to other customary financial risks as the company does not have any interest-bearing net liabilities.

➤ The joint venture

Today, the sole activity of Danionics is the ownership interest in the Danionics Asia Ltd. joint venture; consequently, the development of the joint venture is decisive for the future of the company. If the joint venture is not successful in delivering large quantities of batteries on time, of an agreed quality and at competitive prices, the joint venture will see poorer financial developments than expected. In that case, Danionics may have to inject additional capital into the joint venture. Ultimately, Danionics may have to sell or otherwise dispose of its investment in the joint venture at a further loss.

Risks associated with Danionics Asia Ltd.

➤ Customer relations and market conditions

The joint venture relies on the products of its customers being successfully sold. If that is not the case, it may affect the capacity utilisation of the joint venture and thus its earnings.

The strategy of the joint venture is to deliver to a limited number of large customers and, thus, there is a risk associated with losing individual customers.

The joint venture is competing in a market characterised by severe price pressure and growing demands from customers regarding efficiency, quality, reliability of delivery and flexibility. There is a risk that competitors may develop improved products at lower prices or that the joint venture cannot compete efficiently.

Moreover, it is difficult to predict market developments, and the joint venture is exposed to the risk of lower market growth, a sharp fall in prices and tougher competition than expected. This might be detrimental to the earnings, cash resources and financial position of the joint venture.

Risk factors

Finally, there is a risk that non-payment or a delay in payment from debtors may lower the operating profit of the joint venture, even though this risk is sought to be minimised by only dealing with major, respected groups.

➤ **Mass production**

The past two years have presented major challenges in achieving sufficient production volumes. If the joint venture is to become profitable, the output must be increased significantly and this requires both an extension of capacity and the appointment of new employees. If the joint venture fails to do so, it will not be able to balance the budget and in addition to poorer earnings, the consequence may also be that the ability to retain existing customers and attract new customers is impaired.

➤ **Dependence on suppliers**

The joint venture is dependent on the supply of critical raw materials. Large and unexpected increases in the price of raw materials such as lithium, aluminium and cobalt may have a negative effect on earnings. In respect of selected raw materials and components, the joint venture is dependent on a few suppliers that can ensure a high level of quality, and any discontinuation of supplies or sub-standard quality would constitute a risk. The joint venture's production is dependent on on-time delivery of raw materials from sub-suppliers, and the solvency and ability to pay of the joint venture are important factors in achieving this. The joint venture seeks to minimise these risks by making purchases through the GB Batteries purchasing organisation and having a share in the large-scale benefits and the associated security.

➤ **Foreign exchange risks**

Purchases and sales made by the joint venture are primarily settled in USD, and the production costs and overheads primarily in RMB. The joint venture is vulnerable to changes in the USD/RMB exchange rate. The joint venture does not hedge these foreign exchange risks.

➤ **Relations with GP Batteries**

Any problems arising from the relations or cooperation with GP Batteries may be detrimental to Danionics' investment in the joint venture.

GP Batteries and the joint venture work closely together in a number of areas such as development, sales, marketing, purchasing, production and management/organisation. Even though the shareholders' agreement between Danionics and GP Batteries ensures equality when final decisions are made, there is also a risk of deadlock between the parties. If the cooperation comes to an end, a dispute may arise about rights to products, etc., and there is a significant risk of losing customers if GP Batteries does not contribute actively to the sales, marketing and development of the joint venture.

➤ **Other risk factors**

A number of other factors may also affect the operation of the joint venture and its financial position:

Key personnel: Retention and attraction of key employees become more difficult if the joint venture does not develop as expected, and loss of key employees may damage the future prospects.

Insurance: The joint venture has product liability insurance and other cover through GP Batteries' insurance programmes, but there is a risk that such insurances may not provide adequate coverage and there can be no assurance that all potential claims would be covered in full.

Copying: There is a risk that issued patent rights do not provide adequate protection of products and processes. There are still certain risks associated with protecting intellectual property rights and preventing copying in China.

Corporate Governance

Corporate governance

The following corporate governance principles are fundamental at Danionics A/S:

- There are no restrictions to the shareholders' right to exert influence
- The principle of one share/one vote is indispensable
- The members of the Board of Directors and the Management Board must be truly independent and must protect the interests of all shareholders
- All members of the Board of Directors stand for election each year
- In the efforts to meet the company's goals, Danionics considers all of its stakeholders' interests and keeps them informed.

The recommendations of NASDAQ OMX Copenhagen

Already in our annual report for 2001, we took a systematic approach to the Nørby Committee's recommendations on corporate governance and the Board of Directors has also discussed the revised recommendations issued by NASDAQ OMX Copenhagen.

Danionics meets most of these recommendations, while other recommendations are irrelevant, because the company's only activity is to be an equal partner in the Danionics Asia Ltd. joint venture and because it has a very limited organisation. For example, setting up board committees and conducting board self-evaluation are considered irrelevant to the company. Effective from 2009, companies are required to appoint board audit committees, and at Danionics, we have decided that the entire Board will make up the audit committee.

