

Axon Digital Design Ltd
353824

AXON Digital Design B.V.

at Udenhout

Financial report for the year ended 31 December 2019

Registered office:

Udenhout

Address:

Hercules 28

5126 RK Gilze



FOR IDENTIFICATION PURPOSES
BDO Audit & Assurance B.V.
Date: April 29, 2020
Enclosure to: 2005192
Initial: MB

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Directors' Report 2019

GENERAL

Axon develops and sells products for the core infrastructure of companies that produce or process multi-media (TV) content and are professionally involved in (multi-) media production for the consumer. Axon equipment can be found in (mobile) studios, reporting vehicles, play-out, master control and transmission applications. Axon is a global player (top 5 in the segment) and sees the entire world as its field of activity. Some of the sales go directly to end users, but the majority go through partners (system integrators, distributors, etc.).

Axon's head office is located in Gilze, the Netherlands, where the main legal entities and operating companies are also located. In addition to these entities in the Netherlands, Axon also has a subsidiary in the UK. In a number of other countries / regions we work with "regional offices" or "branch offices".

At the end of 2019, 89 people were employed (approximately 84 FTE), which is 8 employees more than at the beginning of 2019. The organization can be broadly divided into 3 departments: Product Development (PD), Marketing, Sales & Services (MSS) and Operations & Finance (O&F). About 40 FTEs were active in PD in 2019. MSS consisted of approximately 30.5 FTE. The rest (approximately 12.9 FTE) were active in O&F. The organizational structure was changed in 2019. Axon is led by a management team of 4 persons (three persons who are responsible for PD and MSS and O&F respectively and a general manager).

Since January 2014, Axon has been located in a commercial building (visible location on the A58) on the 'Midden Brabant Poort' industrial estate in Gilze. A 10-year lease has been agreed with the owner for this.

UPDATE BUSINESS DURING THE FINANCIAL YEAR

In early December 2018, one of our key suppliers was hit by a major fire. A large part of the component stock was lost on location. The consequence of this was a direct negative impact on the deliverability of our products and therefore also a negative impact on the financial performance of 2019.

Due to the strong development of Cerebrum, with a completely new version 2.0 being released mid-year 2019, the embracing of the IP transition by the market and the increase in the number of larger sales projects compared to previous years, there was a break-even point during 2019 that persisted until the end of the year.

A number of organizational changes occurred in the second quarter.

As of April 1, Remco Vergeer has been added to the existing management team as CFO. Effectively, the new management team is now formed by Remco Vergeer (CFO), Peter Schut (CTO), Karel van der Flier (CCO) and Michiel van Duijvendijk (CEO).

With a view to simplifying the Axon group structure, the inactive entity Axon International B.V. was dissolved on 3 April 2019. This has no further impact on Axon's current operating activities.

During the third and fourth quarter, Axon started the processes concerning the certification of the ISO9901 and 14001. After a successful implementation period, the final audits were successfully completed in the first week of 2020. The official certificates were received in early March and published on the website.

Axon Digital Design B.V. at Udenhout

Due to the increasing quarterly results during the year, a negative EBITDA of € 255.000 was realized in 2019. Net Sales grew by 20% compared to 2018.

STATE OF BUSINESS PER BALANCE REPORTING DATE

Compared to 2018, sales in 2019 increased by approximately 20%. Total costs continued to decrease in 2019, by 2.2% compared to 2018.

As a result, operating profit (EBITDA) increased significantly in 2019 compared to 2018.

Working capital at the end of 2019 was approximately 23% higher than at the end of 2018, mainly due to a higher position in debtors and inventories, mainly due to the newly created Neuron inventories. Average working capital decreased to 14% of turnover in 2019, partly due to the increase in realized turnover.

Investments (CAPEX) increased by 31% in 2019 compared to 2018. This is partly due to investments in test installations for Neuron product development.

The cash position at the end of 2019 remained at the same level as at the end of 2018.

Despite significant sales growth compared to 2018, a negative result (EBITDA) of EUR -0.3 million is realized due to the delay in Neuron product development and sales. Per year-end 2019 the group reports a negative equity.

