

Cardlab ApS

Hørkær 14 C, 1, 2730 Herlev

Company reg. no. 29 31 77 04

Annual report

1 January - 31 December 2019

The annual report was submitted and approved by the general meeting on the 11 June 2020.

Frank Sandeløv
Chairman of the meeting

Contents

	<u>Page</u>
Reports	
Management's report	1
Independent auditor's report	2
Management commentary	
Company information	5
Management commentary	6
Financial statements 1 January - 31 December 2019	
Income statement	8
Statement of financial position	9
Notes	11
Accounting policies	15

Notes to users of the English version of this document:

- To ensure the greatest possible applicability of this document, IAS/IFRS British English terminology has been used.
- Please note that decimal points remain unchanged from Danish version of the document. This means that DKK 146.940 corresponds to the English amount of DKK 146,940, and that 23,5 % corresponds to 23.5 %.

Management's report

Today, the board of directors and the managing director have presented the annual report of Cardlab ApS for the financial year 1 January - 31 December 2019 of Cardlab ApS.

The annual report has been presented in accordance with the Danish Financial Statements Act.

We consider the accounting policies appropriate and, in our opinion, the financial statements provide a fair presentation of the company's assets, equity and liabilities, and financial position at 31 December 2019 and of the company's results of activities in the financial year 1 January – 31 December 2019.

We are of the opinion that the management commentary presents a fair account of the issues dealt with.

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

Herlev, 11 June 2020

Managing Director

Frank Sandeløv

Board of directors

Kim Wagner Jørgensen

Noriaki okubo

Steen L. Hørdum

Susan Ponthus Jackson

Independent auditor's report

To the shareholders of Cardlab ApS

Opinion

We have audited the financial statements of Cardlab ApS for the financial year 1 January - 31 December 2019, which comprise accounting policies, income statement, statement of financial position and notes. The financial statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements present a fair view of the company's assets, equity and liabilities, and financial position at 31 December 2019 and of the results of the company's activities 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 and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the section "Auditor's responsibilities for the audit of the financial statements". We are independent of the company in accordance with international ethical requirements for auditors (IESBA's Code of Ethics), and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that provide a fair view in accordance with the Danish Financial Statements Act. Management is also responsible for such internal control as the 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 unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing, 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 these financial statements.

Independent auditor's report

As part of an audit conducted in accordance with international standards on auditing, and the additional requirements applicable in Denmark, we exercise professional judgment 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 the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's preparation of the financial statements using the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists arising from 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 disclosures in notes, and whether the financial statements reflect the underlying transactions and events in a manner that presents a 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 the internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on and the financial statements does not cover the management commentary, and we express no assurance opinion thereon.

Independent auditor's report

In connection with our audit of the financial statements, it is our responsibility to read the management commentary and to consider whether the management commentary is materially inconsistent with the financial statements or the evidence obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we believe that management commentary is consistent with the financial statements and that it has been prepared in accordance with the provisions of the Danish Financial Statement Act. We did not discover any material misstatement in the management commentary.

Copenhagen, 11 June 2020

Grant Thornton

State Authorised Public Accountants
Company reg. no. 34 20 99 36

Ole Skou

State Authorised Public Accountant
mne15007

Company information

The company

Cardlab ApS
Hørkær 14 C, 1
2730 Herlev

Phone 31554994

Company reg. no. 29 31 77 04

Financial year: 1 January - 31 December

Board of directors

Kim Wagner Jørgensen
Noriaki okubo
Steen L. Hørdum
Susan Ponthus Jackson

Managing Director

Frank Sandeløv

Auditors

Grant Thornton, Statsautoriseret Revisionspartnerselskab
Stockholmsgade 45
2100 København Ø

Subsidiaries

Cardlab Innovation ApS, ApS, Herlev
Hong Kong Innovation Electric Ltd., Hong Kong
Cardlab (Thailand) Co. Ltd., Thailand

Management commentary

The principal activities of the company

The company's aim is to make investments and to hold investments in companies within trade and industry, including by ownership of patents and other intellectual property rights for the commercial exploitation, and any other related activities.

