

Heartcore Capital Fund II K/S
Frederiksgade 7, 3
1265 Copenhagen K
Central Business Registration No 34076790
Annual report 2021

The Annual General Meeting adopted the annual report on

Chairwoman of the General Meeting

Name: Signe Marie Sveinbjørnsson

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Fund details

Fund

Heartcore Capital Fund II K/S

Frederiksgade 7, 3

DK-1265 Copenhagen K

Central Business Registration No: 34076790

Registered in: Copenhagen

Financial year: 01.01.2021 – 31.12.2021

General Partner

Heartcore Capital General Partner II ApS

Executive Board in Heartcore Capital General Partner II ApS

Christian Lindegaard Jepsen

Jimmy Fussing Nielsen

Auditor

Deloitte Statsautoriseret Revisionspartnerselskab

Statement by the General Partner on the annual report

The Executive Board in Heartcore Capital General Partner II ApS has today considered and approved the annual report of Heartcore Capital Fund II K/S (“the Fund”) for the financial year 01.01.2021 - 31.12.2021.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Fund’s financial position at 31.12.2021 and of the results of its operations and cash flows for the financial year 01.01.2021 – 31.12.2021.

In our opinion, the management commentary contains a fair review of the development of the Fund’s business and financial matters, the results for the year and of the Fund’s financial position as a whole, together with a description of the principal risks and uncertainties that the Fund faces.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 25.01.2022

Executive Board in Heartcore Capital General Partner II ApS

Christian Lindegaard Jepsen

Jimmy Fussing Nielsen

Independent auditor's report

To the General Partner and Limited Partners of Heartcore Capital Fund II K/S

Opinion

We have audited the financial statements of Heartcore Capital Fund II K/S ("the Fund") for the financial year 01.01.2021 - 31.12.2021, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Fund's financial position at 31.12.2021 and of the results of its operations and cash flows for the financial year 01.01.2021 - 31.12.2021 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Fund in accordance with the International Ethics Standards Board of 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

General Partner's responsibilities for the financial statements

The General Partner is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as the General Partner 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, the General Partner is responsible for assessing the Fund's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless the General Partner either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

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 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 these 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the General Partner.
- Conclude on the appropriateness of the General Partner'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 Fund'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 Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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.

Independent auditor's report

Statement on the Management commentary

The General Partner is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, 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 conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 25.01.2022

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No 33 96 35 56

Kim Takata Mücke
State Authorised Public Accountant
Identification number (MNE) mne10944

Murat Güler
State Authorised Public Accountant
Identification number (MNE) mne46582

Management commentary

Key Figures

	2021	2020	2019	2018	2017
	<u>DKK'000</u>	<u>DKK'000</u>	<u>DKK'000</u>	<u>DKK'000</u>	<u>DKK'000</u>
Financial highlights					
Income statement					
Operating Income	1,220,078	(143,901)	296,405	184,956	207,086
Operating profit/loss	1,212,355	(152,235)	286,950	175,607	199,059
Profit/loss for the year	1,212,058	(152,424)	286,859	175,571	198,937
Balance					
Total assets	1,898,101	1,088,641	1,242,513	1,088,963	907,429
Equity	1,897,925	1,088,464	1,242,338	1,088,762	907,245
Key Investment figures					
Total Value to Paid in	3.80x	2.04x	2.28x	1.90x	1.64x
Distributed to Paid in	1.03x	0.44x	0.43x	0.19x	0.18x
Gross IRR	29.9%	20.4%	26.6%	26.1%	28.0%
#Portfolio companies	12	15	16	18	22

Key Investment figures are calculated using the below formulas.

Key Investment figures	Calculation formula/description
Total Value to Paid in	<u>Distributions to Limited Partners + Fair value of investments</u> Contributed capital from Limited Partners
Distributed to Paid in	<u>Distributions to Limited Partners</u> Contributed capital from Limited Partners
Gross IRR (accumulated)	The gross rate of return is the total cash-flow returns on the investments carried-out
#Portfolio companies	Number of investments in portfolio companies at year-end

Management commentary

Primary activities

Heartcore Capital Fund II K/S (“the Fund” or “Heartcore”) invests in technology companies mainly located in Europe.

A team of investment professionals is responsible for the investment management.

Development in activities and finances

The Fund was established 6 December 2011. At the end of 2021, the Fund holds 12 active portfolio enterprises of which four are located in Denmark.

The result for the year showed a profit of DKK 1,212,058 thousand, primarily from gains from disposals and fair value gains from the investments in portfolio companies.