As a result, the end of 2019, Axon Investments BV and its affiliated companies no longer comply with the covenants set by the Rabobank. In December 2019, Axon Investments B.V. adjusted the existing loan agreements, received a waiver for the breach of the covenants and additional financial means were made available by the shareholders for 2020.

The future of the company depends on a future positive result development and the willingness of the bank to continue its financing in case of non-compliance due to a breach of the covenants. These conditions indicate the existence of material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

In close, efficient cooperation with the Rabobank, the latter financing has resulted in newly determined financial covenants on the basis of which Axon's management looks to the future with confidence (agreement formalized 29 April 2020).

CORPORATE SOCIAL RESPONSIBILITY

Axon does not have an explicit CSR agenda, but does try to deal responsibly with people, the environment and society in a practical manner. An important step was achieved in 2014 by moving to the new business premises on the business area "Midden Brabant Poort". The new commercial building uses a thermal storage (heat and cold storage) system for cooling and heating the building. Other activities in the field of CSR included sponsoring equipment for a number of hospitals and sponsoring employees who work for a good cause. Axon also made a number of donations to charities.

OTHER INFORMATION

The supervision of the management of the company is organized by a Supervisory Board. The occupation of the Supervisory Board is: Gijs Botman (McGlue), Edo Pfenning (McGlue), Bram Mulders (Gridone).

In 2019 no extraordinary events occurred that impacted business operations.

The most important financial risks, where Axon Digital Design B.V. is subject to, are credit risks, liquidity risks, interest risks, and currency risks. The company does not use derivative financial instruments to mitigate the financial risks associated with business activities.

Credit risk

The company does not have any significant concentrations of credit risk. Sales are made to returning customers. Goods and services are sold subject to payment deadlines. Outstanding amounts are periodically assessed and, if necessary, measures for collection will be taken.

Liquidity risk

Periodically liquidity budgets are prepared and maintained. Through monitoring and fine tuning the liquidity risks are controlled. Management ensures that the cash position is sufficient to meet the company's financial obligations toward creditors and to stay within the limits of its loan covenants.

Interest rate risk

The interest rate risk policy aims to control the interest rate risks arising from receivables, cash and financing of the group.

Currency risk

Currency risks on positions in foreign currency are mitigated by offsetting these positions with cash positions in that foreign currency.

FUTURE PARAGRAPH

The budget for 2020 is based on the continuity, growth and development of the three product groups within Axon:

Synapse

It is expected to remain roughly stable in 2020 compared to 2019, making it the largest product group for the time being. Gross margin of this product group recovered somewhat last year and also appears to remain reasonably stable. From a budgetary point of view, a stable gross margin is taken into account, in line with the development of 2019.

Cerebrum

Also showed strong growth in 2019, which can be seen as confirmation that the phasing out of Synapse and the development of Neuron is following the future vision of the current market. Hardware is increasingly becoming Software. Cerebrum therefore has a good starting position. This growth will continue in 2020, as witnessed by the Cerebrum pipeline for 2020. This pipeline will be further supported by the sale of Neuron in 2020.

Neuron

Based on the roadmap from R&D, the market demand in combination with the stock availability of the Neuron Hardware, it is expected that approximately 250 Neuron systems will be sold and delivered by 2020. This brings us to a turnover of € 5 million. This will make an active and significant contribution to the total budgeted turnover of € 20.7 million.

Costs

The cost estimate is almost € 260.000 higher than in 2019 (€ 9.3 million). The biggest deviations are in the budgeted Personnel Costs, which increase by € 71.000 compared to 2019 (€ 6.5 million), partly due to the growth in the UK Cerebrum team.

Furthermore, the R&D project costs with € 238.000 are slightly higher than the 2019 costs of € 139.000. This is mainly due to the fact that R&D is currently catching up on the quality of the available development and compilation equipment. EBITDA budget has been set to € 1.8 million.

CAPEX

The investment needed by the organization not to stagnate but to continue to grow fully on Cerebrum and Neuron amounts to € 280.000.

