Annual Report 2007

Danionics A/S

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Company information

The company:
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Website: www.danionics.dk
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CVR-no.: 71 06 47 19
Financial year: 1 January – 31 December
Reg. office: City of Copenhagen

Board of Directors:
Karsten Borch, Chairman
Frank Gad
Henrik Ottosen

Management Board:
Henning O. Jensen

Annual General Meeting:
14 April 2008, at 3 p.m. in
Dansk Arkitektur Center, Strandgade 27 B, 1401 Copenhagen K.

Auditors:
KPMG C. Jespersen
Borups Allé 177
DK-2000 Frederiksberg

Bankers:
Nordea Bank Danmark A/S
Vestergade 64
DK-5100 Odense C

Registrar:
Aktiebog Danmark A/S
Kongevejen 118
DK-2840 Holte

Legal advisers:
Law firm Dahl
Gravene 2
DK-8800 Viborg

Letter from the Chairman

The year 2007 ended on a sad note.

During the year, Danionics worked with six prospective, large customers and tried hard to win major orders from some of them.

Unfortunately, these efforts were unsuccessful.

Sometimes due to a customer decision – but many times also due to mistakes made in our own organisation, which has been under a lot of stress.

Had it not been for substantial, skilled and frequent assistance from our cooperation partner, GP Batteries, things could have gone even worse.

Now, we continue the dialogue with the customers and hope to turn the situation around.

2007 was a year of too many ups and downs. A very laborious and annoying year.

Every time we felt we had reached a high, a new problem emerged. Most annoying about it all is the fact that the market is still demanding a new quality supplier – and Danionics can become that supplier.

But requirements are tightened all the time. More and more difficult tests must be passed, requirements to battery performance and safety are also growing, and funding the business growth could become a problem, if the present situation in the financial markets continues. Competition for qualified staff in China is also getting fiercer. Danionics has lost several people on that account.

Of course, the Board of Directors has considered whether we should go on. Whether there is a fair chance that we will succeed.

We recommend continuing our efforts in 2008 but look forward as always to having an open discussion with our co-shareholders on this subject at our Annual General Meeting on 14 April 2008.

Karsten Borch
Chairman of the Board

Financial highlights

DKK '000 (except for financial ratios)	2007	2006	2005	2004	2003
Income statement					
Revenue	0	0	0	9,255	76,193
Production costs	0	-236	-944	-24,301	-138,017
Other operating income	0	3,853	665	7,034	0
Gross profit/(loss)	0	3,617	-279	-8,012	-61,824
Selling costs	0	0	0	-4,707	-10,090
Development costs, net	0	0	0	-5,723	-26,901
Administrative expenses, net	-2,776	-2,441	-3,690	-16,027	-16,272
Operating profit/(loss) before impairment	-2,776	1,176	-3,969	-34,469	-115,087
Impairment of assets	0	0	0	-125,641	0
Operating profit/(loss)	-2,776	1,176	-3,969	-160,110	-115,087
Write down relating to joint venture	-32,029	0	-2,881	-62,352	0
Net financials	930	-7	-748	2,134	-1,073
Profit/(loss) before tax	-33,875	1,169	-7,598	-220,328	-116,160
Tax on profit/(loss) for the year	0	0	0	-10,000	0
Net profit/(loss) for the year	-33,875	1,169	-7,598	-230,328	-116,160
Cash flow statement:					
Cash flows regarding operating activities	-8,787	4,515	-5,044	-3,073	-38,063
Cash flows regarding investing activities	-23,005	13,919	-2,877	-5,258	-33,944
Cash flows regarding financing activities	-425	34,108	-485	-3,766	-9,665
Balance sheet:					
Total assets	24,862	86,619	25,862	35,293	317,240
Land and building	0	0	21,417	22,361	0
Cash	23,840	56,057	3,515	11,921	24,018
Long-term liabilities	0	0	23,242	23,758	39,683
Short-term liabilities	1,344	28,752	1,722	3,111	33,194
Share capital	13,965	13,946	9,255	9,255	9,255
Equity	23,518	57,867	898	8,424	244,363
Capital investments:					
Intangible assets	0	0	0	5,136	19,668
Property, plant and equipment	0	0	0	124	14,156
Investments	-20,264	20,264	-2,877	-2	120
Total capital investments	-20,264	20,264	-2,877	5,258	33,944
Depreciation, amortisation and impairment	0	-236	-944	-134,610	-63,846
Financial ratios:					
EBITDA margin (%)	-	-	-	-275.5	-67.3
EBIT margin (%)	-	-	-	-1,730.0	-151.0
Equity ratio (%)	94.6	66.8	3.5	23.9	77.0
Return on invested capital (%)	-28.0	17.7	-19.4	-24.6	-40.5
Return on equity (%)	-83.3	4.0	-157.9	-181.1	-38.1
Net earnings per share (EPS) (DKK)	-2.43	0.08	-0.82	-24.89	-12.55
Net asset value per share (DKK)	1.68	4.15	0.10	0.91	26.40
Market price per share, year end (DKK)	11.60	28.20	2.44	4.02	11.30
Average number of employees	1	1	0	38	195

Highlights of the year

The year that was lost

Danionics had planned to receive an influx of orders in 2007. Unfortunately, that did not happen. After some positive signs of improvement in the second half of the year, orders failed to arrive. In terms of orders, the company has not moved past the level at the beginning of 2007. Generally a year has then been lost on the sales side.