As opposed to the recommendations, we believe that using members of the Board of Directors as professional advisors may in some situations be useful to the company. This way, we are able to exploit the members' special knowledge and experience and their contributions make it possible for Danionics to maintain a very flexible and cost-efficient setup with only one part-time employee – the CEO.

The principles guiding the company's corporate governance are described on www.danionics.dk.

The Board of Directors

The Board of Directors has three members; Mr Karsten Borch (Chairman), Mr Frank Gad and Mr Henrik Ottosen. The members of the Board are elected for terms of one year and all three are up for election at the next Annual General Meeting on 30 April 2009.

No retirement age limit has been fixed for members of the Board of Directors, because the company believes that what is important is not a Board member's age, but the ongoing contribution to the Board.

According to NASDAQ OMX Copenhagen's recommendations, two Board members, Karsten Borch and Frank Gad are considered to be independent, while Henrik Ottosen is associated with the company's legal adviser, Dahl law firm, as a partner and board member. This adviser has been chosen on the basis of his special insight.

Related parties are listed in note 10 to the financial statements and any business transacted with these parties is conducted on an arm's length basis.

The work of the Board of Directors

In 2007, the main task of the Board of Directors and the Management Board was to participate actively in managing the joint venture, including contributing to the marketing and sales efforts vis-à-vis European and US customers.

The Board of Directors conducted five actual board meetings in 2008, to which should be added a number of consultations with the company's advisors, meetings with the joint venture partner, GP Batteries, in Hong Kong and China, meetings at the factory in China and dialogues with Danish shareholders during the year.

Corporate Governance

Remuneration of the Board of Directors and the Management Board

Remuneration of the Board of Directors consists of a fixed fee. For 2009, we propose an unchanged fee to the Board of Directors of DKK 420,000, with DKK 180,000 being payable to the Chairman and DKK 120,000 being payable to each of the other members.

Remuneration of the Management Board is payable by the hour on the basis of time spent. There is no incentive-based compensation, nor does the company have pension schemes or severance plans for members of the Board of Directors or the Management Board.

The Board of Directors and their other directorships

Mr Karsten Borch, Chairman of the Board. Born in 1943. Chairman of Danionics since 1995. Number of shares held in the company: 59,609 (of which 26,000 were acquired in 2008).

Chairman of the Board of C&I International GmbH.

Member of the boards of directors of Atrium Partners A/S, Dansk Generationsskifte A/S, Danionics Asia Ltd., ECCO Holding A/S, ECCO Sko A/S and a number of subsidiaries of the ECCO group, HRH Holding A/S and Krogedammen A/S. Managing Director of HADA Holding A/S.

Mr Frank Gad. Born in 1960. Member of the Board of Danionics since 2004. Number of shares held in the company: 27,888. Managing Director of SP Group A/S, SP Moulding A/S, Frank Gad ApS and Gadmol ApS.

Chairman or member of the boards of directors of a number of subsidiaries of the SP Group. Chairman of the boards of directors of Skamol A/S and Skamol Holding A/S. Also a member of the boards of directors of Danionics Asia Ltd. and The Danish Plastics Federation.

Mr Henrik Ottosen. Born in 1960. Member of the Board of Danionics since 2005. Number of shares held in the company: 5,388. Lawyer and partner in the law firm DAHL in Viborg, Denmark.

Chairman of the boards of directors of A. Andersens Enke A/S, A. Andersens Enke Holding A/S, Kaliber Reklamebureau A/S, Investeringsforeningen RHAM Value Partner Small Cap, Samson Agro A/S, Samson Group A/S, Selta Viborg A/S, Unik-Funkis A/S, Wind 1 A/S, World Wide Wind A/S and subsidiaries of the World Wide Wind group.

Member of the boards of directors of Aquapri A/S, Bjerringbro Fornikling A/S, Danglas A/S, Glerup A/S, H.R. Nielsen Holding ApS, Investeringselskabet af 5. januar 2005 A/S, Jysk Vindkraft A/S, Mezzanin Kapital A/S, Norhaven A/S, Norhaven Holding A/S, Raunstrup A/S, SEC Scandinavia A/S, Seelen A/S, TOPO Holding A/S, Unik-Funkis Ejendomme A/S, Viborg Rørteknik A/S and WWW Ejendomme A/S.

The Management Board and other directorships held

The Management Board consists of Henning O. Jensen, Chief Executive Officer. Danionics has entered into a consultancy agreement with HOJE Management ApS, which is Henning O. Jensen's consultancy firm. According to this agreement, Henning O. Jensen is a part-time employee with Danionics and is paid on an hourly basis.

Henning O. Jensen was born in 1942 and has acted as CEO of Danionics since 2004. Number of shares held in Danionics: 3,388. CEO of HOJE Management ApS.

Member of the boards of directors of SFK Handel A/S, TriNova Management A/S, TriNova Management II A/S and chairman of the board of directors of Ledtech A/S.