Uncertainties about recognition or measurement

Investment in development activities is in nature related with risk, and the assessment of the investments made is therefore related with some uncertainty. It is Management's assessment that investment in equity in group enterprises, intangible assets and amounts owed by group enterprises as a minimum have a value corresponding to the value accounted for in the financial statements.

The intangible assets, equity investments in equity in group enterprise and amounts owed by group enterprises are related with some uncertainty, as it is a prerequisite for these assets that the company can increase its earnings considerably. This assumption depends on whether the company receives the necessary capital as described below.

Development in activities and financial matters

The gross loss for the year totals DKK -1.721.179 against DKK -241.000 last year. Income or loss from ordinary activities after tax totals DKK -5.539.853 against DKK -6.056.000 last year. Management considers the net profit or loss for the year unsatisfactory.

The company has in 2019 invested further in production capacity in the subsidiary CardLab Thailand, where the turnover in 2019 in addition to development projects for CardLab Innovation customers also consisted of card production for other customers in the newly established lamination factory in Thailand.

The company's activities are focused on application of new patents, maintenance and expansion of the patent portfolio, as well as coordination of group activities to support the planned development, production and sales activities in the subsidiary with the desired profitability and consistency of supply. CardLabs revenue base is henceforth royalties from clients based on the company's patents.

In 2019 the company executed a reconstruction process that has resulted in a clear and transparent owner structure and eliminated internal owner arrangements and agreements. Upon termination of the reconstruction, the company received a capital injection from the present owners to be able to focus on the rapidly increasing biometric card market.

The company has in 2019 decided to write down the development- and patent cost and raw material stock for the dynamic magstripe solution due to the stronger focus on biometric card sales.

The subsidiary company CardLab Innovation's focus on the biometric area with the completion of the Horizon 2020 project with 4 standard biometric cards ready for sale medio 2020 is by the management considered a safe road to stable growth, as we towards the end of the year have seen an increased inflow of new biometric card orders and strong customer interest.

Management commentary

Expected developments

The Companies technologies are expected to reach a higher commercial level during 2020, where a start of commercial volume production is expected followed by a volume based commercial breakthrough in 2021.

Capital resources

CardLab has in 2019 received a capital injection from the existing investors. To start ramp up of production, based on the expected increase in sales volume in 2020, a further capital injection is needed to be able to execute this production ramp up. This capital increase is initiated by the present shareholder and will continue depending on capital need.

There is in addition an ongoing work to enter into an agreement with one or more external investors and groups of investors, in order to create additional financial foundation for further accelerating company growth and production capacity.

Events occurring after the end of the financial year

After the end of the financial year, the company have experienced a considerable uncertainty around some customer's ability to complete their projects after the outbreak of the Covid-19 pandemic with a lockdown of significant parts of the world causing uncertainty among both suppliers and customers. The company expect it will be negatively affected in the first half of 2020, but increased demand for secure and hygienic products is expected to cause a strong increase in the Company's card products, fulfilling all requirement to security and hygiene with extreme low risk of transferring infectious diseases in for instance access control systems.

Income statement 1 January - 31 December

All amounts in DKK.

<u>Note</u>	<u>2019</u>	<u>2018</u>
Gross loss	-1.721.179	-240.741
2 Staff costs	-36.667	-170.000
Amortisation and impairment of intangible assets	-2.572.087	-657.946
Other operating costs	0	-62.100
Operating profit	-4.329.933	-1.130.787
Other financial income	-11.385	3.328
3 Financial costs	-1.198.535	-1.464.516
Pre-tax net profit or loss	-5.539.853	-2.591.975
4 Tax on net profit or loss for the year	87.176	-3.464.404
Net profit or loss for the year	-5.452.677	-6.056.379
 Proposed appropriation of net profit:		
Allocated from retained earnings	-5.452.677	-6.056.379
Total allocations and transfers	-5.452.677	-6.056.379

Statement of financial position at 31 December

All amounts in DKK.