Of course, there are a number of reasons for this, and Danionics may be able to reverse the situation in 2008. However, it has cost a lot of effort and money in 2007 and, obviously, the year 2008 must produce results if Danionics is to have a future.

The strategy remains unchanged.

Danionics still wants to be a supplier that delivers high-quality products on time and meets environmental, safety and workplace requirements.

The company wants to have two or three large customers that it can have close relations with and work together with over a longer period of time as well as a group of small customers who are willing to pay for the development of special products.

As the company's break-even point is relatively low, between 400,000 and 500,000 batteries per month, the task is not in theory impossible.

The market for the type of batteries Danionics can produce is growing rapidly, and during the last six months it looked like the strategy would work. During this period, Danionics worked concurrently with six major prospective customers.

- The major frame contract customer with whom an agreement was concluded 2½ years ago has been one long disaster. But at a meeting at the end of 2007 between their management and the Board of Directors of Danionics, they confirmed their commitment to make the agreement operational. A new plan was drawn up and orders will be released after a new thorough audit. This will take place at the end of March 2008. Demands on manufacturers such as Danionics increase concurrently with the mishaps that have befallen the battery industry, which has suffered product recalls, etc. in the last 12 months. Thus, another audit is required.

  A number of customers have focused only on price, but it is not that easy to manufacture batteries. Now, quality will become an invariable requirement.

- The customer that Danionics developed an ultra-thin battery for confirms that it wants to receive large deliveries, but the final confirmations have failed to appear. They depend on the customer's sales.

- Danionics has also developed another ”customised” battery which another large customer is pressing for. A recent audit from them showed that, in the opinion of the customer, certain areas of Danionics' production need to change. A proposal has been made and presented to the customer.

- One of the world's largest companies showed an interest in Danionics' production and performed a very thorough audit.

  Danionics passed with flying colours, but the trial battery that Danionics subsequently developed did not satisfy the customer and so a new one is being developed.

- Danionics has attracted the attention of one of the largest battery users in the world over the last year and the parties are in close technical dialogue.

- A related industry that needs large quantities of small batteries has received a newly developed battery from Danionics and has commented favourably on it.

Most of these companies could take the entire Danionics production alone, but they all want to share with others and, therefore, the strategy is still to attract at least two large customers.

Highlights of the year

GP Batteries, the partner of Danionics A/S, has stated that with the increasing market and Danionics' products, which are attractive, focus must be on production so that the company is able to supply exactly what customers demand.

The company has recently found itself in a tight corner, in some cases because the customer was experiencing problems, but also because Danionics has experienced some problems.

The pressure is simply enormous, because we have to develop new batteries all the time, prepare quotations in reply to the many inquiries and undergo new, complicated audits, which steal time from the company's calendar. At the same time, we are trying to keep staffing at a minimum in order to make the shareholders' money go as far as possible.

Financial performance
Danionics reported a loss of DKK 1.8 million – before value adjustments of the investment in Danionics Asia. This is on a par with the loss of DKK 2-3 million forecast at the beginning of the year.

Already in the Q1 announcement (19 April 2007) Danionics announced that a write-down of the value of the investment in Danionics Asia might be necessary, because the joint venture's intake of orders was too small. At the end of the year, the investment was written down by DKK 32 million to DKK 0. At the end of 2006, the investment was recognised at DKK 29.3 million, corresponding to Danionics' total cost of re-establishing its 50% ownership interest in the joint venture and injecting the agreed working capital. During 2007, Danionics contributed a further DKK 2.7 million in working capital to the joint venture.

The write-down of the investment causes Danionics to report a loss of DKK 33.9 million. As a result of this loss the equity falls to DKK 23.5 million, down from DKK 57.9 million at the end of 2006.

At the end of the year, the company's cash position amounted to DKK 23.9 million, down from DKK 56 million at end-2006. The fall was attributable to investments in, as well as injection of working capital into, the joint venture.

Events reported after the end of the financial year
No other significant events have occurred up to the date of this annual report that have not been included and adequately disclosed in the Annual Report and that materially affect the income statement or the balance sheet.

Outlook for 2008
The result for the year 2008 will be effected by marketing and selling costs relating to the joint venture and administrative expenses of about DKK 2.5 million. All in all, Danionics expects a loss in the region of DKK 2-3 million after interest and before recognition of the share of the results for the year or valueadjustment of Danionics Asia.

Further commission income if the sales efforts done by Danionics A/S result in new ordes.

Danionics expects to have to inject working capital in the amount of DKK 5-10 million into Danionics Asia again in 2008. During the period from 1 January 2008 and to the date of this report, the capital injection has amounted to a total of DKK 2.6 million.

The Danionics Asia Ltd. joint venture

Danionics Asia Ltd. (the joint venture) is owned by Danionics and GP Batteries International Ltd., one of the world's largest manufacturers of both primary and rechargeable batteries.

Danionics Asia develops and manufactures light, thin, powerful, environmentally friendly and rechargeable lithium-ion polymer batteries. The market for those batteries is growing rapidly. Danionics Asia focuses especially on the market for small and ultra-thin batteries for Bluetooth-based products such as headsets, electronic ID cards, smart cards, etc. Moreover, the company is capable of producing batteries for handheld and lap-top computers, mobile phones and MP-3 players; but because of keen competition in this segment, the joint venture is reluctant pressently to engage in a further development of these products.

The parent company of the joint venture is based in Hong Kong, while the operative activities are executed by the subsidiary Danionics Shenzhen Ltd., whose principal activity is to develop and manufacture batteries in Shenzhen in the south of China. GP Batteries' global sales organisation and the management of Danionics A/S in Denmark are responsible for marketing and sales.