Shareholder information

Listing

Danionics A/S is listed on NASDAQ OMX Copenhagen under the ISIN code DK0010271238 (ticker: DANIO).

The company is a component of the Small Cap index of NASDAQ OMX Copenhagen.

Share capital

The nominal share capital amounts to DKK 13,964,524, distributed on 13,964,524 shares of a nominal value of DKK 1. All shares are listed for trade, freely negotiable and no shares have special rights.

At the end of February 2009, the company had 7,424 registered shareholders who held a total of 77.2 percent of the capital. The number of registered shareholders is unchanged from last year.

No shareholders own more than 5 percent of the share capital and the shares continue to be widely held. Hence, the 20 largest shareholders own only 18.7 percent of the share capital and 24.2 percent of the registered share capital. Last year, the corresponding percentages were 22.6 percent and 29.4 percent.

The Board of Directors and the Management Board own a total of 0.7 percent of the share capital. The management increased its ownership interest during 2008 from 0.5 percent of the share capital at 31 December 2007.

The Board of Directors has been authorised to increase the share capital by up to a nominal amount of DKK 1,396,452 in the period until 14 April 2013.

In addition, the Board of Directors has been authorised to increase the company's share capital by up to a nominal amount of DKK 356,786 in connection with a previous share issue under the existing warrant programme for former employees.

Share trading and share price performance

The shares started the year at a price of DKK 11.6 and ended the year at DKK 2.5.

During the year, 7.1 million shares were traded, compared with 28.4 million in 2007.

Investor relations policies

Danionics strives to provide clear, factual and true and fair information about the company's operations, results and expected developments. In addition to the NASDAQ OMX Copenhagen's Rules of Ethics, Danionics is subject to limitations in providing information to the effect that value creation depends on the ownership of a joint venture and that this joint venture as a sub-supplier is subject to a number of restrictions in respect of providing information about customer-specific orders.

We strive to maintain open and active relations with our shareholders and other stakeholders. Current information on the company can be found on our website, www.danionics.dk.

Shareholder information

Investor Relations contact

Henning O. Jensen, CEO
 E-mail: investor@danionics.dk
 Tel: +45 70 23 81 30.

Proposals for the Annual General Meeting

The Annual General Meeting will be held on 30 April 2009 at 3 p.m. at Dansk Arkitektur Center, Strandgade 27B, DK-1401 Copenhagen K, Denmark. The Annual General Meeting will be convened not later than on 20 April 2008.

The Board of Directors recommends to the Annual General Meeting that no dividends will be paid in respect of 2008. Also, the Board of Directors recommends the re-election of the present Board and re-election of KPMG as auditors.

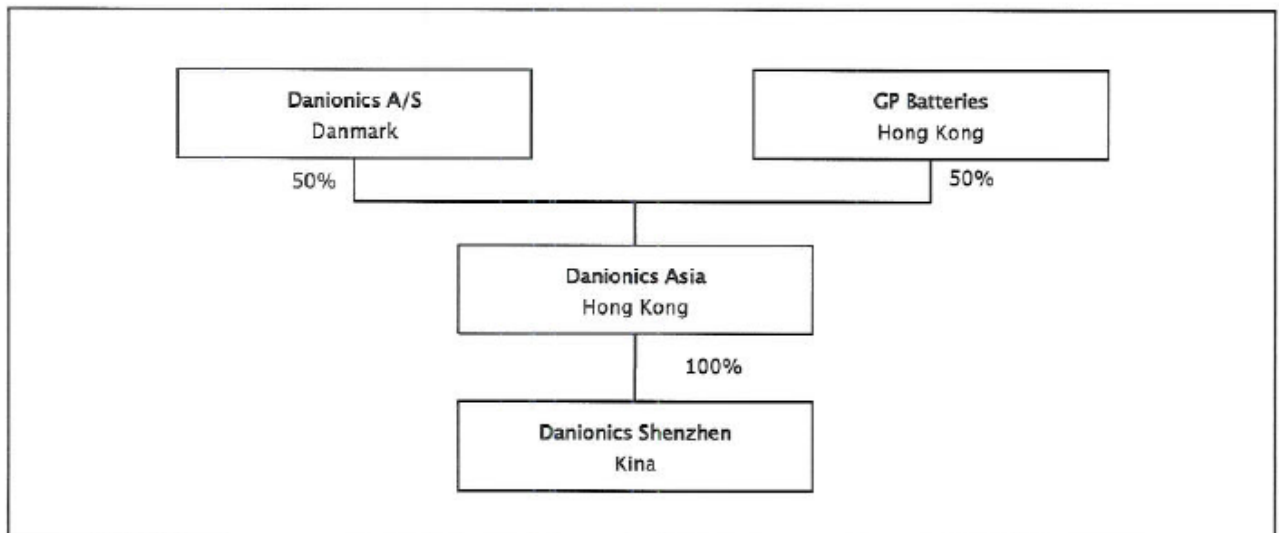
Financial calendar for 2009

24.03.2009	Annual Report 2008
30.04.2009	Quarterly Report 1 st Quarter 2009 and Annual General Meeting 2009
27.08.2009	Interim Report 1 st Half 2009
27.11.2009	Quarterly Report 3 rd Quarter 2009