WC

Working capital has been under pressure since Q3 2019, partly because of the high stock position, which was taken during Q3 2019 in anticipation of the budgeted Neuron sales and the new stock to be built for this product group. Due to the delayed development and delivery of planned Neuron features, sales during Q4 did not meet the initial expectations. This resulted in the fact that part of the Neuron stock will be delivered in the first quarter of 2020. In addition, additional sales activities have been initiated to sell part of the EOL products in stock at extra discounts and to make them liquid. During 2020, these activities have resulted in a decrease in this currently non-moving stock.

Cashflow forecast

Despite the sales growth of 20% in 2019 compared to 2018 and the expected growth in turnover and therefore the EBITDA for 2020, not all of the current covenants appeared feasible.

Among other things, the increased pressure on WC has led to increased pressure on cash flow during Q4 2019. In order to guarantee continuity in the operation, Axon's Management has asked the shareholders to make a capital injection. Constructive cooperation between shareholders, de Rabobank and the management team has led to an additional capital contribution of € 1.880.000 by the shareholders during 2019.

As a result, the current financing agreements and covenants have been amended. Both the bank repayments and the LTM EBITDA agreements are more appropriate to the 2020 and 2021 budgets. This is done in the form of a subordinated loan with an interest of 2.5%. The loan will be accrued with the interest paid according to the predefined schedule.

The loan is subordinated to the loans from Rabobank and the loan can therefore also be seen as Guarantee Capital (within the Equity) of Axon Investments B.V. The current applicable covenants have been replaced in this supplementary financing agreement by new covenants that can be met by means of the budget figures for 2020 to be realized. Formalization has been finalized.

2020 has started well. The order intake and realized turnover were budgeted in the first quarter of 2020. As a result, an EBITDA of 22.7% was realized over the first 3 months, while 14.7% was budgeted.

Business merger

In order to safeguard Axon's further growth and business continuity in the years to come, merger negotiations are currently ongoing with a strategic organization. The final SPA is expected to be finalized by the end of April.

Corona

Just like every other company Axon will also be affected by the corona virus during 2020. On the one hand, projects such as the Euro 2020 and Olympic Games are postponed, which will have a negative effect on turnover. On the other hand, new live production projects may provide opportunities to positively influence sales. On the cost side, we note for the time being that canceled international broadcast exhibitions such as NAB result in some cost savings. Overall, we expect a manageable impact on the EBITDA to be realized, which, in combination with the 2020 budget, will not have a material impact on Axon's continuity assumption.

Based on the above, the outlook for the rest of the year remains positive.

Gilze, 29-04-2020

Michiel van Duijvendijk
CEO

Consolidated balance sheet as at 31 December 2019

(after appropriation of result)

ASSETS

		31 December 2019		31 December 2018	
		€	€	€	€
Fixed assets					
Tangible fixed assets					
Other fixed operating assets	1	441,061		383,271	
Financial fixed assets					
Participation	2	2,500		2,500	
Deferred tax asset	3	<u>356,337</u>		<u>490,895</u>	
			799,898		876,666
Current assets					
Inventories	4		2,034,248		1,382,979
Receivables	5				
Trade debtors		2,007,009		1,673,214	
Amounts receivable to related companies		1,416,406		2,638,066	
Taxes and social security contributions		45,131		12,540	
Other receivables and current assets		<u>223,067</u>		<u>292,368</u>	
			3,691,613		4,616,189
Cash and banks	6		-		236,162
Total assets			<u>6,525,759</u>		<u>7,195,375</u>

EQUITY AND LIABILITIES

		31 December 2019		31 December 2018	
		€	€	€	€
Group equity	7				
Shareholders' equity		<u>(372,717)</u>	(372,717)	<u>368,984</u>	368,984
Provisions	8		84,650		-
Long-term liabilities	9		922,000		1,322,000
Current liabilities	10				
Repayments on long-term loans		800,000		500,000	
Debt to credit institutions	6	209,289		-	
Suppliers and trade credit payables		1,448,439		1,857,684	
Amounts payable to related companies		2,426,848		2,426,848	
Taxes and social security contributions		456,977		328,771	
Other liabilities, accruals & deferred income		<u>550,272</u>		<u>391,087</u>	
			5,891,825		5,504,391
Total equity and liabilities			<u>6,525,759</u>		<u>7,195,375</u>