Market conditions
Danionics Asia operates on the world market for rechargeable lithium-ion polymer batteries. The growth rates are higher than on the markets for liquid-based lithium-ion batteries and traditional nickel-based batteries (NiCd and NiMH). More and more applications are released which require lithium technology, and large fluctuations in the price of nickel again in 2007 made the customers opt out of nickel-based batteries and into lithium-ion batteries with a higher capacity in relation to their weight and size.

The high demand for lithium-ion batteries in general and lithium-ion polymer batteries in particular has attracted more suppliers. First and foremost, small Chinese manufacturers who compete on price and have fluctuating levels of quality. Globally, there are a few major manufacturers of lithium-ion polymer batteries and, during the year, GP Batteries acquired a controlling interest in one of them. This company primarily focuses on other parts of the market, e.g. toys and MP3/MP4 players and, thus, there is no conflict of interests. On the contrary, Danionics Asia has formed cooperative arrangements with the company regarding production technology, quality and development, among other things. It is also being discussed whether Danionics Asia can make manufacturing capacity available to the company, as it experiences capacity shortages from time to time. Both parties expect to achieve positive synergies from the cooperation.

The price rises in nickel make Danionics Asia's technology more competitive compared with traditional nickel batteries. Compared with the new, small Chinese discount manufacturers of lithium-ion batteries, Danionics Asia is believed to be competitive if the customers, in addition to the low price, want high-quality batteries delivered on time by a company with a strong commitment to the environment and health and safety at work.

The technology of the joint venture makes it possible to design batteries that store large amounts of energy in less space and provides greater freedom to customise the diameter, length and breadth to suit the customer's requirements. This flexibility and ability to develop very small and powerful batteries is an important feature on the joint venture's focus market for small Bluetooth-enabled products – a market where the need for battery cells is expected to double between now and 2010. The ability to store a large amount of energy in less space is also crucial in another attractive market segment with wafer-thin batteries which are not more than 0.7 mm thick.

At present, Danionics Asia has chosen not to be on the large market for batteries for mobile phones, where the suppliers must be able to mass produce series to an extent that the capacity of the joint venture cannot satisfy.

Customer relations
In 2007, batteries were delivered and invoiced by Danionics Asia to customers in Taiwan, Korea, China, Malaysia and the USA.

The Danionics Asia Ltd. joint venture

In January 2008, Danionics Asia had 13 active customers to whom batteries were delivered or who had agreed and confirmed production and deliveries in 2008. At the corresponding time in 2007, there were eight active customers and in addition to the increasing circle of customers and the increase in battery shipments, the joint venture is seeing a strong interest from potential customers from all over the world.

During the last six months of the year, Danionics Asia prepared several quotations each month for series that the potential customers estimated would range from anything between 5,000 to 300,000 batteries per month. Many different types of trial batteries were also delivered each month to both existing and potential customers and, finally, Danionics Asia has, on the basis of previous quotations and trial batteries, manufactured a number of pilot series of from 1,000 to 2,500 batteries. Several prospective customers, who have ordered those series, have announced that they expect to place actual and large orders in the second and third quarters of 2008. However, it is too early to say whether such orders will reach the expected level. That depends entirely on whether the customers' products are successful in the market.

Sales are too slow, and it takes longer than expected to gain a foothold in the market. In 2007, the factory used only a limited part of its capacity and it will have to manufacture 400,000 to 500,000 batteries each month before it reaches break-even – depending on the selling prices. Therefore, it is crucial that more sales agreements are entered into so that the factory will deliver large quantities of high-quality and competitively priced products each month.

Production and quality

During the year, Danionics Asia realigned their staff to match sales rates. At the beginning of the year, the company had about 200 employees, of which half were employed in production, but at the end of December, the number had been reduced to 128. 73 were employed in production, 8 in product development, 13 in quality management, 16 in maintenance and mechanical engineering and the rest were employed in administration, HR, finance, IT and logistics.

In general, the factory is calibrated to produce about half a million batteries a month, but in connection with some of the most time-consuming processes the actual capacity is about 400,000 batteries. It is fairly easy to scale up and go from single-shift to double-shift operations if the required number of orders comes in. In the longer term, the factory in Shenzhen may be geared to facilitate the mass production of 1 million batteries a month.

The factory is regularly inspected by specialists from GP Batteries, and both existing and potential customers perform audits. Based on those inspections, great advances are constantly made in the production flow, trial production, quality, reliability of delivery, logistics, etc. In 2006, the factory became ISO 9001 certified and in 2007 additional efforts were made to obtain ISO 14000 environmental certification as well as OHSAS 1800 certification. At the same time, a special Health and Safety group has continued efforts to ensure that the factory lives up to not only Chinese law but also international standards for working conditions and working environment.

In 2008, GP Batteries is going to move its Technical Center into the same building that houses Danionics Asia. The joint venture expects that this will intensify cooperation in the development of batteries as well as technology. With the assistance of the GP Batteries Technical Centre, the joint venture is also working to develop other chemical systems within the polymer technology that will enable it to serve new customer segments.

Raw materials and consumables

Raw materials prices have increased slightly, but Danionics Asia has managed to keep the aggregate raw material prices down – however, with one exception: the price of cobalt, which is one of the active ingredients in batteries, almost doubled in the latter part of the year. However, this will only have a limited effect on cost prices of the small lithium-ion polymer batteries for e.g. Bluetooth applications, which are Danionics Asia's primary focus.