Assets		
<u>Note</u>	<u>2019</u>	<u>2018</u>
Non-current assets		
5 Concessions, patents, licenses, trademarks, and similar rights acquired	9.729.556	10.409.502
Total intangible assets	<u>9.729.556</u>	<u>10.409.502</u>
6 Equity investments in group enterprises	40.035.759	40.035.759
7 Deposits	15.554	15.554
Total investments	<u>40.051.313</u>	<u>40.051.313</u>
Total non-current assets	<u>49.780.869</u>	<u>50.460.815</u>
Current assets		
Receivables from group enterprises	15.408.635	12.481.136
Other receivables	160.953	93.073
Total receivables	<u>15.569.588</u>	<u>12.574.209</u>
Cash on hand and demand deposits	<u>788.224</u>	<u>10.516</u>
Total current assets	<u>16.357.812</u>	<u>12.584.725</u>
Total assets	<u>66.138.681</u>	<u>63.045.540</u>

Statement of financial position at 31 December

All amounts in DKK.

Equity and liabilities			
<u>Note</u>		<u>2019</u>	<u>2018</u>
Equity			
8	Contributed capital	6.660.437	3.660.437
9	Retained earnings	35.554.414	41.007.091
	Total equity	42.214.851	44.667.528
Liabilities other than provisions			
	Bank debts	534.461	122.172
10	Financial institute debts	4.800.000	4.800.000
	Trade payables	666.635	226.448
11	Other payables	16.903.984	13.172.961
	Total long term liabilities other than provisions	22.905.080	18.321.581
	Trade creditors	1.018.750	0
12	Payables to group enterprises	0	56.431
	Total short term liabilities other than provisions	1.018.750	56.431
	Total liabilities other than provisions	23.923.830	18.378.012
	Total equity and liabilities	66.138.681	63.045.540

1 Uncertainties concerning recognition and measurement, Cash and capital resources

13 Charges and security

14 Contingencies

Notes

All amounts in DKK.

	<u>2019</u>	<u>2018</u>
1. Uncertainties concerning recognition and measurement, Cash and capital resources		
Investment in development activities is in nature related with risk, and the assessment of the investments made is therefore related with some uncertainty. It is Management's assessment that investment in equity in group enterprises, intangible assets and amounts owed by group enterprises as a minimum have a value corresponding to the value accounted for in the financial statements.		
The intangible assets, equity investments in equity in group enterprise and amounts owed by group enterprises are related with some uncertainty, as it is a prerequisite for these assets that the company can increase its earnings considerably. This assumption depends on whether the company receives the necessary capital as described below.		
2. Staff costs		
Salaries and wages	<u>36.667</u>	<u>170.000</u>
	<u>36.667</u>	<u>170.000</u>
Average number of employees	<u>1</u>	<u>1</u>
3. Financial costs		
Other financial costs	<u>1.198.535</u>	<u>1.464.516</u>
	<u>1.198.535</u>	<u>1.464.516</u>
4. Tax on net profit or loss for the year		
Adjustment of tax for previous years	<u>-87.176</u>	<u>3.464.404</u>
	<u>-87.176</u>	<u>3.464.404</u>

Notes

All amounts in DKK.

5. Concessions, patents, licenses, trademarks, and similar rights acquired

Cost 1 January 2019	15.152.494	13.552.858
Additions during the year	1.892.142	1.599.636
Cost 31 December 2019	17.044.636	15.152.494
Amortisation and writedown 1 January 2019	-4.742.992	-4.085.046
Amortisation for the year	-742.580	-657.946
Writedown for the year	-1.829.508	0
Amortisation and writedown 31 December 2019	-7.315.080	-4.742.992
Carrying amount, 31 December 2019	9.729.556	10.409.502

6. Equity investments in group enterprises

Acquisition sum, opening balance 1 January 2019	40.035.759	40.035.759
Additions during the year	0	0
Cost 31 December 2019	40.035.759	40.035.759
Carrying amount, 31 December 2019	40.035.759	40.035.759

Financial highlights for the enterprises according to the latest approved annual reports

	Equity interest	Equity DKK	Results for the year DKK	Carrying amount, Cardlab ApS DKK
Cardlab Innovation ApS, Herlev	100 %	12.725.860	-4.707.947	39.291.451
Hong Kong Innovation Electric Ltd., Hong Kong	100 %	8.584	0	8.584
Cardlab (Thailand) Co. Ltd., Thailand	70 %	514.117	-284.435	735.725
		13.248.561	-5.192.382	40.035.760

Notes

All amounts in DKK.

