Soliton Systems Development Center Europe A/S

Spotorno Allé 12, 2630

CVR no. 26 03 15 08

Annual report 2019

Approved at the Company's annual general meeting on 31 August 2020

Chairman:

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Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Soliton Systems Development Center Europe A/S for the financial year 1 January - 31 December 2019.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019.

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

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

Taastrup, 31 August 2020
Executive Board:

Pal Ujvarosi
CEO

Board of Directors:

Mogens Mølgaard Jensen Chairman	Masatoshi Hitomi	Nobuo Kamata

Independent auditor's report

To the shareholders of Soliton Systems Development Center Europe A/S

Opinion

We have audited the financial statements of Soliton Systems Development Center Europe A/S for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

Independent auditor's report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

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

Copenhagen, 31 August 2020
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Ole Hedemann	Anders Flymer-Dindler
State Authorised Public Accountant	State Authorised Public Accountant
mne14949	mne35423

Management's review

Company details

Name	Soliton Systems Development Center Europe A/S
Address, Postal code, City	Spotorno Allé 12, 2630
CVR no.	26 03 15 08
Established	3 May 2001
Registered office	Taastrup
Financial year	1 January - 31 December
Website	http://solitonsystems.com/
Board of Directors	Mogens Mølgaard Jensen, Chairman Masatoshi Hitomi Nobuo Kamata
Executive Board	Pal Ujvarosi, CEO
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36, P.O. Box 250, 2000 Frederiksberg, Denmark

Management commentary

Business review

Soliton Systems Development Center Europe A/S is a development centre for the Soliton Global group, developing solutions for internal and external use.

Financial review

The income statement for 2019 shows a loss of DKK 8,002 thousand against a loss of DKK 11,999 thousand last year, and the balance sheet at 31 December 2019 shows a negative equity of DKK 74,378 thousand. The result for the year is negatively influenced by an initial decision from SKAT regarding repayment of tax credit of 1,709 thousand DKK relating to previous years. Management disagree with the decision from SKAT, and is currently in discussions with SKAT in order to reverse the decision.
The Company has lost more than 50 % of the share capital and is therefore subject to the rules on capital loss in the Danish Companies Act. Management expects to reestablish the share capital through future earnings or capital injection from the shareholder.

Events after the balance sheet date

There have been no other events after the balance sheet date that could have an impact on the company`s financial position at 31 December 2019.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2019	2018
	Gross profit	7,013	6,006
3	Staff costs	-11,499	-15,865
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	0	-1,230
	Profit/loss before net financials	-4,486	-11,089
4	Financial expenses	-580	-910
	Profit/loss before tax	-5,066	-11,999
5	Tax for the year	-2,936	0
	Profit/loss for the year	-8,002	-11,999
	Recommended appropriation of profit/loss		
	Reserve for development costs	0	-8,324
	Retained earnings/accumulated loss	-8,002	-3,675
		-8,002	-11,999

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	ASSETS		
	Fixed assets		
6	Intangible assets		
	Acquired intangible assets	3,600	5,400
		3,600	5,400
7	Investments		
	Deposits, investments	187	186
		187	186
	Total fixed assets	3,787	5,586
	Non-fixed assets		
	Receivables		
	Receivables from group enterprises	908	661
	Corporation tax receivable	0	1,226
	Other receivables	3	87
	Prepayments	155	164
		1,066	2,138
	Cash	576	1,362
	Total non-fixed assets	1,642	3,500
	TOTAL ASSETS	5,429	9,086

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	EQUITY AND LIABILITIES		
	Equity		
8	Share capital	17,980	17,980
	Retained earnings	-92,358	-84,356
	Total equity	-74,378	-66,376
	Liabilities other than provisions		
	Current liabilities other than provisions		
	Trade payables	244	217
	Payables to group enterprises	63,397	58,506
	Corporation tax payable	1,709	0
	Other payables	14,457	16,383
	Deferred income	0	356
		79,807	75,462
	Total liabilities other than provisions	79,807	75,462
	TOTAL EQUITY AND LIABILITIES	5,429	9,086

1 Accounting policies
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Financial statements 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 January 2019	17,980	-84,356	-66,376
Transfer through appropriation of loss	0	-8,002	-8,002
Equity at 31 December 2019	17,980	-92,358	-74,378

The Company has lost more than 50 % of the share capital and is therefore subject to the rules on capital loss in the Danish Companies Act. Management expects to reestablish the share capital through future earnings or capital injection from the shareholder.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Soliton Systems Development Center Europe A/S for 2019 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

In accordance with section 110(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

Income from the rendering of services is recognised as revenue as the services are rendered. Accordingly, revenue corresponds to the market value of the services rendered during the year (percentage-of-completion method).