There were no significant supplier changes during the year, but Danionics Asia has decided to start manufacturing electrodes, which is one of the most important components of batteries.

The Danionics Asia Ltd. joint venture

Today, the electrode production process is outsourced to one of GP Batteries' enterprises located in Taiwan, and the in-house production will primarily shorten lead times and transportation times, but it will also reduce cost prices. Savings are limited, however.

On the other hand, shorter delivery times are of great importance in the very progressive market that Danionics Asia operates in. The equipment for production of electrodes is being installed and the first trial productions are scheduled for the second quarter of 2008. The equipment is being run-in in close cooperation with the GP Batteries Technical Center and experts from the GP Batteries factories in the USA and Asia.

Cooperation within the joint venture

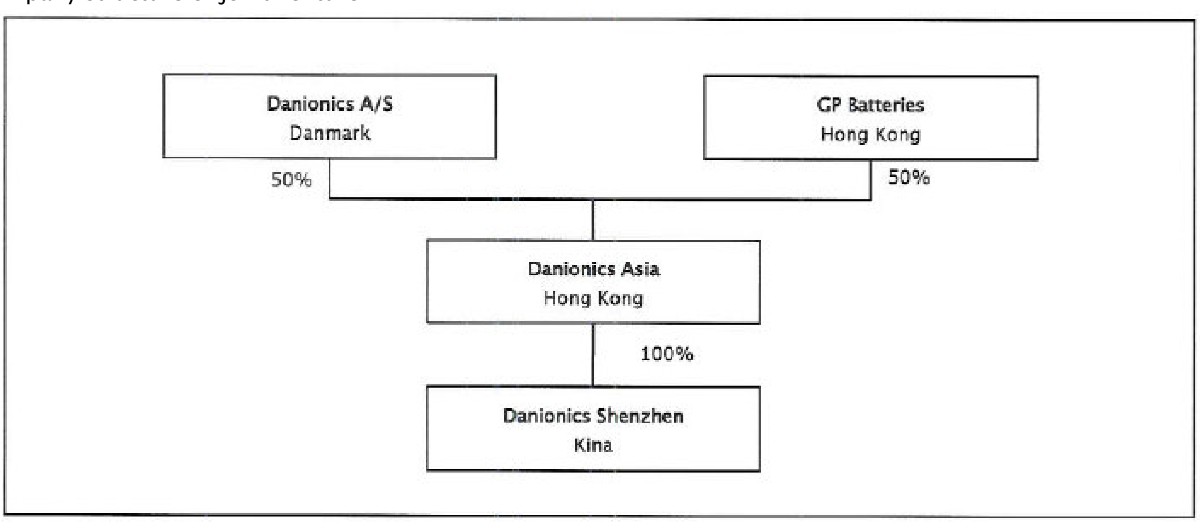
Danionics' cooperation with GP Batteries on the operation and development of Danionics Asia is regulated by a shareholders' agreement that was updated at the turn of the year 2006/07 and which runs for four years. The objective of the two parties is to make Danionics Asia a well-established and leading manufacturer of lithium-ion polymer batteries, and their common ambition is for the joint venture to reach a size and earnings in four years that can lead to an independent listing on a stock exchange, a sale or a joint further development.

Danionics and GP Batteries both appoint two members for the Board of Directors of the joint venture. Danionics has appointed Chairman of the Board of Directors Karsten Borch and Board member Frank Gad. GP Batteries has appointed CEO and Chairman of the Board of Directors Andrew Ng (chairman) and director W.S. Hui. Cooperation within the Board of Directors has been exemplary. The CEO of the joint venture continues to be Simon Norst, who has more than 30 years of experience from the battery sector in Denmark and Malaysia, among other places. He is backed up by a management team with great experience from the industry, and several members of the management team have previously worked with GP Batteries.

GP Batteries International Ltd. is listed on the Singapore Exchange and is a part of the Hong Kong-based Gold Peak Group. GP Batteries is one of the world's largest manufacturers of both primary and rechargeable batteries and the largest manufacturer of consumer batteries in China. The group has 11,300 employees, production facilities in a number of Asian countries and sales offices in Asia, Europe and North America.

The cooperation between Danionics Asia and GP Batteries is already extensive, but is being intensified on an ongoing basis. Danionics Asia's batteries are marketed and sold under its own brand through GP Batteries' global sales organisation. Most of the joint venture's purchases are made via GP Batteries' purchasing organisation to achieve large-scale benefits. The development department of Danionics Asia and the GP Batteries development units in China, Hong Kong and the USA also work closely together and, as mentioned above, they are discussing and working together on production, technology and quality, among other things.

Company structure of joint venture:



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. 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.

- **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 very 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**

While 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 and/or write down the value of its ownership interest in Danionics Asia. 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. After the conclusion of the major open-end contract in August 2006, the joint venture has especially been dependent on one major customer and on this customer executing the open-end contract to place orders with the joint venture. This has not happened to any appreciable extent and the joint venture has, thus, made intensified efforts to cultivate new potential customers.

The joint venture is competing in a market characterised by heavy 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 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 Shenzhen staff has limited experience in the mass production of batteries. 2007 was the first year that the factory in Shenzhen was to, on a regular basis, produce and deliver a smaller quantities of batteries on time, of agreed quality and at competitive prices. If the joint venture is to become profitable, the output must be increased significantly and this requires both an extension of capacity and the employment of new staff. 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 constitutes 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. In this connection there is a special risk associated with the fact that the production of the joint venture relies on deliveries of electrodes from GP Batteries in Taiwan, but this risk will be reduced in 2008 when the joint venture begins manufacturing electrodes in Shenzhen.