Company announcements 2008

No. 1/2008	04.01.2008	Financial Calendar 2008
No. 2/2008	10.03.2008	Annual Report 2007
No. 3/2007	31.03.2008	Notice convening Annual General Meeting 2008
No. 4/2007	14.04.2008	Quarterly Report 1 st Quarter 2008
No. 5/2007	14.04.2008	Report on Annual General Meeting 2008
No. 6/2007	21.08.2008	Interim Report 1 st half 2008
No. 7/2007	28.11.2008	Quarterly Report 3 rd Quarter 2008
No. 8/2008	22.12.2008	Financial Calendar 2009

Company structure of the joint venture



Financial review

OPERATIONS

In 2004, Danionics entered into an agreement to establish the Danionics Asia Ltd. joint venture. As part of this agreement, Danionics transferred assets, operations and employees to the joint venture which at the same time took over a number of obligations from Danionics.

Hence, the assets of Danionics A/S consisted of the ownership in the joint venture and a cash position.

Danionics A/S performs a number of tactical and operational activities on behalf of the joint venture. The operating income and expenses in the joint venture are recognised in Danionics A/S's financial statements as profit/loss from investment in associate as described in the accounting policies. The part of the activities that lead to customer orders from the Danish market is invoiced by Danionics A/S.

Revenue

Revenue amounted to DKK 0.1 million in 2008, consisting of battery sales to Danish customers. No revenue was recognised in 2007.

Production costs

The production costs amounted to DKK 0.1 million compared to DKK 0 million in 2007, and consisted of production costs relating to batteries sold.

Administrative expenses

The administrative expenses comprise general administrative expenses, remuneration to the Board of Directors, including expenses related to its active protection of interests in the joint venture and other costs payable as a result of the company's status as a listed company. In 2008, these costs amounted to DKK 2.9 million, compared to DKK 2.8 million in 2007.

Operating results

The operating result amounted to a loss of DKK 2.9 million, compared to a loss of DKK 2.8 million in 2007.

Writedown of investment in associate

The writedown for the year equals the amount which Danionics contributed to Danionics Asia in 2008. The capital contribution in 2008 amounted to DKK 8.1 million. In 2007, Danionics wrote off the investment in the joint venture from DKK 32 million to DKK 0 million after it had been tested for impairment and due to a lack of orders to the joint venture.

Interest income and expenses and similar items

Interest income amounted to DKK 0.8 million, compared to DKK 1.2 million in 2007. The interest income comprised interest income from the company's cash placed in term deposits. The decrease in this income was due to a fall in cash and cash equivalents.

Interest expenses amounted to DKK 0 million, compared to DKK 0.2 million in 2007. The expenses in 2007 related to negative exchange rate adjustments caused by the falling USD rate.

Financial review

Income tax

The income tax for the year amounted to DKK 0. If the accumulated tax loss were to be fully utilised, the tax asset would amount to approximately DKK 122 million, compared to DKK 119 million in 2007.

Net results

Danionics recorded a loss of DKK 10.3 million for 2008 after recognition of the writedown of the investment in Danionics Asia of DKK 8.1 million. The previously announced full-year guidance was of a loss of around DKK 2–3 million before the recognition of the share of profit or writedown related to Danionics Asia.

CASH FLOW STATEMENT AND CAPITAL RESOURCES

Cash flows

Cash flows from operating activities was an outflow of DKK 3.1 million, compared to an outflow of DKK 8.8 million in 2007. The change was attributable to the fall in net profit and the reduction of cash flows from working capital after the debt related to the issuance of new shares in December 2006 was repaid in 2007.

Cash flows from investing activities was an outflow of DKK 8.1 million and were attributable to loan capital for the joint venture.

Cash flows from financing activities was DKK 0 compared to an outflow of DKK 0.4 million in 2007, which comprised a capital increase related to the exercise of warrants of DKK 0.2 million, as well as adjustment of costs (DKK 0.6 million outflow) related to the rights issue in December 2006.

Cash and cash equivalents were reduced by a total of DKK 11.2 million during 2008, compared to a reduction of DKK 32.2 million in 2007. At the end of 2008, cash and cash equivalents amounted to DKK 12.6 million, compared to DKK 23.8 million at the end of 2007.

Balance sheet items

Total assets were reduced from DKK 24.9 million at the end of 2007 to DKK 13.6 million at the end of 2008. The assets consist of the value of the cash and cash equivalents of DKK 12.6 million and receivables of DKK 1.0 million.

The liabilities comprise equity of DKK 13.2 million and a total debt of DKK 0.4 million.

The company has no interest-bearing debt.

Capital resources and outlook for 2009

Danionics A/S intends to cultivate and develop its investment in the joint venture and meet its obligations as a listed company.

Management believes that the company has the necessary capital resources required to finance its operations for the next 12 months.

We expect a loss of around DKK 2–3 million for 2009. This does not include the share of the profit/loss in Danionics Asia Ltd.