	<u>31/12 2019</u>	<u>31/12 2018</u>
7. Deposits		
Cost 1 January 2019	<u>15.554</u>	<u>15.554</u>
Cost 31 December 2019	<u>15.554</u>	<u>15.554</u>
Carrying amount, 31 December 2019	<u>15.554</u>	<u>15.554</u>
8. Contributed capital		
Contributed capital 1 January 2019	3.660.437	3.660.437
Cash capital increase	<u>3.000.000</u>	<u>0</u>
	<u>6.660.437</u>	<u>3.660.437</u>
9. Retained earnings		
Retained earnings 1 January 2019	41.007.091	47.063.470
Profit or loss for the year brought forward	<u>-5.452.677</u>	<u>-6.056.379</u>
	<u>35.554.414</u>	<u>41.007.091</u>
10. Financial institute debts		
Total financial institute debts	4.800.000	4.800.000
Share of amount due within 1 year	<u>0</u>	<u>0</u>
Financial institute debts in total	<u>4.800.000</u>	<u>4.800.000</u>
Share of liabilities due after 5 years	<u>0</u>	<u>0</u>
11. Other payables		
Total other payables	<u>16.903.984</u>	<u>13.172.961</u>
Share of liabilities due after 5 years	<u>0</u>	<u>0</u>

Notes

All amounts in DKK.

	<u>31/12 2019</u>	<u>31/12 2018</u>
12. Payables to group enterprises		
Short-term debt to group enterprise	<u>0</u>	<u>56.431</u>
	<u>0</u>	<u>56.431</u>

13. Charges and security

For bank loans, DKK 4.800 thousand, the company has provided security in company assets representing a nominal value of DKK 2.400 thousand. This security comprises the assets below, stating the carrying amounts:

Acquired concensions, patents, licenses, trademarks and similar rights
DKK 9.730 thousand

14. Contingencies

Joint taxation

With Memetech A/S, company reg. no 24208788 as administration company, the company is subject to the Danish scheme of joint taxation and is proportionally liable for tax claims within the joint taxation scheme.

The company is proportionally liable for any obligations to withhold tax on interest, royalties, and dividends of the jointly taxed companies.

The liabilities amount to a maximum amount corresponding to the share of the company capital, which is owned directly or indirectly by the ultimate parent company.

Any subsequent adjustments of corporate taxes or withholding tax, etc., may result in changes in the company's liabilities.

Accounting policies

The annual report for Cardlab ApS has been presented in accordance with the Danish Financial Statements Act regulations concerning reporting class B enterprises. Furthermore, the company has decided to comply with certain rules applying to reporting class C enterprises.

The annual report is presented in DKK.

Recognition and measurement in general

Income is recognised in the income statement concurrently with its realisation, including the recognition of value adjustments of financial assets and liabilities. Likewise, all costs are recognised in the income statement, including depreciations amortisations, writedowns for impairment, provisions, and reversals due to changes in estimated amounts previously recognised in the income statement.

Assets are recognised in the statement of financial position when it seems probable that future economic benefits will flow to the company and the value of the asset can be reliably measured.

Liabilities are recognised in the statement of financial position when it seems probable that future economic benefits will flow out of the company and the value of the liability can be reliably measured.

Upon recognition and measurement, allowances are made for such predictable losses and risks which may arise prior to the presentation of the annual report and concern matters that exist on the reporting date.

Income statement

Gross loss

Gross loss comprises the revenue, changes in inventories of finished goods, and work in progress, work performed for own account and capitalised, other operating income, and external costs.

Revenue is recognised in the income statement if delivery and passing of risk to the buyer have taken place before the end of the year and if the income can be determined reliably and inflow is anticipated. Recognition of revenue is exclusive of VAT and taxes and less any discounts relating directly to sales.

Other external costs comprise costs incurred for distribution, sales, advertising, administration, premises, loss on receivables, and operational leasing costs.

Staff costs

Staff costs include salaries and wages, including holiday allowances, pensions, and other social security costs, etc., for staff members. Staff costs are less government reimbursements.