- **Reduction of the share capital in Shenzhen**

In July 2007, the Board of Directors of Danionics Asia Ltd. decided to reduce the share capital to USD 10.4 million, which was approved by the Chinese authorities. In this connection the license to operate a business in Shenzhen on the basis of the new capital base was renewed.

- **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.

Risk factors

Policies: The joint venture has a product liability insurance etc. through the GP Batteries insurance portfolio, but there is a risk that the portfolio does 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 principles form the basis of corporate governance in Danionics:

- No restrictions on the shareholders' right to exert influence
- The principle of one share/one vote is invariable
- The Board of Directors and the Management Board are truly independent and protect the interests of all shareholders
- The Board of Directors stands for election every year
- In our efforts to meet our goals, we consider all stakeholders' interests and keep them informed.

The recommendations of the OMX
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 the OMX Nordic Exchange Copenhagen.

Danionics meets most of these recommendations while some recommendations are irrelevant to us due to the company's special situation as a holding company with no operating activities and with a very limited organisation.

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 14 April 2008.

The Board of Directors is independent. Mr Henrik Ottosen is associated with the company's legal adviser, Advokatfirmaet Dahl, as partner and member of the Board of Directors. The connection to related parties has been properly described and business is conducted on an arm's length basis. The adviser has been chosen on the basis of his special insight.

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 the marketing and sales efforts vis-à-vis European and US customers.

The Board of Directors conducted ten board meetings, to which should be added a number of meetings 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. Also, the Board of Directors played an important role in connection with a major framework agreement with a global manufacturer of Bluetooth-enabled products, which was concluded in late 2006, and participated in general sales efforts.

Remuneration of the Board of Directors
For 2008, we propose an unchanged fee to the Board of Directors of DKK 420,000, of which DKK 180,000 is payable to the Chairman and DKK 120,000 is payable to each of the other members.

Corporate Governance

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: 33,609 (of which 11,000 were acquired in 2007).

Member of the Board 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 and C&I International GmbH.

Mr Frank Gad. Born in 1960. Member of the Board of Danionics since 2004. Number of shares held in the company: 27,888 (of which 5,000 were acquired in 2007). CEO of SP Group A/S, SP Moulding A/S, Frank Gad ApS and Gadmol ApS.

Chairman of the Board and member of the Board of a number of subsidiaries of the SP Group. Chaiman of Skamol A/S and Skamol Holding A/S. Also a member of the Board 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 (of which 5,000 were acquired in 2007). Lawyer and partner in the law firm DAHL in Viborg.

Chairman of the Board of A. Andersens Enke A/S, A. Andersens Enke Holding A/S, Eltax A/S, Hartly og Møller Reklamebureau A/S, Investeringsforeningen ATRIUM Value Partner Small Cap, Samson Agro A/S, Samson Bimatech A/S, Samson Group A/S, Samson Pumps A/S, Selta Viborg A/S, Unik-Funkis A/S, VKS Inventa A/S, World Wide Wind A/S and subsidiaries in the World Wide Wind group.

Member of the Board of BF Ejendomsselskab ApS, Biga Køkken & Bad A/S, Bjerringbro Fornikling A/S, Danglas A/S, Glerup A/S, H.R. Nielsen Holding ApS, Investeringsselskabet af 5. januar 2005 A/S, Jysk Vindkraft A/S, Mezzanin Kapital A/S, Nettoline A/S, Nørhaven A/S, Raunstrup A/S, Raunstrup Tømrer Holding A/S, SEC Scandinavia A/S, Skandinavisk Køkkengruppe A/S, TOPO Holding A/S, Viborg Rørteknik A/S.

The Board of Management and its positions
The Board of Management 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 (of which 3,000 were acquired in 2007). CEO of HOJE Management ApS, Energi Horsens Net Holding A/S and ASNET m.b.a.

Member of the Board of SFK Handel A/S, TriNova Management A/S, TriNova Management II A/S and Energi Horsens Net Holding A/S.

Shareholder information

Listing

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

As from 2008, the company is a component of the Small Cap index of the OMX Nordic Exchange 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.

In 2007, the share capital was increased once by a nominal amount of DKK 18,848 which was subscribed at DKK 10.74 per share. The increase amounted to 0.14 percent of the previous share capital and was a result of the exercise of warrants issued to employees in 2003.

At the end of February 2008, the company had 7,531 registered shareholders owning a total of 76.84 percent of the capital. Since the release of the annual report for 2006, the number of registered shareholders has fallen by 5 percent.

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 22.6 percent of the share capital and 29.4 percent of the registered capital.

The Board of Directors and the Management Board own a total of 0.50 percent of the share capital. The management increased its ownership interest during 2007.

Share trading and share price performance

The share started the year at a price of DKK 28.20 and ended the year at DKK 11.60.

During the year, 28.4 million shares were traded, compared with 57 million in 2006.

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 OMX Nordic Exchange 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. Such relations include answering personal inquiries. 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 14 April 2008 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 5 April 2008.

The Board of Directors recommends to the Annual General Meeting that no dividends will be paid for 2007. Also, the Board of Directors recommends the re-election of the present Board and re-election of KPMG as auditors.