Statement by Management

Statement by the Management

Today the Board of Directors and the Management Board of Danionics A/S have considered and approved the Annual Report for 2008.

The Annual Report has been prepared in accordance with the provisions of the Danish Financial Statements Act, Danish accounting standards and other rules imposed by the Copenhagen Stock Exchange on the presentation of financial statements by Danish listed companies. We consider the accounting policies to be appropriate to the effect that the Annual Report gives a true and fair view of the company's assets, liabilities and financial position at 31 December 2008 and of the results of the company's operations and the consolidated cash flows for the financial year ended 31 December 2008.

We recommend that the annual report be adopted by the shareholders at the annual general meeting.

Copenhagen, 24 March 2009

Management Board:

Henning O. Jensen

Board of Directors:

Karsten Borch
Chairman

Frank Gad

Henrik Ottosen

Independent auditors' report

To the shareholders of Danionics A/S

We have audited the annual report of Danionics A/S for the financial year 1 January – 31 December 2008, which comprises the statement by the Executive and Supervisory Boards on the annual report, Management's review, accounting policies, income statement, balance sheet, statement of changes in equity, cash flow statement and notes. The annual report has been prepared in accordance with the Danish Financial Statements Act, Danish Accounting Standards and additional Danish disclosure requirements for annual reports of listed companies.

The Executive and Supervisory Boards' responsibility for the annual report

The Executive and Supervisory Boards are responsible for the preparation and fair presentation of this annual report in accordance with the Danish Financial Statements Act, Danish Accounting Standards and additional Danish disclosure requirements for annual reports of listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an annual report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and basis of opinion

Our responsibility is to express an opinion on this annual report based on our audit. We conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual report, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the annual report 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 the Executive and Supervisory Boards, as well as evaluating the overall presentation of the annual report.

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

Our audit did not result in any qualification.

Opinion

In our opinion, the annual report gives a true and fair view of the Group's and the parent company's financial position at 31 December 2008 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2008 in accordance with the Danish Financial Statements Act, Danish Accounting Standards and additional Danish disclosure requirements for annual reports of listed companies.

Emphasis of matter

While not making a qualification, we refer to the section on Capitalisation and the Outlook for 2009 in the Management's report on pp. 5–6, in which management describes capitalisation and expectations. We concur with the views set forth by the management.

Copenhagen, 24 March 2009

KPMG

Statsautoriseret Revisionspartnerselskab

Finn L. Meyer
State-authorized Public Accountant

Henrik O. Larsen
State-authorized Public Accountant

Accounting policies

The Annual Report for 2008 has been prepared in accordance with the provisions applying to class D enterprises under the Danish Financial Statements Act, Danish accounting standards and the Copenhagen Stock Exchange financial reporting requirements for listed companies. The accounting policies are consistent with those applied last year.

Foreign currency translation

On initial recognition, transactions in foreign currency are translated at the exchange rate ruling at the transaction date. Foreign exchange differences arising between the transaction date and the date of payment are recognised in the income statement under interest income or expenses.

Debtors, creditors and other monetary items denominated in foreign currency are translated at the exchange rates ruling at the balance sheet date. The difference between the exchange rate ruling at the balance sheet date and the exchange rate at the date when the receivable or payable arose or was recorded in the most recent annual financial statements is recognised in the income statement under financial income or expenses.

On recognition of a foreign subsidiary, the income statement is translated at an average exchange rate for the month and the balance sheet items are translated at the exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation of the opening equity of a foreign group enterprise or associate at the exchange rates ruling at the balance sheet date and on translation of the income statement from average exchange rates to the exchange rates ruling at the balance sheet date are recognised directly in equity.

INCOME STATEMENT

Revenue

Revenue from the sale of goods and services is recognised in the income statement if delivery and transfer of risk to the buyer have taken place before year-end and if the income can be reliably measured and is expected to be received. Revenue is measured exclusive of VAT, taxes and any agency commission in connection with the sale.

Production costs

Production costs comprise the production costs incurred to generate the revenue for the year.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for management and administration of the company, including expenses for administrative staff.

Profit/loss from investment in subsidiary

The subsidiary's profit/loss is recognised in the parent company's income statement after elimination of unrealised intra-group gains/losses.

Interest income and expenses and similar items

Interest income and expenses and similar items comprise interest income and expenses, foreign exchange gains and losses on transactions denominated in foreign currencies.

Income tax and deferred tax

Tax for the year, consisting of the year's current tax and movements in deferred tax, is recognised in the income statement as regards the amount that can be attributed to the profit for the year and posted directly on equity as regards the amount that can be attributed to movements taken directly to equity. Interest premiums or discounts are recognised as financial items in the period to which they relate.

BALANCE SHEET

Investment in group enterprise

The investment in group enterprise is measured according to the equity method.