Development in selected portfolio companies:

Corti ApS: Located in Copenhagen, Denmark, is in the speech recognition business providing a speech to text to business intelligence solution for companies with large amounts of recorded voice. The company progressed very well during the year and raised a EUR 23 million round led by Vækstfonden and Chr. Augustinus Fabrikker with participation from existing investors.

GetYourGuide AG: Incorporated in Zurich, Switzerland but have its main operation in Berlin, Germany. GetYourGuide is an online marketplace for in-destination tours and activities. The company had another difficult year due to COVID-19 as the travel industry did not recover fully in 2021.

Futureplay: Located in Helsinki, Finland, is a mobile/tablet game developer. The company was sold to Plarium in 2021.

Peakon ApS: Located in Copenhagen, the company provides a SaaS solution allowing enterprises to measure, understand and act on employee engagement. The company was sold to Workday in 2021.

Tink AB: Located in Stockholm, the company offers Europe’s leading open banking platform that provides banks, fintechs and startups with the necessary infrastructure and smart data products that are needed to build financial services and products of the future. The company performed well in 2021 and Visa announced its intent to acquire Tink for EUR 1.8Bn contingent on regulatory approvals.

Uncertainty relating to recognition and measurement

When preparing the Fund’s annual report, the General Partner, in accordance with legislative provisions, makes accounting judgements and estimates which form the basis of the annual report. The accounting judgement and estimates made by the General Partner are described in the note 3 “Critical accounting judgements, estimates, assumptions and uncertainties” to which we refer. Such estimates are primarily relating to the measurement of investments in portfolio enterprises made on the basis of assumptions which the General Partner considers reasonable and realistic, but which are uncertain by nature.

Management commentary (continued)

For the current year the General Partner has also taken into consideration the effects of the COVID-19 pandemic. The Fund itself has not been affected by the COVID-19 outbreak. However, the pandemic has affected – both positively and negatively - the operations of many of the Fund's portfolio enterprises, which have been taken into consideration when determining the fair value of investments in portfolio enterprises.

Unusual circumstances affecting recognition and measurement

Except for the gains from disposals and fair value gains on investments, the financial statements are not influenced by unusual circumstances.

Outlook

Future results of Heartcore Capital Fund II K/S depend on the development in the value of the Fund's investment in portfolio enterprises. Due to the nature of the Fund's operations and business, the Fund does not provide any specific guidance regarding expected earnings for 2022.

Risk Management

Financial risks are predominantly linked to the value of Heartcore Capital fund II K/S's ("Fund") portfolio companies. The Fund invests in private companies, where there is limited marketability (liquidity risk) and valuations fluctuate sometimes synchronous with the public market comparables and sometimes delayed to public market (volatility risk). During the Fund's holding period of the portfolio companies there are a number of commercial risks that cannot be eliminated despite active portfolio management. The commercial risks often depend on the general market conditions. Due to the high-growth profile of the Fund's portfolio companies they are often cash-flow negative and rely on access to further funding from new third-party investors (funding risk). Portfolio companies may fail to develop the relevant technology (technology risk), developing products that meets the needs of customers (product risk) or may fail to execute on the addressable market opportunity (market risk). The commercial risks are dependent on the general market conditions and the macro-economic environment.

Market risks

The marketability and value development of the investments made by the Fund depend upon many factors, which are outside Heartcore's control. Generally, the nature of the Fund's investments requires long holding periods prior to realization and proceed distributions to investors. The investments can be illiquid for periods of time due to the absence of an established market or adverse market conditions for such securities as well as legal, contractual or other restrictions on their resale by the Fund.

Companies in which the Fund have invested may be sensitive to general downward swings in the overall economy or in a particular area of activity. In addition, factors specific to a portfolio company may have an adverse effect on Fund's investment in such company. A major recession or adverse developments in the securities markets might have an impact on some or all of Fund II's investments. Heartcore may rely upon its own or a portfolio company's projections concerning the portfolio company's future performance in making investment

Management commentary (continued)

decisions. Such projections are inherently subject to uncertainty and factors beyond the control of the portfolio company and Heartcore.

Commercial risks

The environment for venture capital investments is increasingly competitive and involves a great number of risks and uncertainties, some of which are outside Heartcore's control.

The Fund invests in companies with a high-risk growth profile that are often cash-flow negative for a large part of the Fund's holding period. Portfolio companies might, due to market conditions or company specific developments, fail to raise additional capital, and hence some investments are written off. Write-downs early in the Fund's lifetime are expected as part of the capital allocation framework and the 'fail fast' investment philosophy. Heartcore has implemented a capital allocation model that once a quarter ranks the portfolio and allocates capital accordingly. The capital allocation framework has led to relatively low cash loss-ratio, but material changes in market dynamics may lead to a larger percentage of write-downs. Generally, a major part of venture capital fund returns is generated from relatively few successful portfolio companies, which means that the value development is dependent on fewer assets as the Fund matures.