Depreciation, amortisation, and writedown for impairment

Depreciation, amortisation, and writedown for impairment comprise depreciation on, amortisation of, and writedown for impairment of intangible and tangible assets, respectively.

Accounting policies

Other operating costs

Other operating costs comprise items of secondary nature as regards the principal activities of the enterprise, including losses on the disposal of intangible and tangible assets.

Financial income and expenses

Financial income and expenses comprise interest, realised and unrealised capital gains and losses concerning financial assets and liabilities, amortisation of financial assets and liabilities, additions and reimbursements under the Danish tax prepayment scheme, etc. Financial income and expenses are recognised in the income statement with the amounts concerning the financial year.

Interest and other costs concerning loans to finance the production of intangible assets and property, plant, and equipment, and relating to production periods are not recognised in the cost of non-current assets.

Tax on net profit or loss for the year

Tax for the year comprises the current income tax for the year and changes in deferred tax and is recognised in the income statement with the share attributable to the net profit or loss for the year and directly in equity with the share attributable to entries directly in equity.

The company is subject to Danish rules on compulsory joint taxation of Danish group enterprises.

The current Danish income tax is allocated among the jointly taxed companies proportional to their respective taxable income (full allocation with reimbursement of tax losses).

Statement of financial position

Intangible assets

Patents and licences

Patents and licenses are measured at cost less accrued amortisation. Patents are amortised on a straightline basis over the remaining patent period and licenses are amortised over the contract period, however, for a maximum of 10 years.

Profit and loss from the sale of development projects, patents, and licenses are measured as the difference between the sales price less sales costs and the carrying amount at the time of sale. Profit or loss are recognised in the income statement as other operating income or other operating expenses, respectively.

Impairment loss relating to non-current assets

The carrying amount of both intangible and tangible assets as well as equity investments in subsidiaries and associates are subject to annual impairment tests in order to disclose any indications of impairment beyond those expressed by amortisation and depreciation, respectively.

Accounting policies

If indications of impairment are disclosed, impairment tests are carried out for each individual asset or group of assets, respectively. Writedown for impairment is done to the recoverable amount if this value is lower than the carrying amount.

The recoverable amount is equal to the value of the net selling price or the value in use, whichever is higher. The value in use is determined as the present value of the expected net cash flow derived from the use of the asset or group of assets.

Previously recognised impairment losses are reversed when conditions for impairment no longer exist. Impairment relating to goodwill is not reversed.

Investments

Equity investments in group enterprises and associates

Equity investments in group enterprises and associates are measured at cost. If the recoverable amount is lower than the cost, writedown for impairment is done to match this lower value.

Deposits

Deposits are measured at amortised cost and represent lease deposits, etc.

Receivables

Receivables are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, they are written down for impairment to the net realisable value.

Cash on hand and demand deposits

Cash on hand and demand deposits comprise cash at bank and on hand.

Income tax and deferred tax

Current tax receivables and tax liabilities are recognised in the statement of financial position with the amount calculated on the basis of the expected taxable income for the year adjusted for tax on previous years' taxable income and prepaid taxes. Tax receivables and tax liabilities are offset to the extent that a legal right of set-off exists and the items are expected to be settled net or simultaneously.

According to the rules of joint taxation, Cardlab ApS is proportionally liable to pay the Danish tax authorities the total income tax, including withholding tax on interest, royalties, and dividends, arising from the jointly taxed group of companies.

Deferred tax is tax on all temporary differences in the carrying amount and tax base of assets and liabilities measured on the basis of the planned application of the asset and disposal of the liability, respectively.

Deferred tax assets, including the tax value of tax losses eligible for carryforward, are recognised at their expected realisable value, either by settlement against tax of future earnings or by setoff in deferred tax liabilities within the same legal tax unit. Any deferred net tax assets are measured at net realisation value.

Accounting policies

Deferred tax is measured on the basis of the tax rules and tax rates of applicable legislation at the reporting date and prevailing when the deferred tax is expected to be released as current tax.

Liabilities

Other liabilities are measured at amortised cost which usually corresponds to the nominal value.