Accounting policies

Investment in group enterprise (continued)

The investment in group enterprise refers to the wholly-owned subsidiary Danionics Inc., which is domiciled in California, USA. The solvent liquidation of this company has been finalised. Its sole object was to promote the sale of the parent company's products for the parent company's account. Due to the insignificant size of the company, it is considered immaterial in the context of giving a true and fair view, and consolidated financial statements have therefore not been prepared.

Net revaluation of the investment in the group enterprise is transferred to the reserve for net revaluation according to the equity method under equity to the extent that the carrying amount exceeds the cost.

Investment in associate

The investment in the joint venture is recognised and measured according to the equity method. The proportionate share of the net asset value is recognised in the balance sheet. If the recoverable amount of the investment is estimated to be lower than the proportionate share of the carrying amount, the investment is written down to this lower value.

Writedowns are recognised in the income statement together with the proportionate share of the profit/loss for the year of the joint venture.

Associates with negative equity are measured at DKK 0. If the company has a legal or constructive obligation to cover the negative balance of the associate, such obligation is recognised.

Tax

Current tax liabilities are recognised in the balance sheet as short-term liabilities to the extent such items have not been paid.

Deferred tax is calculated in accordance with the balance sheet liability method on all timing differences between the accounting and tax value of assets and liabilities. Deferred tax is calculated using the current tax rate.

Deferred tax assets are recognised in the balance sheet as investments to the extent that it is estimated that they can be utilised.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value. The company makes provisions for bad debts on the basis of an individual assessment of each receivable.

CASH FLOW STATEMENT

The cash flow statement shows cash flows for the year, broken down by operating, investing and financing activities, and the year's changes in cash as well as cash at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the profit/loss before interest income and expenses and similar items and before tax, adjusted for non-cash operating items, changes in working capital, and income taxes paid.

Cash flows from investing activities

Cash flows used for investing activities comprise payments in connection with acquisitions and disposals of intangible assets, property, plant and equipment and investments.

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the share capital and associated costs as well as the raising of loans, repayment of interest-bearing debt, and payment of dividends.

Cash

Cash comprises net bank balances and any other cash resources.

Income statement for the year ended 31 December

Note		2008 DKK'000	2007 DKK'000
	Revenue	54	0
	Production costs	-51	0
	Gross profit/(loss)	3	0
1, 2	Administrative expenses	-2,911	-2,776
	Operating profit/(loss)	-2,908	-2,776
3	Profit/(loss) from group enterprise	-91	0
3	Writedown of investment in associate	-8,122	-32,029
4	Interest income and similar items	803	1,153
4	Interest expenses and similar items	-10	-223
	Profit/(loss) before tax	-10,328	-33,875
5	Tax on profit/(loss) for the year	0	0
	Net profit/(loss) for the year	-10,328	-33,875
	Proposed profit appropriation/distribution of loss		
	Transfer to reserve for net revaluation according to the equity method	-425	0
	Retained earnings (loss)	-9,903	-33,875
	Total	-10,328	-33,875

Balance sheet at 31 December – Assets

Note	2008 DKK'000	2007 DKK'000
Fixed assets:		
<i>Investments:</i>		
3	0	425
3	0	0
3	0	0
	0	4
	0	429
	0	429
<i>Current assets:</i>		
	0	380
6	911	171
	42	42
	12,615	23,840
	13,568	24,433
	13,568	24,862

Balance sheet at 31 December – Equity and liabilities

Note	2008 DKK'000	2007 DKK'000
Equity:		
Share capital	13,965	13,965
Net revaluation according to the equity method	0	425
Retained earnings including share premium account	-775	9,128
Total equity	13,190	23,518
Liabilities other than provisions:		
<i>Short-term liabilities other than provisions</i>		
Trade payables	169	177
Payable to group enterprise	0	474
Other payables	209	693
Total short-term liabilities other than provisions	378	1,344
Total liabilities other than provisions	378	1,344
TOTAL EQUITY AND LIABILITIES	13,568	24,862

7	Other financial liabilities
8	Pledges, security and contingent liabilities
9	Change in working capital
10	Financial receipts and disbursements, net
11	Related parties
12	Outstanding warrants

Statement of changes in equity

DKK'000	Share capital	Net revaluation acc. to the equity method	Share premium account and retained earnings	Total	
Equity					
1 January 2007	13,946	474	43,447	57,867	
Capital increases, exercise of warrants	19	0	183	202	
Adjustment regarding rights issue in 2006	0	0	-598	-598	
Costs regarding capital increase	0	0	-29	-29	
Exchange differences on foreign group enterprise	0	-49	0	-49	
Profit/(loss) for the year	0	0	-33,875	-33,875	
Equity at 31 December 2007	13,965	425	9,128	23,518	
Equity					
1 January 2008	13,965	425	9,128	23,518	
Profit/(loss) for the year	0	-425	-9,903	-10,328	
Equity at 31 December 2008	13,965	0	-775	13,190	
	2008	2007	2006	2005	2004

Share capital

Balance at 1 January	13,965	13,946	9,255	9,255	9,255
Exercise of warrants	0	19	53	0	0
Rights issue	0	0	4,638	0	0
Balance at 31 December	13,965	13,965	13,946	9,255	9,255

The share capital consists of 13,964,524 shares of nom. DKK 1 each.