Financial calendar for 2008

10.03.2008	Annual Report 2007
14.04.2008	Annual General Meeting 2008 and Quarterly Report 1st Quarter 2008
21.08.2008	Interim Report 1st Half 2008
28.11.2008	Quarterly Report 3rd Quarter 2008

Stock exchange announcements 2007

No. 1/2007	24.01.2007	Reconstruction finalised
No. 2/2007	24.01.2007	Financial Calendar 2007
No. 3/2007	23.03.2007	Annual Report 2006
No. 4/2007	04.04.2007	Notice convening Annual General Meeting 2007
No. 5/2007	19.04.2007	Quarterly Report 1st Quarter 2007
No. 6/2007	19.04.2007	Development of Annual General Meeting 2007
No. 7/2007	22.05.2007	Increase in share capital as a result of the exercise of warrants belonging to former employees and expiry of 34,308 warrants of a nominal value of DKK 1 each
No. 8/2007	01.06.2007	Danionics' share capital and total number of voting rights at per 31 May 2007
No. 9/2007	31.08.2007	Interim Report 1st half 2007
No.10/2007	30.11.2007	Quarterly Report 3rd Quarter 2007

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 strategically sales efforts 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 described in the accounting policies.

Revenue

No revenue was recognised in 2007.

Production costs

The production costs amounted to DKK 0, compared to DKK 0.2 million in 2006, and consisted only of depreciation charges on the factory building in Odense, which was sold in April 2006.

Other operating income

Other operating income amounted to DKK 0, compared to 3.9 million in 2006.

An accounting profit of DKK 3.8 million was recognised at the disposal of the factory building in Odense in April 2006. In addition, other operating income consisted of income from sub-letting the property.

The gross profit amounted to DKK 0, compared to DKK 3.6 million in 2006. The reduction in profit was due to the disposal of the property in 2006, while no income or expenses were recognised in 2007.

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 2007, these costs amounted to DKK 2.8 million, compared to DKK 2.4 million in 2006. The increase was due to expenses related to the protection of interests in the joint venture.

Operating results

The operating result amounted to a loss of DKK 2.8 million, compared to a profit of DKK 1.2 million in 2006.

Writedown of investment in associate

The investment in the Danionics Asia joint venture in 2007 was written down by DKK 32 million to DKK 0 as a result of lack of orders for the joint venture At the end of 2006, the investment was recognised at DKK 29.3 million, corresponding to Danionics' total cost of re-establishing its 50% ownership interest in the joint venture and injecting the agreed working capital. During 2007, Danionics contributed a further DKK 2.7 million in working capital to the joint venture.

Interest income and expenses and similar items

Interest income amounted to DKK 1.2 million, compared to DKK 0.2 million in 2006. The interest income comprised interest income from the company's cash placed in term deposits. The increase in this income was due to a rise in cash and cash equivalents as a result of the issue of new shares in December 2006.

Interest expenses amounted to DKK 0.2 million, which was unchanged, compared to 2006. The expenses in 2007 related to negative exchange rate adjustments caused by the falling USD rate, while expenses in 2006 related to interest payable on the company's long-term financing of the property in Odense.

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 119 million.

Net results

Danionics recorded a net loss of DKK 33.9 million after recognition of the writedown of the investment in Danionics Asia of DKK 32 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 8.8 million, compared to an inflow of DKK 4.5 million in 2006. 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 23 million and were attributable partly to loan capital for the joint venture (DKK 2.7 million outflow), partly to payment of the DKK 20.3 million loan agreed on in 2006.

Cash flows from financing activities 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 issuance of new shares in December 2006.

Cash and cash equivalents were reduced by a total of DKK 32.2 million during 2007, compared to an increase of DKK 52.5 million in 2006. At the end of 2007, cash and cash equivalents amounted to DKK 23.9 million, compared to DKK 56.1 million at the end of 2006.

Balance sheet items

The balance sheet total was reduced from DKK 86.6 million at the end of 2006 to DKK 24.9 million at the end of 2007. The assets consist of the value of other fixed asset investments of DKK 0.4 million, receivables of DKK 0.6 million and cash and cash equivalents of DKK 23.9 million. The investment in the joint venture, Danionics Asia, was recognised at DKK 0.

The liabilities comprise equity of DKK 23.5 million and a total debt of DKK 1.4 million.

The company has no interest-bearing debt.

Capital resources and outlook for 2008

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 2008. This does not include the share of results 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 2007.

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 2007 and of the results of the company's operations and the consolidated cash flows for the financial year ended 31 December 2007.

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

Copenhagen, 10 March 2008

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 2007, 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 2007 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 2007 in accordance with the Danish Financial Statements Act, Danish Accounting Standards and additional Danish disclosure requirements for annual reports of listed companies.

Copenhagen, 10 March 2008

Michael Sten Larsen	Thomas Petersen
State-authorised	State-authorised
Public Accountant	Public Accountant

KPMG C. Jespersen
Statsautoriseret Revisionsinteressentskab

Accounting policies

The Annual Report for 2007 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 depreciation of factory building in Odense.

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

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, and the interest element of finance lease payments.

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. This company is in solvent liquidation and therefore has no employees. 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 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.