Individual companies may fail to execute on technology or product or may fail to address the market opportunity. Failed execution may eventually lead to lower exit value, write-offs or longer holdings periods than originally anticipated.

Intellectual capital resources

The Fund has no intellectual capital resources as such, as the Fund has no staff. However, through the management agreement with Heartcore Capital A/S, it has access to the collective experience, knowledge and resources of the Heartcore management team.

The Heartcore management team has significant investment experience, as the team has led or participated in over 100 portfolio companies since 2007. The team members have complementary backgrounds and are able to draw on a large network in the technology and financial sectors.

Every investment professional has unique entrepreneurial, corporate or investment experience in an international environment. This experience base not only generates respect among entrepreneurs, it also enables the team to rapidly identify and evaluate key issues associated with an opportunity and to provide active sparring once an investment has been made.

Prior to any final investment recommendation, the investment team is offered an opportunity to meet the target company, and any investment required final investment approval from the General Partner. The investment is always subject to negotiations of terms, and remaining due diligence. Care is taken to minimize personal biases, granting all partners sufficient freedom to operate to ensure outlier potential in the portfolio.

Management commentary (continued)

Staff

Not applicable; please refer to Intellectual Capital Resources above.

Environment and climate

The Fund is committed to taking measures to protect the environment, through the management company Heartcore Capital A/S.

Heartcore Capital A/S was in 2020 a founding member of the Leaders for Climate Change program in Denmark, and through that started measuring the environmental impact of the company. It is an area of focus for Heartcore Capital A/S going forward.

Statutory report on corporate social responsibility

The Fund considers such matters as human rights, social aspects, environment and anticorruption as important elements of the investment strategy and activities.

It is therefore part of the investment policy of the Fund that no investments can be made into portfolio companies linked to the weapon industry and weapon trading, gambling industry, tobacco industry, and/or human cloning.

The Fund has adopted a corporate social responsibility policy, stipulating that Heartcore will comply with Invest Europe's Code of Conduct and Corporate Governance Guidelines. Furthermore, Heartcore commit to using their best endeavors to not engage in transactions or financing of activities which may be legal but promote violent conflicts or has as a main purpose to be a vehicle of tax evasions or production or promotion of pornographic material.

Statutory report on the underrepresented gender

Not applicable, as the Fund has no employees. The Fund does not currently collect data on the gender representation of founders or employees of portfolio companies.

Events after the balance sheet date

No events have occurred after the balance sheet date to this data which would influence the evaluation of this annual report.

Statement of comprehensive income

	<u>Notes</u>	<u>2021</u> <u>DKK'000</u>	<u>2020</u> <u>DKK'000</u>
Income/(loss) from investments in portfolio enterprises	4	<u>1,220,078</u>	<u>(143,901)</u>
Operating income/(loss)		1,220,078	(143,901)
Administrative expenses	5	<u>(7,534)</u>	<u>(8,218)</u>
Other operating expenses	5	<u>(189)</u>	<u>(116)</u>
Profit/(loss) before financial items (EBIT)		1,212,355	(152,235)
Financial expenses		<u>(297)</u>	<u>(189)</u>
Profit/(loss) for the year		1,212,058	(152,424)
Other comprehensive income		<u>0</u>	<u>0</u>
Total comprehensive income/(loss) for the year		<u>1,212,058</u>	<u>(152,424)</u>

Statement of financial position

	<u>Notes</u>	<u>31 Dec 2021 DKK'000</u>	<u>31 Dec 2020 DKK'000</u>
Assets			
Investments in portfolio enterprises	6	<u>1,843,468</u>	<u>1,054,149</u>
Fixed asset investments		<u>1,843,468</u>	<u>1,054,149</u>
Non-current assets		<u>1,843,468</u>	<u>1,054,149</u>
Other receivables	7	<u>8,902</u>	<u>5,567</u>
Receivables		<u>8,902</u>	<u>5,567</u>
Cash		<u>45,731</u>	<u>28,925</u>
Current assets		<u>54,633</u>	<u>34,492</u>
Assets		<u><u>1,898,101</u></u>	<u><u>1,088,641</u></u>