Notes to the financial statements

	2008	2007
	DKK'000	DKK'000
1. Employees, etc.		
Board of Directors		
Remuneration	420	420
	420	420
Management Board		
Remuneration	267	120
Total	267	120
Total staff costs	687	540
Average number of employees	1	1
Breakdown of staff costs		
Administrative expenses	687	540
Total	687	540
2. Fees paid to auditors appointed by the Annual General Meeting		
<i>Audit fees:</i>		
KPMG	75	75
Total	75	75
<i>Non-audit fees:</i>		
KPMG	138	88
Total	138	88

Notes to the financial statements

	Investment in group enterprise	Invest- ment in associate	Loan capital, associate
3. Investments			
Cost at 1 January 2008	0	5,653	82,952
Foreign exchange adjustments	0	0	847
Additions	0	0	8,122
Cost at 31 December 2008	0	5,653	91,921
Value adjustments at 1 January 2008	425	-5,653	-82,952
Foreign exchange adjustments	0	0	-847
Adjustment regarding previous years	-334	0	0
Value adjustment	0	0	-8,122
Profit for the year	-91	0	0
Value adjustments at 31 December 2008	0	-5,653	-91,921
Carrying amount at 31 December 2008	0	0	0
Carrying amount at 31 December 2007	425	0	0

Name	Registered office	Equity interest	Share Capital ¹⁾	Equity and subordinated loan ¹⁾ DKK m	Profit for the year ¹⁾ DKK m	Total assets ¹⁾ DKK m
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Investment in associate:

Danionics Asia Ltd.	Hong Kong	50%	HKD 2	21.6	-8.2	25.1
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1) Danionics A/S' share

The solvent liquidation of Danionics Inc. has been finalised. The company's sole asset was an intercompany account with Danionics A/S, for which reason the net proceeds from the liquidation amounted to DKK 0. The financial result for the year relates to paid state taxes in Texas and California in connection with the liquidation.

The financial information about Danionics Asia Ltd. is based on an unaudited set of interim financial statements at 31 December 2008.

Notes to the financial statements

	2008 DKK'000	2007 DKK'000
4. Interest income and expenses and similar items		
Interest income and similar items:		
Interest income	803	1,099
Foreign exchange adjustment, payable to group enterprise	0	54
Total	803	1,153
Interest expenses and similar items:		
Interest expenses	0	0
Foreign exchange, net	0	-214
Other financial expenses	-10	-9
Total	-10	-223
5. Tax on profit/(loss) for the year		
Current tax for the year	0	0
Change in deferred tax	0	0
Tax for the year	0	0
<i>Tax on the profit/(loss) for the year is derived as follows:</i>		
Calculated tax on pre-tax profit (expense)	-2,582	-8,469
<i>Tax effect of:</i>		
Writedown of investment in associate	2,031	8,007
Other tax adjustments	-77	-54
Calculated tax for the year (expense)	-628	-516
Value adjustment of tax asset	628	516
Tax for the year	0	0
Deferred tax (asset)		
<i>Deferred tax is the difference between the carrying amounts and the amounts used for taxation purposes of the following items:</i>		
Other assets	-109,876	-101,753
Short term debt	0	-400
<i>Tax loss carry-forwards:</i>		
At 1 January	-373,816	-371,757
Prior-year adjustments	0	0
Tax loss carry-forwards expired during the year	0	0
Tax loss for the year	-2,606	-2,060
Basis for calculation	-486,298	-475,970
Calculated deferred tax, 25% (tax asset)	-121,575	-118,993
Value adjustment of tax asset	121,575	118,993
Carrying amount of deferred tax (asset)	0	0

Notes to the financial statements

The company has no deferred tax. At 31 December 2008, the company had a calculated tax asset in the order of DKK 122 million (2007: DKK 119 million) based on a tax rate of 25%. The tax asset relates to tax losses and the difference between the carrying amounts and the amounts used for taxation purposes of the operating equipment balance.

The tax asset has not been recognised as the future earnings and thus the utilisation of the tax loss are subject to uncertainty.

Tax losses at 31 December 2008 can be carried forward indefinitely.

6. Other receivables

Other receivables include a VAT receivable. Discussions are ongoing with the Danish tax authorities on this issue.

	2008	2007
	DKK'000	DKK'000

7. Other financial liabilities

The total obligations under operating leases and finance leases can be specified as follows:

Rent and lease commitments	0	9
Total	0	9

8. Pledges, security and contingent liabilities

If the company ceases to be a shareholder of Danionics Asia, the company must discontinue using the name of "Danionics".