Consolidated profit and loss account for the year 2019

		2019		2018	
		€	€	€	€
Net turnover	11	17,360,658		13,844,815	
Cost of sales		<u>(8,298,900)</u>		<u>(6,111,337)</u>	
Gross margin			9,061,758		7,733,478
Wages and salaries		4,319,922		4,256,950	
Social security expenses		544,890		609,750	
Pension expenses		400,510		501,979	
Other staff costs		1,702,610		1,730,750	
Depreciation		181,998		185,246	
Housing costs		653,120		616,918	
Maintenance costs		307,417		306,582	
Office expenses		68,123		55,283	
Car expenses		186,950		210,700	
Selling expenses		832,673		843,874	
General expenses		163,009		210,739	
Research and development costs		<u>137,867</u>		<u>185,703</u>	
Total operating expenses	12		<u>(9,499,089)</u>		<u>(9,714,474)</u>
Operating result			(437,330)		(1,980,996)
Interest and other expenses	13	<u>(146,987)</u>		<u>(115,999)</u>	
Financial income & (expenses)			<u>(146,987)</u>		<u>(115,999)</u>
Result before tax			(584,317)		(2,096,995)
Taxation on result	14		(157,384)		532.096
Share of result of participating interests			<u>-</u>		<u>-</u>
Net result after tax			<u>(741,701)</u>		<u>(1,564.899)</u>

Consolidated cash flow statement 2019

	2019		2018	
	€	€	€	€
Cash flow from operational activities				
Operating result		(437,330)		(1,980,996)
<i>Adjustments:</i>				
Depreciation	181,998		185,246	
Change in provision	84,650		-	
Change in working capital	<u>224,819</u>		<u>1,478,628</u>	
		<u>491,466</u>		<u>1,663,874</u>
Cash flow from business activities		54,136		(317,122)
Interest paid	(82,661)		(57,104)	
Tax paid	(29,884)		(26,001)	
Currency exchange differences	<u>(47,255)</u>		<u>(40,618)</u>	
		<u>(159,800)</u>		<u>(123,723)</u>
Cash flow from operating activities		(105,664)		(440,845)
Cash flow from investment activities				
Acquisitions of participations	-		-	
Disposals of participations	-		-	
Payments to acquire tangible fixed assets	<u>(239,788)</u>		<u>(184,170)</u>	
Cash flow from investment activities		<u>(239,788)</u>		<u>(184,170)</u>
Cash flow from financing activities				
Repayment on long-term loans	<u>(100,000)</u>		-	
Cash flow from financing activities		<u>(100,000)</u>		-
Movements in cash		(445,451)		(625,015)
Changes in cash:				
Position as at 1 January		236,162		861,177
Changes in financial year		<u>(445,451)</u>		<u>(625,015)</u>
Position as at 31 December		<u>(209,289)</u>		<u>236,162</u>

Accounting policies used for the company financial statements and consolidated financial statements

Entity information

Registered address and registration number trade register

The registered address of Axon Digital Design B.V. is Udenhout, the actual address is Hercules 28, 5126 RK in Gilze. Axon Digital Design B.V. is registered at the trade register under number 18029531.

General

The financial statements are drawn up in accordance with the provision of Title 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board ('Raad voor de Jaarverslaggeving').

Assets and liabilities are generally measured at historical cost, production cost or at fair value at the time of acquisition. The balance sheet and profit and loss account contain references. These refer to the disclosures in the financial statements.

Description of the most important activities of the entity

Axon Digital Design B.V. designs and markets high quality broadcast equipment for the conversion, processing, routing and compliance recording of audio and video signals. The activities of Axon Digital Design B.V. and its group company mainly consist of:

- the production of and trade in electronic goods and computer components;
- services in the area of IT processes and the implementation of software at third parties;
- the development of tailor-made software on instructions of third parties.

Sales take place both domestically and internationally, whereby the countries of the European Union are the most important markets.

Consolidation

The consolidation includes the financial information of Axon Digital Design B.V., its group companies and other entities in which it exercises control or whose central management it conducts. Group companies are entities in which Axon Digital Design B.V. exercises direct or indirect control based on a shareholding of more than one half of the voting rights, or of which it has the authority to govern otherwise their financial and operating policies. Potential voting rights that can be exercised directly from the balance sheet date are also taken into account.