Statement of financial position

	<u>Notes</u>	<u>31 Dec 2021 DKK'000</u>	<u>31 Dec 2020 DKK'000</u>
Equity and liabilities			
Limited Partners' contribution	8	685,958	678,185
Distributions to Limited Partners		(707,159)	(296,789)
Retained earnings		<u>1,919,126</u>	<u>707,068</u>
Equity		<u>1,897,925</u>	<u>1,088,464</u>
Other payables	9	<u>176</u>	<u>177</u>
Current liabilities		<u>176</u>	<u>177</u>
Liabilities		<u>176</u>	<u>177</u>
Equity and liabilities		<u><u>1,898,101</u></u>	<u><u>1,088,641</u></u>

Statement of changes in equity for 2021

	Limited Partners' contribution DKK'000	Distributions to Limited Partners DKK'000	Retained earnings DKK'000	Total DKK'000
Balance at 1 January 2020	669,768	(286,922)	859,492	1,242,338
Contributions from Limited Partners	8,417	-	-	32,131
Distribution of share of proceeds from sale of portfolio enterprises	-	(9,867)	-	(165,414)
Comprehensive loss for the year	-	-	(152,424)	286,859
Balance at 31 December 2020	678,185	(296,789)	707,068	1,088,464
Contributions from Limited Partners	7,773	-	-	7,773
Distribution of share of proceeds from sale of portfolio enterprises	-	(410,370)	-	(410,370)
Comprehensive income for the year	-	-	1,212,058	1,212,058
Balance at 31 December 2021	685,958	(707,159)	1,919,126	1,897,925

Statement of cash flows

	Notes	2021 DKK'000	2020 DKK'000
Profit/(loss) before financial items (EBIT)		1,212,355	(152,235)
Reversal of income/(loss) from investments in portfolio enterprises	4	(1,220,078)	143,901
Working capital changes	10	(1)	2
Cash flows from ordinary primary activities		(7,724)	(8,332)
Financial expenses paid		(297)	(189)
Cash flows from operating activities		(8,021)	(8,521)
Investments in portfolio enterprises	6	(16,150)	(20,132)
Net proceeds from sale of portfolio enterprises		443,574	19,735
Cash flows from investing activities		427,424	(397)
Contributions from Limited Partners		7,773	8,417
Distribution of share of proceeds from sale of portfolio enterprises		(410,369)	(9,867)
Cash flows from financing activities		(402,597)	(1,450)
Increase/decrease in cash and cash equivalents		16,806	(10,368)
Cash and cash equivalents at 1 January		28,925	39,293
Cash and cash equivalents at 31 December		45,731	28,925

Notes to the financial statements

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Notes

1. Overview of business

Heartcore Capital Fund II K/S (“the Fund”) invests in technology companies mainly located in Europe.

Administrative and investment work is performed by Heartcore Capital A/S.

Heartcore Capital Fund II K/S has its registered office at Frederiksgade 7, 3, 1265 Copenhagen K, Denmark, and is incorporated in Denmark as a Danish limited partnership under the laws of Denmark. The General Partner of the Fund is Heartcore Capital General Partner II ApS

2. Accounting policies

The financial statements of Heartcore Capital Fund II K/S for 2021 are prepared in accordance with International Financial Reporting Standards as approved by the EU and disclosure requirements of the Danish Financial Statements Act governing reporting class C (medium) enterprises as further outlined in the Danish Executive Order on Adoption of IFRS issued in accordance with the Danish Financial Statements Act.

The financial statements are presented in Danish kroner (DKK), which is the functional currency of the Fund.

The financial statements are presented based on historical costs apart from investments in portfolio enterprises, which are measured at fair value.

Statement regarding the omission of consolidated financial statements

With reference to IFRS 10, the General Partner of Heartcore Capital Fund II K/S has assessed that the Fund meets the definition of an investment company as the following conditions exist:

- 1) The Fund has more than one portfolio investment.
- 2) The Fund has more than one investor, and the investors are not related to each other.
- 3) The Fund’s investments in portfolio enterprises primarily occur as equity instruments or similar investments,
- 4) The investments are measured and evaluated on a fair value basis.

As a result the General Partner has decided to apply the exemption rule in IFRS 10 not to prepare consolidated financial statements with full consolidation of any controlled subsidiaries, and instead any controlled subsidiaries are accounted for at fair value through profit or loss.

Similarly, Heartcore Capital Fund II K/S holds investments in portfolio enterprises, which meet the definition of an associate over which the Fund has significant influence. Such investments are also accounted for at fair value through profit or loss whereby all investments are treated as investments in portfolio in portfolio companies at fair value through profit or loss no matter the ownership share.