	2008	2007
	DKK'000	DKK'000

9. Change in working capital

Change in other receivables	-360	203
Change in trade payables	-8	-6,597
Change in other payables	-624	-493
Total	-992	-6,887

10. Financial receipts and disbursements, net

Interest income and similar items, cf. note 4	803	1,153
Interest expenses and similar items, cf. note 4	-10	-223
Foreign exchange adjustments	0	-54
Total	793	876

Notes to the financial statements

11. Related parties

In addition to the members of the Board of Directors and the Management Board, the company's related parties comprise:

- | | |
|--------------------------|------------------|
| ➤ Danionics Inc. USA | Group enterprise |
| ➤ Danionics Asia Ltd. | Associate |
| ➤ C&I International GmbH | Supplier |
| ➤ Frank Gad ApS | Supplier |
| ➤ Dahl law firm | Supplier |

The following transactions have been made with related parties:

- Transactions with Danionics Asia Ltd. have comprised shareholder loans for a total of DKK 8.1 million and the purchase of batteries for an amount of DKK 51 thousand.
- Transactions with C&I International GmbH, Frank Gad ApS and Dahl law firm have involved payment for services rendered to the company charged by the hour involving services related to the joint venture.

All related party transactions took place on an arm's length basis.

12. Outstanding warrants

The company has no incentive plans for the management or employees of the company, and neither the Board of Directors nor the Management Board has such incentive plans. Moreover, no extraordinary bonus schemes or the like have been set up for the Board of Directors or the Management Board.

The company has previously issued warrants to its management and employees. Such persons are no longer employed with the company or its associated companies, including the joint venture. Today, no former members of the company's Board of Directors or Management Board have any outstanding warrants. Outstanding warrants are thus only held by former employees of the company.

The active outstanding warrant programmes in the company are listed below. The outstanding warrants in the table were originally granted at prices of between DKK 13 and DKK 200 per share. In connection with the rights issue in December 2006, the warrants held by existing holders were diluted by more than 10% resulting in an adjustment of the number of warrants and the exercise prices. The number of outstanding warrants and the exercise prices set out below are stated following adjustment as a result of dilution.

The following general criteria apply to the programmes:

1. Warrants recipients have not paid for the warrants received.
2. All outstanding warrants are vested in full and may be exercised when a subscription window is open. For warrants issued in 2001, the subscription window is open from the announcement of a financial report and until 6 weeks after the release date. For warrants issued in 2002 and 2003, the subscription window is open from the announcement of a financial report and until 4 weeks after the release date.
3. For warrants issued in 2001 the exercise price is increased by an annual premium from the date of grant.
4. Warrants will be adjusted if changes in the company's share capital change the value of the warrants by more than 10%.
5. Warrants expire successively at the dates set out in the table below under "Expiry".

Notes to the financial statements

12. Outstanding warrants (continued)

Time of issuance	Number of warrants outstanding as at 31 December 2008	Exercise price DKK per share	Annual premium	Value as at 31 December 2008 ¹⁾ (DKK'000)	Exercise periods ²⁾	Expiry
January 2001	34,309	165.20	12%	0	6 weeks	Six weeks after publication of the full-year profit announcement in 2009: 34,309
December 2001	20,182	165,20	12%	0	6 weeks	Six weeks after publication of the full-year profit announcement in 2009: 10,090 in 2010: 10,092.
February 2002	22,704	73,50	–	0	4 weeks	Four weeks after publication of the full-year profit announcement in 2009: 22,704
December 2003	212,485	10.74	–	160	4 weeks	Four weeks after publication of the full-year profit announcement in 2010: 163,701 in 2011: 48,784
Total	289,680	–	–	160		

1) The calculation of the value was made using the Black & Scholes formula. The calculation is based on the assumption that warrants will not be exercised until expiry. The risk-free interest rate has been fixed at 4.92% p.a. The volatility of the share has been fixed at 122%, calculated on the basis of historic volatility based on the share prices in the past year (daily quotations). The dividend percentage has been fixed at 0%. The market price has been fixed at DKK 2.50 per share, corresponding to the closing price on 30 December 2008.

2) Warrants can only be exercised during the subscription period when a subscription window is open. Subscription windows are open from the date the profit announcement is released until four or six weeks later, respectively.

No warrants have been granted since 2003.

No warrants were exercised in 2008. The drop in the number of outstanding warrants at 31 December 2008 relative to 31 December 2007 was due to the expiry of warrants in 2008 under the warrant programmes of January 2001, December 2001 and February 2002.

Definitions

Financial ratios

The financial ratios listed in the financial highlights and key ratios on page 4 have been calculated in accordance with "Recommendations and Financial Ratios 2005" issued by the Danish Association Society of Financial Analysts.

Glossary: Product and business terms

Bluetooth	A technology enabling wireless communication between electronic products such as a wireless headset and a cell phone or an MP3 player
Joint venture	Co-ownership and a close collaboration between two business partners in the development of a company.
Lithium-ion	A type of rechargeable battery
Lithium-ion polymer	A type of lithium ion battery based on gel instead of liquid. Manufactured using the winding or stacking production method and can generally be made thinner than conventional liquid-based batteries.

Currencies and financial terms

DKK	Danish kroner
HKD	Hong Kong dollars
RMB	Renminbi, the official currency of China
USD	US dollars
Warrants	A right to subscribe shares