Group companies and other entities in which Axon Digital Design B.V. exercises control or whose central management it conducts are consolidated in full. Participating interests in group equity and group result are disclosed separately. Participating interests over which no control can be exercised (associates) are not included in the consolidation.

Intercompany transactions, profits and balances among group companies and other consolidated entities are eliminated, unless these results are realized through transactions with third parties. Unrealized losses on intercompany transactions are also eliminated, unless such a loss qualifies as an impairment. The accounting policies of group companies and other consolidated entities have been changed where necessary, in order to align them to the prevailing group accounting policies.

In the consolidated financial statements the financial information is included from:

- Axon Digital Design Ltd., Luton (Great Britain), 100%

Going concern

Despite significant sales growth compared to 2018, a negative result (EBITDA) of EUR -0.3 million is realized due to the delay in Neuron product development and sales. Per year-end 2019 the group still reports a positive equity, however it is heavily financed with long-term and short-term debts provided by group entities and the Rabobank.

As a result, at the end of 2019, Axon Digital Design BV and its affiliated companies no longer comply with the covenants set by the Rabobank. In December 2019, Axon Digital Design B.V. adjusted the existing loan agreements, received a waiver for the breach of the covenants and additional financial means were made available by the shareholders for 2020. The agreement was formalized on 29 April 2020.

The future of the company depends on a future positive result development and the willingness of the bank to continue its financing in case of non-compliance due to a breach of the covenants. These conditions indicate the existence of material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Based on the conversations held with the banks we expect that the financing facilities will be continued.

In addition, COVID-19 will have a negative impact on Axon Digital Design B.V.'s financial position in the financial year 2020, but there is no material uncertainty (yet) about its continuity due to COVID-19.

The accounting principles are applied to the valuation of assets and liabilities and the determination of results in these financial statements are based on the assumption of continuity of the company.

Abbreviated profit and loss account

Since the income statement for 2019 of Axon Digital Design B.V. is included in the consolidated financial statements, an abridged income statement has been disclosed (in the company financial statements) in accordance with Section 402, Book 2 of the Dutch Civil Code.

Acquisition and disposal of group companies

Identifiable assets acquired and liabilities assumed in a business combination are recognized in the consolidated financial statements from the acquisition date, being the moment that control can be exercised over the acquired company.

The acquisition price consists of the cash consideration, or equivalent, agreed for acquiring the company plus any directly attributable expenses. If the acquisition price exceeds the net amount of the fair value of the identifiable assets and liabilities, the excess is capitalized as goodwill under intangible assets. If the acquisition price is lower than the net amount of the fair value of the identifiable assets and liabilities, the difference (i.e. negative goodwill) is disclosed under accruals and deferred income (refer to the respective note).

Entities continue to be consolidated until they are sold; they are deconsolidated from the date that control ceases.

Estimates

When preparing the financial statements, the directors, according to the general principles, make several estimates and assumptions that help determine the amounts in the financial statements. The actual results may deviate from the estimates made.

Foreign currency

Receivables, liabilities and obligations denominated in foreign currencies are translated at the exchange rate prevailing at balance sheet date.

Transactions in foreign currency during the financial year are recognized in the financial statements at the exchange rate prevailing at the transaction date. The exchange differences resulting from the translation at the balance sheet date, taking into account possible hedge transactions, are recorded in the profit and loss account.

Foreign group companies and non-consolidated investments outside the Netherlands which qualify as business operations in a foreign country are processed as follows: balance sheet items are translated at the exchange rate at the balance sheet date and the profit and loss account items at the exchange rate at transaction date. The resulting exchange differences are directly deducted from or added to group equity.

Functional currency

Items included in the financial statements of group companies are measured using the currency of the primary economic environment in which the respective group company operates (the functional currency). The consolidated financial statements are presented in euros, which is the functional and presentation currency of Axon Investments B.V.

Comparative figures

The comparative figures are, where necessary, reclassified on behalf of comparison with the financial statements of this year. Compared with previous year, there have been no changes in the accounting

principles.

Financial instruments

Financial instruments are primary financial instruments, such as receivables and payables and derivatives. For the principles of primary financial instruments, reference is made to the specific note regarding these financial instruments.