Notes

2. Accounting policies (continued)

Standards and interpretations not yet effective

None of the new and changed standards and interpretations issued by the International Accounting Standards Board and IFRS Interpretation Committee effective for the financial period beginning at 1 January 2021 have been assessed to have any impact on the financial reporting for Heartcore Capital Fund II K/S for 2021 or future years.

At the time of publication of the financial statements, new or changed standards and interpretations have not yet become effective. It is the General Partner's assessment that these new standards and interpretations will not materially impact the financial statements for the forthcoming years.

Significant accounting policies and estimates

When preparing the financial statements, the General Partner makes several accounting estimates forming the basis for the presentation, recognition and measurement of the Fund's assets and liabilities. The most significant accounting estimates and assessments are presented in note 3.

Foreign currency translation

On initial recognition, transactions made in a different currency than the Fund's functional currency are translated applying the exchange rate at the transaction date.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date or the rate at the balance sheet date are recognised in the statement of comprehensive income as financial income or financial expenses.

Exchange rate adjustments relating to investments in portfolio enterprises are presented in the statement of comprehensive income together with other fair value adjustments concerning the investments.

Income taxes

The annual report does not include current or deferred tax due to the corporate form of the Fund.

Statement of comprehensive income

Income from investments in portfolio enterprises

Income from investments in portfolio enterprises comprises gains/losses from divestments, fair value changes and received dividends and other similar types of returns from the investments.

Notes

2. Accounting policies (continued)

Gains/losses from divestment of investments in portfolio enterprises are stated as the difference between the selling price or disposal consideration and the carrying amount of the portfolio enterprises at the time of sale or disposal, respectively.

Dividends from investments in portfolio enterprises are recognised as income when final entitlement to the dividends is obtained, which is usually at the time of the approval of the declaring dividends by the portfolio enterprise.

Administrative expenses and other operating expenses

Administrative expenses include management fee to the management company, Heartcore Capital A/S and other operating expenses include general costs, including investment costs relating to incomplete investments.

Financial income and expenses

Other financial expenses comprise interest expenses and negative interest income, which are accrued based on the principal amount and the effective interest rate. The effective interest rate represents the discount rate which should be used when discounting future payments related to the financial asset or the financial liability, in order for the present value of these to correspond with the carrying amount of the asset and the liability, respectively.

Balance sheet

Investments in portfolio enterprises

Investments in portfolio enterprises comprise equity investments in portfolio enterprises and loans to portfolio enterprises measured at fair value through profit or loss.

The Fund measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements

- Level 1: Fair value of investments, which are traded on a stock exchange, is based on the quoted market prices at the reporting date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using (i) quoted market prices in active markets for similar instruments (ii) quoted prices for identical or similar instruments in markets that are not considered active, or (iii) other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Notes

2. Accounting policies (continued)

- Level 3: Inputs that are unobservable. The fair value of the unlisted investments is determined in accordance with IPEV's Valuation Guidelines, according to which the fair value – depending on the type and maturity of the investment – is determined to be equal to cost (typically applied for new investments), the price of recent investments, multiple-based calculations based on industry benchmarks or discounted cash flow models. The price of a recent investment is only applied if the transaction includes the participation of new investors obtaining more than an insignificant ownership share in the portfolio enterprise.

The objective of valuation techniques is to determine a fair value that reflects the price that would be received from selling portfolio enterprises in an orderly transaction between market participants at the balance sheet date.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for expected credit losses.

Cash

Cash comprises bank deposits.

Financial liabilities

Financial liabilities comprise other payables.

Statement of cash flows

The statement of cash flows is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented as the operating profit/loss adjusted for non-cash operating items including fair value adjustments of investments in portfolio enterprises and working capital changes attributable to the operating activities.

Cash flows from investing activities comprise payments in connection with investments, including follow-up investments, and proceeds from divestment of portfolio enterprises.

Cash flows from financing activities comprise changes in the Limited Partners' contribution, distributions to Limited Partners as well as the raising of loans and instalments on interest-bearing debt, if any.

Notes

3. Critical accounting judgements, estimates, assumptions and uncertainties

Heartcore Capital Fund II K/S invests in portfolio enterprises which primarily includes equity investments and to a smaller extent contribution of loans – typically convertible loans or intermediary financing – to development-oriented enterprises, and which may require continuous contribution of capital or other similar type of funding. The investments, including any loans provided, are accounted for at a fair value through profit or loss.

The fair value of each unlisted portfolio enterprise is determined in accordance with commonly used valuation principles based on the IPEV Valuation Guidelines, taking into account the assessment of the development stage of the enterprise compared to the initial plans at the time of making the initial investments, future financing requirements, commercialisation possibilities, timing of exit and possible exit values, share classes held including considering preferential rights to proceeds and less any potential diluting effects.