Write downs 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 actual liability to pay for the under balance of the associate, this liability 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		2007 DKK'000	2006 DKK'000
	Revenue	0	0
	Production costs	0	-236
	Other operating income	0	3,853
	Gross profit/(loss)	**0**	**3,617**
1, 2	Administrative expenses	-2,776	-2,441
	Operating profit/(loss)	**-2,776**	**1,176**
3	Profit from group enterprise	0	0
3	Write down of investment in associate	-32,029	0
4	Interest income and similar items	1,153	200
4	Interest expenses and similar items	-223	-207
	Profit/(loss) before tax	**-33,875**	**1,169**
5	Tax on profit/(loss) for the year	0	0
	Net profit/(loss) for the year	**-33,875**	**1,169**

	Proposed profit appropriation/distribution of loss		
	Retained earnings (loss)	-33,875	1,169
	Total	**-33,875**	**1,169**

Balance sheet at 31 December – Assets

Note		2007 DKK'000	2006 DKK'000
	Fixed assets:		
	Investments:		
3	Investments in group enterprise	425	474
3	Investments in associate	0	0
3	Loan capital, associate	0	29,288
	Deposits	4	4
	Total investments	429	29,766
	Total fixed assets	**429**	**29,766**
	Current assets:		
	Receivable from associate	380	0
	Other receivables	171	775
	Accruals	42	21
	Cash	23,840	56,057
	Total current assets	24,433	56,853
	TOTAL ASSETS	**24,862**	**86,619**

Balance sheet at 31 December – Equity and liabilities

Note		2007 DKK'000	2006 DKK'000
	Equity:		
	Share capital	13,965	13,946
	Net revaluation according to the equity method	425	474
	Retained earnings including share premium account	9,128	43,447
	Total equity	**23,518**	**57,867**
	Liabilities other than provisions:		
	Short-term liabilities other than provisions		
	Trade payables	177	6,774
	Payable to group enterprise	474	528
	Payable to associate	0	20,647
	Other payables	693	803
	Total short-term liabilities other than provisions	1,344	28,752
	Total liabilities other than provisions	**1,344**	**28,752**
	TOTAL EQUITY AND LIABILITIES	**24,862**	**86,619**

6	Other financial liabilities
7	Pledges, security and contingent liabilities
8	Change in working capital
9	Financial receipts and disbursements, net
10	Related parties
11	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 2006	9,255	530	-8,887	898
Capital increases, exercise of warrants	53	0	558	611
Capital increase , offering new shares	4,638	0	60,287	64,925
Costs regarding capital increases	0	0	-9,680	-9,680
Exchange differences on foreign group enterprise	0	-56	0	-56
Profit/(loss) for the year	0	0	1,169	1,169
Equity at 31 December 2006	**13,946**	**474**	**43,447**	**57,867**
Equity				
1 January 2007	13,946	474	43,447	57,867
Capital increases, exercise of warrants	19	0	183	202
Adjustment regarding offering new shares 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**

	2007	**2006**	**2005**	**2004**	**2003**
Share capital					
Balance at 1 January	13,946	9,255	9,255	9,255	9,255
Exercise of warrants	19	53	0	0	0
Offering of new shares	0	4,638	0	0	0
Balance at 31 December	13,965	13,946	9,255	9,255	9,255

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

Cash flow statement for the year ended 31 December

Note		2007 DKK'000	2006 DKK'000
	Profit/(loss) before financial items and tax	-2,776	1,176
	Depreciation, amortisation and impairment	0	236
	Financial profit from sale of building	0	-3,771
8	Change in working capital	-6,887	6,881
	Cash flows to operating activities before financial items	-9,663	4,522
9	Financial receipts and disbursements, net	876	-7
	Cash flows used for operating activities	**-8,787**	**4,515**
	Payment for property, plant and equipment	0	22,943
	Net investments, associate	-2,741	-29,288
	Payable capital investment, associate	-20,264	20,264
	Cash flows used for investing activities	**-23,005**	**13,919**
	Capital increases , exercise of warrants	173	520
	Capital increase , offering new shares	-598	55,336
	Repayment of long-term loans	0	-21,748
	Cash flows used for financing activities	**-425**	**34,108**
	Change in cash	-32,217	52,542
	Cash at 1 January	56,057	3,515
	Cash at 31 December	**23,840**	**56,057**

Notes to the financial statements at 31 December

	2007 DKK'000	2006 DKK'000
1. Employees, etc.		
Board of Directors		
Remuneration	420	420
	420	420
Management Board		
Remuneration	120	697
Total	120	697
Total staff costs	**540**	**1,117**
Average number of employees	**1**	**1**
Breakdown of staff costs		
Administrative expenses	540	445
Deducted in profit from sale of property	0	422
Costs offering new shares	0	250
Total	540	1,117
2. Fees paid to auditors appointed by the Annual General Meeting		
Audit fees:		
KPMG	92	60
Total	92	60
Non-audit fees:		
KPMG	88	1,181
Total	88	1,181

Notes to the financial statements at 31 December

	Investment in group enterprise	Invest-ments in associate	Loan capital, associate
3. Investments			
Cost at 1 January 2007	0	5,653	88,868
Prior-year adjustment	0	0	4,492
Foreign exchange adjustments	0	0	-13,149
Additions	0	0	2.741
Cost at 31 December 2007	0	5,653	82,952
Value adjustments at 1 January 2007	474	-5,653	-59,580
Foreign exchange adjustments	-49	0	13,149
Prior-year adjustment	0	0	-4,492
Value adjustment	0	0	-32,029
Profit for the year	0	0	0
Value adjustments at 31 December 2007	425	-5.653	-82,952
Carrying amount at 31 December 2007	425	0	0
Carrying amount at 31 December 2006	474	0	29,288

Name	Registered office	Equity interest	Share capital	Equity and loan MDKK	Profit for the year MDKK	Total assets MDKKK
Investment in group enterprise:						
Danionics Inc.	USA	100%	USD 1	0.425	0	0.474
Investment in associate:						
Danionics Asia Ltd.	Hong Kong	50%	HKD 2	20.9	-9.1	22.7

Danionics Inc. is in solvent liquidation and therefore has no employees. Its sole object was to promote the sale of the parent company's products and 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. The company had no activities in 2007.