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross profit

The items revenue, cost of sales, other operating income and external expenses have been aggregated into one item in the income statement called gross profit in accordance with section 32 of the Danish Financial Statements Act.

Other operating income

Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains on the sale of fixed assets.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Amortisation

The item comprises amortisation of intangible assets.

The cost net of the expected residual value for completed development projects and acquired IP rights is amortised over the expected useful life. Acquired IP rights include patents, rights and licences.

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

Acquired intangible assets	5 years

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In the case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Profit from investments in subsidiaries and associates

The item includes dividends from investments in subsidiaries and associates. Dividend distributions that either exceed the profit for the year or where the carrying amount of the investments exceeds the consolidated carrying amounts of the subsidiary's net assets will indicate impairment for which reason an impairment test will have to be conducted.

Tax

The parent company is covered by the Danish rules on mandatory joint taxation of the Group's Danish subsidiaries. Subsidiaries are included in the joint taxation arrangement from the date at which they are included in the consolidated financial statements and up to the date when they are no longer consolidated.

The parent company acts as management company for the joint taxation arrangement and consequently settles all corporate income tax payments with the tax authorities.

On payment of joint taxation contributions, the Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

Tax for the year, which comprises the current income tax charge, joint taxation contributions and deferred tax adjustments, including adjustments arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Other intangible assets include development projects and other acquired intangible rights, including software licences, distribution rights and development projects.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities areidentifiable and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 5 years and cannot exceed 10 years.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

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

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

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

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

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

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

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

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

Cash

Cash comprise cash subject only to minor risks of changes in value.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income taxes

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

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value which is usually nominal value.

Deferred income

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

2 Letter of support

The going concern of the company is conditional upon contribution of cash, either by way of a share increase or through an extension of the existing credit facilities, or through new lenders. The company has received a letter of support from its parent company which confirms that the parent company will provide all the support that may be needed in order for the company to pay all liabilities as the fall due until 31 December 2020. Based on this it is management's opinion that the financial statements can be prepared on a going concern assumption.

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK'000	2019	2018
3	Staff costs		
	Wages/salaries	10,586	14,666
	Pensions	779	993
	Other social security costs	134	206
		11,499	15,865

In 2019 wages and salaries of DKK 11,388 thousand has been recharged from companies within the Soliton Systems K.K. group.
In 2018 wages and salaries of DKK 13,721 thousand has been recharged from companies within the Soliton Systems K.K. group.

		2019	2018
	Average number of full-time employees	16	24

		2019	2018
4	Financial expenses		
	Interest expenses, group entities	574	679
	Other financial expenses	6	231
		580	910
5	Tax for the year		
	Estimated tax charge for the year	2,936	0
		2,936	0

Tax for the year relates to the decision from SKAT regarding repayment of the tax credit.

6 Intangible assets

DKK'000	Acquired intangible assets
Cost at 1 January 2019	9,000
Cost at 31 December 2019	9,000
Impairment losses and amortisation at 1 January 2019	3,600
Amortisation for the year	1,800
Impairment losses and amortisation at 31 December 2019	5,400
Carrying amount at 31 December 2019	3,600

7 Investments

Name	Legal form	Domicile	Interest	Equity DKK'000	Profit/loss DKK'000
Subsidiaries					
Giritech	A/S	Taastrup	100.00%	-435	40

Financial statements 1 January - 31 December

Notes to the financial statements

8 Share capital

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

DKK'000	2019	2018	2017	2016	2015
Opening balance	17,980	17,980	17,980	17,980	17,980
	17,980	17,980	17,980	17,980	17,980

9 Contractual obligations and contingencies, etc.

Other contingent liabilities

As management company, the Company is jointly taxed with other Danish group entities and is jointly and severally with other jointly taxed group entities for payment of income taxes as well as withholding taxes on interest, royalties and dividends.

Other financial obligations

Other rent and lease liabilities:

DKK'000	2019	2018
Rent and lease liabilities	0	1,194

10 Related parties

Soliton Systems Development Center Europe A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Soliton Systems K. K.	2-4-3 Shinjuku, Shinjuku-ku, Tokyo 160-0022 Japan	Owns 100 % of share capital

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Soliton Systems K.K.	2-4-3 Shinjuku, Shinjuku-ku, Tokyo 160-0022 Japan	The ultimate mother company's financial statement is available at https://solitonsystems.com/