Methods and assumptions for determining the fair value of investments in unlisted portfolio enterprises are further described in note 6.

4. Income/(loss) from investments in portfolio enterprises

	2021	2020
	<u>DKK'000</u>	<u>DKK'000</u>
Realised gain	395,879	-
Fair value gain/(loss)	822,255	(130,386)
Adjustment of earn-out receivable	<u>1,944</u>	<u>(13,515)</u>
Income/(loss) from investments in portfolio enterprises	<u>1.220.078</u>	<u>(143,901)</u>

5. Expenses

The Fund had no employees during the financial year. Administrative work is performed by Heartcore Capital A/S (see note 12). Administrative expenses cover management fee to Heartcore Capital A/S of DKK 7,489 thousand (2020: DKK 8,218 thousand) and management fee to General Partner of DKK 45 thousand.

Notes

	2021	2020
	<u>DKK'000</u>	<u>DKK'000</u>
6. Investments in portfolio enterprises		
Cost at beginning of year	425,405	424,836
Additions	16,150	20,132
Disposals	<u>(40,185)</u>	<u>(19,563)</u>
Cost at end of year	<u>401,370</u>	<u>425,405</u>
Revaluations at beginning of year	628,744	739,567
Revaluations	822,255	(130,386)
Reversal regarding disposals	<u>(8,902)</u>	<u>19,563</u>
Revaluation at end of year	<u>1,442,098</u>	<u>628,744</u>
Carrying amount at end of year	<u>1,843,468</u>	<u>1,054,149</u>

Portfolio enterprise	Corporate form	Registered in	Equity interest %
<i>Active investments</i>			
Blackwood Seven	A/S	Denmark	14.8%
BLAST	ApS	Denmark	1.4%
Corti	ApS	Denmark	13.5%
Crate.io	Inc.	United States	2.0%
Freespee	AB	Sweden	23.6%
GetYourGuide	AG	Switzerland	3.5%
HeyJobs	GmbH	Germany	19.4%
Kontakt	Inc.	Poland	32.5%
Natural Cycles	AB	Sweden	20.0%
Oaxaca Group	ApS	Denmark	21.1%
Tink	AB	Sweden	9.6%
Traplight	Oy	Finland	9.8%
<i>Non-active investments</i>			
CapitalAid DK	ApS	Denmark	8.0%
Reddit (MobileMotion)	Inc.	Germany	3.8%

Valuation process and other general information

The General Partner regularly and at least on a quarterly basis reviews the fair value of its portfolio enterprises in connection with its non-public reporting to its Limited Partners and in connection with the preparation of the annual financial statements.

Notes

6. Investments in portfolio enterprises (continued)

The Fund's portfolio enterprises are not classified as investment companies. They are engaged in doing business in trading and development, etc. The Fund has no limitations concerning the potential reception of dividends or having loans etc. repaid from the portfolio enterprises, apart from the fact that distribution from the portfolio enterprises can only take place if it is considered proper and prudent.

Methods and assumptions for determining fair values in unlisted portfolio enterprises

The fair value for each unlisted portfolio enterprise is determined based on methods which best reflect the individual investment's potential and risk.

In general, the fair value is determined following the IPEV Valuation Guidelines which prescribe the use of accepted valuation methods, such as price of recent investments, multiple analysis/benchmarking, most recent transaction multiple and other relevant methods. The Fund invests venture capital primarily in development stage companies without any or with only limited revenue entailing that the fair value measurement of each of the investments is inherently subject to considerable uncertainty.

Upon initial investment, **cost** of the investment is generally determined to represent the fair value. Cost is generally retained as the best determination of fair value as long as the portfolio enterprise – in all material respects – is following the initial investment plan and no new investors have jointed the investment. If new investors join the investments and obtain more than just an insignificant share of the enterprise, the **price of a recent investment** is used as basis for determining the fair value.

Throughout the life of the investment, the General Partner reviews its investments for potential impairment, which may materialise if the portfolio enterprises have been subject to pervasive negative development and/or if the Fund decides that it will no longer participate in the further funding and there is a considerable risk that the portfolio enterprise may not be able to continue its operations or it is by other means obvious that there is a pervasive decline in the fair value of the portfolio enterprise. In these cases, the value is written down to a new lower fair value based on the General Partner's best estimate.

As investments mature, other valuation models for determining the fair value may be more appropriate. Such models are typically based on **peer group multiples**, which may be discounted depending on an objective assessment of the portfolio enterprise's growth, cash flows and funding status

The Peer Group Multiple-method uses comparable entities, in which market value and earnings are known. Based on this, a market level for revenue multiples (or other relevant multiples) is determined for the comparable entities.