General

The main financial risks to which the company and the group of entities to which the company belongs are subject to credit risk, liquidity risk, interest risk and currency risk. The group does not use derivative financial instruments to manage the financial risks associated with business activities.

Credit risk

The group limits its credit risk by doing business only with customers with high credit ratings. Furthermore outstanding items will be reviewed periodically and, if necessary, measures are being undertaken to collect the receivables.

Liquidity risk

Periodically liquidity budgets are prepared. By monitoring these budgets and possible adjustments liquidity risks are managed.

Interest risk

The interest rate risk policy is to manage the interest rate risks arising from the receivables, cash and financing of the group. And by doing so optimizing the expected net interest costs. This policy translates into a certain desired profile of fixed and variable-interest positions. The desired interest rate risk per position and in total is evaluated.

Currency risk

Foreign exchange risk arises because the company has operations located in various parts of the world whose functional currency is not the same as the functional currency in which the Group companies are operating. To manage currency risks, foreign currency liabilities are paid with the generated operating cash flows in the relevant foreign currency.

Related parties

All legal entities, natural persons and other related companies that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also entities, natural persons and other related companies which can control the Company are considered to be a related party. In addition, statutory directors, other key management of Axon Digital Design B.V. or the ultimate parent companies and close relatives are regarded as related parties.

Transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is necessary in order to provide the true and fair view.

Accounting policies in respect of the valuation of assets and liabilities

Tangible fixed assets

Tangible fixed assets are presented at cost less accumulated depreciation, based on the estimated useful life and calculated as a fixed percentage of cost. Tangible fixed assets are depreciated when they are put into use.

Impairment or disposal of fixed assets

The Company states fixed assets in accordance with accounting principles generally accepted for financial reporting in The Netherlands. Pursuant to these principles, assets with a long life should be reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists the assets' recoverable amount is estimated. The recoverable amount is calculated as the higher of the present value of estimated future cash flows, discounted at the effective interest rate, or the market value less selling cost.

If the book value of an asset exceeds the recoverable amount, an impairment is charged to the result equal to the difference between the carrying amount and recoverable amount. Assets for sale are stated at the carrying or lower market value, less selling costs.

Financial fixed assets

Participations, over which significant influence is exercised, are valued using the net asset value method where the value is greater than zero. This net asset value is calculated in using the same accounting policies as used by Axon Digital Design B.V. A non-distributable reserve is maintained for recognized provisions of associates or subsidiaries when the company is not free to dispose the associate or subsidiary to distribute those provisions.

Participations over which no significant influence can be exercised are measured at historical cost. The result represents the dividend declared in the reporting year, whereby dividend not distributed in cash is valued at fair value. In the event of an impairment loss, valuation takes place at the realizable value, an impairment is recognized and charged to the income statement.

Investments in subsidiaries with negative equity are valued at nil. If the company fully or partly guarantees the liabilities of these subsidiaries a provision is set up, primarily comprising of the receivables from this investment. A provision is created for the remainder, either being the share in the losses incurred by the investment, or the amount of payments the company is obliged to make on behalf of these investments.

Investments where no significant influence is exercised, are valued at costs net of impairments, if applicable.

Deferred tax assets

Deferred tax assets are stated under the financial fixed assets if and to the extent it is possible that the tax claim can be realized in due course. These deferred tax assets are valued at nominal value based on the tax rates prevailing at the end of the reporting year or the rates applicable in the future years, to the extent that they have already been enacted by law and have a predominantly long-term character.

Short term loan

Receivables recognized under financial fixed assets are initially valued at the fair value less transaction cost (if material). These receivables are subsequently valued at amortized cost. For determining the value, impairments are taken into account.

Inventories

Inventories (stock) are measured at cost price based on the FIFO method (first in, first out) or lower realizable value.

The cost price consists of the historical cost (all costs relating to the acquisition). The realizable value is the estimated sales price less directly attributable sales costs. In determining the realizable value the obsolescence of the inventories is taken into account.

Receivables

Receivables are recorded at fair value and then valued at amortized cost, net of allowances for doubtful accounts, determined individually.