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

Notes to the financial statements at 31 December

	2007 DKK'000	2006 DKK'000
4. Interest income and expenses and similar items		
Interest income and similar items:		
Interest income	1,099	147
Foreign exchange adjustment, payables group enterprise	54	53
Total	1.153	200
Interest expenses and similar items:		
Interest expenses	0	-205
Foreign exchange, net	-214	0
Other financial expenses	-9	-2
Total	-223	-207
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
Tax on the profit/(loss) for the year is derived as follows:		
Calculated tax on pre-tax profit (expense)	-8,469	327
Tax effect of:		
Write down of investment in associate	8.007	0
Adjustments regarding sale of property / Non-deductible costs	-54	6,922
Calculated tax for the year (expense)	-516	7,249
Value adjustment of tax asset	516	-7,249
Tax for the year	0	0
Deferred tax (asset)		
Deferred tax is the difference between the carrying amounts and the amounts used for taxation purposes of the following items:		
Other assets	-101,753	-65,740
Short term debts	-400	-400
Tax loss carry-forwards:		
At 1 January	-371,757	-393,266
Prior-year adjustments	0	2,862
Tax loss carry-forwards expired during the year	0	47,571
Tax loss for the year	-2,060	-28,924
Basis for calculation	-475,970	-437,897
Calculated deferred tax, 25% / 28% (tax asset)	-118,993	-122,611
Value adjustment of tax asset	118,993	122,611
Carrying amount of deferred tax (asset)	0	0

Notes to the financial statements at 31 December

The company has no deferred tax. At 31 December 2007, the company had a calculated tax asset in the order of DKK 119 million (2006: DKK 123 million) based on a tax rate of 25% in 2007 and of 28% in 2006. 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.

Tax losses at 31 December 2007 can be carried forward indefinitely.

	2007	2006
	DKK'000	DKK'000
6. Other financial liabilities		
The total obligations under rent can be specified as follows:		
Rent commitments	9	9
Total	9	9

7. Pledges, security and contingent liabilities

In order to secure that sufficient capital is contributed to the joint venture, each joint venture partner has undertaken to pay up to an additional USD 2 million to Danionics Asia Ltd. These loans will not carry interest and will only be repaid subject to agreement between the joint venture partners. If a joint venture partner fails to pay in an aggregate sum of up to USD 2 million during a period of 180 days from Danionics Asia's written request for such payment, the other joint venture partner may pay the outstanding amount and demand that the joint venture partners' loans in excess of USD 10 million be converted into shares.

Danionics A/S has paid up additional capital of an amount of USD 0.5 million as per 31 December 2007. Hence the remaining liability amounts USD 1.5 million as per 31 December 2007.

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

Danionics A/S is a party to certain legal and arbitration proceedings. The outcome of pending cases is not expected to be of material importance for the company's financial position.

	2007	2006
	DKK'000	DKK'000
8. Change in working capital		
Change in other receivables	203	–401
Change in trade payables	–6,597	6,629
Change in other payables	–493	653
Total	–6,887	6,881
9. Financial receipts and disbursements, net		
Interest income and similar items, cf. note 4	1,153	200
Interest expenses and similar items, cf. note 4	–223	–207
Foreign exchange adjustments	–54	0
Total	876	–7

Notes to the financial statements at 31 December

10. 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
➢ Borch Associates Ltd.	Supplier
➢ Frank Gad ApS	Supplier
➢ Law firm Dahl	Supplier

The following transactions have been made with related parties:

- Transactions with Danionics Asia Ltd. have comprised shareholder loans for a total of DKK 2.7 million and sales activities on behalf of the joint venture of DKK 0.5 million.
- Transactions with Borch Associates Ltd., Frank Gad ApS and Law firm Dahl 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.

11. 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. 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 at 31 December

11. Outstanding warrant (continued)

Time of issuance	Number of warrants outstanding as at 31 December 2007	Exercise price DKK per share	Annual premium	Value as at 31 December 2006 1) (DKK'000)	Exercise periods2)	Expiry
January 2001	68,617	165.20	12%	0	6 weeks	Six weeks after publication of the full-year profit announcement in 2007: 34,305 in 2008: 34,305 in 2009: 34,315
December 2001	30,272	165,20	12%	0	6 weeks	Six weeks after publication of the full-year profit announcement in 2008: 10,090 in 2009: 10,090 in 2010: 10,092.
February 2002	45,408	73,50	-	1	4 weeks	Four weeks after publication of the full-year profit announcement in 2008: 22,704 in 2009: 22,704
December 2003	212,485	10.74	–	1.057	4 weeks	Four weeks after publication of the full-year profit announcement in 2010: 163,701 in 2011: 48,784
Total	356,782	–	–	1.058		

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 4.9% p.a. The volatility of the share has been fixed at 59.3%, 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 11.60 per share, corresponding to the closing price on 28 December 2007.

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 were granted since 2003.

In 2007, a total of 18,848 warrants were exercised at an exercise price of DKK 10.74 per share. In 2006, a total of 52,732 warrants were exercised at an average exercise price of DKK 11.58 per share.

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 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.
MP 3 player	Music player that can store music on a drive.
ODM	Original Design Manufacturer
OEM	Original Equipment Manufacturer
PDA	Handheld computers such as the iPAQ manufactured by HP
Smart Card	Access card with electronic installation feature and built-in thin 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