The determined value is reduced by a certain factor depending on whether the portfolio enterprise is cash flow positive or cash flow negative.

Notes

6. Investments in portfolio enterprises (continued)

In connection with the use of this method, the Fund assesses which multiples are applicable as well as assesses the determination of the applicable earnings to be used in the calculation of the deemed fair value.

When applicable the fair value of investments, which are traded on a stock exchange, is based on the quoted market prices at the reporting date.

The fair value is determined in the functional currency of the portfolio enterprise, which is then translated to DKK at the exchange rate at the balance sheet date, and any exchange rate adjustment is included in the fair value adjustment of the investment in profit or loss.

Each investment has been valued using the valuation techniques listed below:

Portfolio enterprise	Corporate form	2021	2020
<i>Investments in associates</i>			
Freespee	AB	Price of recent investment	Price of recent investment
Kontakt	Inc.	Cost	Internal valuation
Natural Cycles	AB	Internal valuation	Internal valuation
Oaxaca Group	ApS	Cost	Cost
<i>Other investments</i>			
Blackwood Seven	A/S	Price of recent investment	Internal valuation
BLAST (RFRSH)	ApS	Price of recent investment	Price of recent investment
CapitalAid DK	ApS	Internal valuation	Internal valuation
Corti	ApS	Price of recent investment	Price of recent investment
Crate.io	Inc.	Price of recent investment	Price of recent investment
Futureplay	Oy	-	Price of recent investment
GetYourGuide	AG	Fair value	Fair value
HeyJobs	GmbH	Price of recent investment	Price of recent investment
PeakOn	ApS	-	Price of recent investment
Reddit (MobileMotion)	Inc.	Price of recent investment	Price of recent investment
Tink	AB	Agreed sales price	Price of recent investment
Traplight	Oy	Price of recent investment	Price of recent investment

Fair value hierarchy for determining fair value for investments in portfolio enterprises

IFRS has established a fair value hierarchy for certain assets measured at fair value:

- Quoted prices in active markets for identical instruments (level 1)
- Quoted prices in active markets for similar assets or liabilities or other valuation methods under which all material inputs are based on observable market data (level 2)
- Valuation techniques under which any material inputs are not based on observable market data (level 3).

Notes

6. Investments in portfolio enterprises (continued)

The measurement of investments in portfolio enterprises classified according to level 3 is based on measurement methods, in which material non-observable inputs are included such as assessment of which method best reflects fair value, assessment of the performance of each portfolio enterprise, determination of multiples and future earnings, and assessment of whether a pervasive negative development should result in the recognition of impairment write-downs.

Sensitivity

The fair value of the Fund's portfolio enterprises is impacted by the development in the underlying business performance such as fulfilment of underlying milestones, adherence to the original or updated investment plans, development in underlying development activities, commercialisation of products, applied multiples as well as expected future earnings and development in each portfolio enterprise. A decrease or increase in the above-mentioned material non-observable inputs may have a direct effect on the measurement of the portfolio enterprises, just as the fair value of the Fund's portfolio enterprises is impacted by the development in macroeconomic conditions. Since the valuation is not based on one single set of KPIs, it is not possible for the Fund to disclose sensitivity information.

Summary

The Fund has no investments in portfolio enterprises where fair value has been determined based on level 1 or 2 classification. The development in the value of investments in portfolio enterprises classified into level 3 can be summarised as follows:

2020	Level 3 DKK'000	Total investment DKK'000	Fair value gain/(loss) DKK'000
Fair value at 1 January	1,164,403	1,164,403	-
Follow-up investments	20,132	20,132	-
Other fair value adjustments	(131,488)	(131,488)	(131,488)
Exchange rate adjustments	1,102	1,102	1,102
Disposals	-	-	-
Fair value at 31 December	1,054,149	1,054,149	(130,386)

Notes

6. Investments in portfolio enterprises (continued)

2021	Level 3 DKK'000	Total investment DKK'000	Fair value gain/(loss) DKK'000
Fair value at 1 January	1,054,149	1,054,149	-
Follow-up investments	16,150	16,150	-
Fair value adjustments	819,028	819,028	819,028
Exchange rate adjustments	3,227	3,227	3,227
Disposals	(49,087)	(49,087)	-
Fair value at 31 December	1,843,468	1,843,468	822,255

7. Other receivables

	2021 DKK'000	2020 DKK'000
Receivables from sales of investments	8,902	5,567
	8,902	5,567

Receivables from sales of investments cover agreed deferred payments including escrow amounts expected to be released upon fulfillment of agreed terms or milestones. In 2021, the Fund has received payment of DKK 7,511k relating to sales in previous years, resulting in a positive adjustment of DKK 1,944k (see note 4).