Cash and banks

Cash at banks and in hand is valued at nominal value. Unless otherwise noted, the liquid assets are, available for disposal by the company or group.

Provisions

General

Provisions are measured at the best estimate of the amount that is necessary to settle the obligation as per the balance sheet date. Provisions for pension are measured on the basis of actuarial principles. The other provisions are carried at the nominal value of the expenditure that is expected to be necessary in order to settle the obligation, unless stated otherwise.

If obligations are expected to be reimbursed by a third party, such reimbursement is included as an asset in the balance sheet if it is probable that such reimbursement will be received when the obligation is settled.

Jubilee benefits

The provision for jubilee benefits is measured at the present value of expected benefits payable during

employment. The calculation of the provision takes the expected future salary increases and the likely stay into account. The discount rate is the market rate of interest of high-quality corporate bonds of 1,3%.

Pensions

The group or company provides pension plans. The Dutch pension plans are financed through contributions to pension providers such as insurance companies. The foreign pension plans are structured in the similar manner as the Dutch pension plans; therefore, the pension obligations for both the Dutch and the foreign pension plans are valued according to the „valuation to pension fund approach“. This approach accounts for the contribution made and payable to the pension plan provider as an expense in the profit and loss account in the year.

The annual premiums are recognized as costs. For premiums that are not yet paid as at balance sheet date, a liability is recognized. The risks of wage increases, price indexation and changes in the return of the plan assets may cause future changes in the annual premium. Axon has no obligations to the insurance company if the plan assets of the insurance companies change in respect to the pensions of the employees. These risks have not been accounted for when determining the liability towards the insurance company at the balance sheet date.

At year-end 2019 (and 2018) no additional pension receivables and no obligations existed for the group in addition to the payments of the annual contribution due to the pension provider.

Long term liabilities

The long term liabilities are liabilities with maturity dates longer than one year. Initially interest-bearing loans and liabilities are recorded at face value and subsequently measured at amortized cost.

Short term liabilities

The short term liabilities have an expected term of up to one year. On initial recognition short term liabilities are recognized at fair value. After initial recognition short term liabilities are recognized at the amortized cost price. This is usually the nominal value.

Accounting policies in respect of result determination

Accounting principles for determining the result

The result for the year is the difference between net turnover and all related costs. The costs are determined according to the stated accounting policies.

Profits are recognized in the year when the corresponding turnover is recognized. Losses are recognized in the year in which they are first foreseen and it will be reasonable to estimate their existence. Other gains and losses are recognized in the financial year to which they relate.

Net turnover

Net turnover represents amounts invoiced for goods supplied and services rendered during the financial year, net of discounts and value added taxes.

Turnover from the sale of goods is recognized when the risks and rewards of the goods have been transferred to the customer.

Revenues from services are recognized to the proportion to which the services are rendered. The respective cost of these services is allocated and recognized in the same period.

Cost of sales

The cost of sales, including the costs directly related to the purchase of goods, are stated at historical costs.

Depreciation of tangible fixed assets

Depreciation expense on tangible fixed assets is calculated as a fixed percentage of the cost net of residual value, based on the expected economic useful life of the asset.

Financial income and expenses

Interest income and expense are recognized on a pro rata basis, taking into account of the effective interest rate of the assets and liabilities to which they relate, in accounting for interest expenses, the

recognized transaction expenses for loans received are taken into consideration.

Exchange differences that arise from the settlement or translation of monetary items are recorded in the profit and loss account in the period in which they occur.

Tax on result

Corporation tax is calculated at the applicable rate on the result for the financial year, taking into account permanent differences between profit calculated according to the financial statements and profit calculated for taxation purposes. Changes in deferred taxes are taken into account.

Accounting policies for the cash flow statement

The cash flow statement is prepared according to the indirect method.

The presentation of the cash flow is derived from the result after tax accumulated for the depreciation expenses, separately presented. Dividends paid are included as cash flows from financing activities.

Interest payments on long term loans are included as cash flows from operational activities. Payments to redeem a long term loan are accounted for as financing cash flows. Cash flows in foreign currencies are translated at an estimated average rate. Exchange rate differences, interest income and expenses and the tax on income are accounted for as cash flows from operational activities.