	2021 DKK'000	2020 DKK'000
8. Limited Partners' contributions		
Limited Partners' contributions at beginning of year	678,185	669,768
Contributions made during the year	7,773	8,417
Limited Partners' contributions at end of year	685,958	678,185

The contributed capital represents the Limited Partners' total equity contribution. The Fund's contributed capital comprises 99.94% A-shares and 0.06% B-shares. The Fund's A-shares are paid successively and pro rata and the B-shares are fully paid-up. One of the share classes has a dividend preference attached when the realised return in the Fund exceeds a fixed minimum rate of return p.a. (hurdle rate) of the investors' contributed capital.

Notes

	2021 DKK'000	2020 DKK'000
9. Other payables		
Sundry accrued expenses	176	177
	<u>176</u>	<u>177</u>

The carrying amount of sundry accrued expenses relates to other payables such as legal fees, auditor's fees, etc. The recognised amount approximates the fair value of the liabilities.

	2021 DKK'000	2020 DKK'000
10. Working capital changes		
Change in other liabilities	(2)	2
	<u>(2)</u>	<u>2</u>

11. Financial risks and financial instruments

Categories of financial instruments:

Investments in portfolio enterprises	1,843,468	1,054,149
Other receivables	8,902	5,567

Financial assets measured at fair value through profit/loss	1,852,370	1,059,716
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Cash	45,731	28,925
Financial assets measured at amortised cost	45,731	28,925

Other payables	176	177
Financial liabilities measured at amortised cost	176	177

The Fund adheres to an investment strategy approved by the Limited Partners. As a result of its investments in portfolio enterprises, the Fund is directly exposed to changes in liquidity, credit, interest and currency risks.

Notes

11. Financial risks and financial instruments (continued)

Liquidity risks

Maturity of financial liabilities is specified below divided into timing intervals. The specified amounts represent the amounts due for payment.

	Within 1 year DKK'000	Between 1 and 5 years DKK'000	After 5 years DKK'000	Total DKK'000
Other payables	177	-	-	177
31 December 2020	177	-	-	177

	Within 1 year DKK'000	Between 1 and 5 years DKK'000	After 5 years DKK'000	Total DKK'000
Other payables	176	-	-	176
31 December 2021	176	-	-	176

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Credit risks

In some cases, the Fund provides loans to its portfolio enterprises. These loans often carry conversion rights or are considered as intermediary financing with the expectation to be converted to equity investments, and hence such loans are considered part of the investment and are, therefore, not considered to represent a separate credit risk, but is rather considered being part of the total investment risk and risk relating to determining a fair value of the investments.

In some cases, the Fund has receivables from the sale of investments. Typically, the payment is partly or in whole secured by the buyer depositing the receivable on escrow accounts in accepted credit institutions and, therefore, the credit risk is considered limited. At 31 December 2020, the Fund was exposed to such credit risks. The receivable has been settled in 2021 without any credit loss.

Interest risks

The Fund does not have access to a credit facility and is as such only marginally exposed to the interest risks.

Currency risks

Some of the Fund's investments are exposed to changes in foreign currencies like USD, EUR or SEK. The Fund considers the currency risk as part of the whole investment risk and hence, the Fund does not separately hedge the currency risk relating to its investments in portfolio enterprises.

Notes

11. Financial risks and financial instruments (continued)

In addition, the Fund is indirectly exposed to currency risks through investments in portfolio enterprises which trade in other currencies than their functional currencies and hence, development in exchange rates may influence income and thereby their determination of fair value of the portfolio enterprises.

12. Related party transactions

Related parties with control

No single Limited Partner has control over the Fund.

Transactions with related parties

The General Partner is Heartcore Capital General Partner II ApS. In the financial year, the Fund has paid a management fee to Heartcore Capital A/S, which is related to Heartcore Capital General Partner II ApS. See note 5.

13. Assets charged and contingent liabilities etc.

The Fund has not pledged any assets or taken on any contingent liabilities.

At the balance sheet date, the Fund has no obligations or commitments towards portfolio enterprises or other types of contingent liabilities.

14. Events after the reporting date

No events have occurred after the reporting data, which would materially influence the evaluation of this annual report.

15. Approval of the financial statements for publication

At its Board meeting on 25.01.2022, the General Partner approved the financial statements. The financial statements will be presented to the Fund's Limited Partners for approval at the Annual General Meeting 25.02.2022.