Changes in the short term debt to credit institutions are included in the changes in the cash position.

Notes to the consolidated balance sheet as at 31 December 2019

ASSETS

Fixed assets

1 Tangible fixed assets

	<u>Other fixed operating assets</u>
	€
<u>Balance as at 1 January 2019</u>	
Acquisition cost	3,317,534
Accumulated depreciation	(2,934,263)
Book value as at 1 January 2019	<u>383,271</u>
 <u>Changes in book value</u>	
Investments	239,788
Depreciation	(181,998)
Net changes	<u>57,790</u>
 <u>Balance as at 31 December 2019</u>	
Acquisition cost	3,557,322
Accumulated depreciation	(3,116,260)
Book value as at 31 December 2019	<u>441,061</u>
 Depreciation percentage	<u>20% -35%</u>

2 Financial Fixed Assets

Changes in financial fixed assets are presented as follows:

	<u>Participations</u>
	€
Balance as at 1 January 2019	2,500
Investments	-
Results from participations	-
Disposals	-
Balance as at 31 December 2019	<u>2,500</u>

Axon Investments B.V. has at the end of the financial year interests in the following participations:

- Coöperatie GilzeEnRijenGlas U.A.

3 Deferred tax assets

Deferred income tax assets relate to unutilized tax losses. These losses can be offset against expected future fiscal profits and have been recognized on the balance sheet as a deferred income tax receivable, under the item Financial fixed assets.

The total balance of losses to be compensated for Axon Digital Design B.V. and its group companies to € 5,342,969 (2018: € 4,995,304) at the end of the 2019 financial year. It is expected that the compensated losses will be (partly) used in 2020. The deferral for Axon Digital Design B.V. amounts to € 356,337 (2018: € 490,895) and is valued at the nominal value and calculated at the nominal tax rate of 15% resp. 21.7%.

The necessary uncertainties are linked to the valuation of this item. These are mainly due to the period in which the losses are settled (a maximum of nine years) and the question of whether the company is able to obtain sufficient tax-compensable results. The management has expressed the expectation that from the fiscal year 2020 onwards there will be a recovery of the results and expects to be able to make positive results from that moment onwards. As the realization continues in the future, the uncertainty in the expectations naturally increases.

Current assets

4 Inventories

	12-31-2019	12-31-2018
	€	€
Finished goods and goods available resale	2,332,245	1,707,262
Provision for obsolete inventories	(297,997)	(324,283)
	<u>2,034,248</u>	<u>1,382,979</u>

A right of pledge has been established on inventories as security to the bank.

5 Receivables

The amounts receivables have a validity shorter than one year. No provision for bad debts was deemed necessary and recognized. Regarding the amount receivable from related companies (Axon Investments B.V.) nothing has been agreed in respect of repayment and securities. A right of pledge has been established on receivables as security to the bank.

6 Cash and banks

During 2019 the current account Rabobank offered a maximum working capital credit facility of € 500,000. The securities are disclosed at the long term liabilities.

LIABILITIES

Equity

7 Group equity

Shareholders' equity

Details of shareholders' equity can be found in the notes to the company financial statements.

Provisions

8 Jubilee benefits

	12-31-2019	12-31-2018
	€	€
	84,650	-

The provision for jubilee benefits, recognized for the expected jubilee payments during employment, amounts to € 84,650 (2018: € 0) as at 31 December 2019.

Long-term liabilities

9 Long-term liabilities

Credit institutions payables

	12-31-2019	12-31-2018
	€	€
Loan Rabobank	922,000	1,322,000

All long-term liabilities are repayable within five years.

Loan Rabobank

Bankers have granted Axon Digital Design B.V. and its group companies a loan facility of originally € 18,750,000 and working credit facilities for the total amount of € 1,000,000 (excluding rental guarantee of € 225,500). Axon Digital Design B.V. is jointly and severally liable to each present and future bank obligation for Axon Digital Design B.V. and its group companies.

As of 16 June 2015 the former Loan A for a total amount of € 18,750,000 has been extended with a Loan C for a total amount of € 2,500,000 resulting in a facility for a total amount of € 21,250,000.

On 9 March 2016 the company's loan package was amended based on the company's cash needs. The bank covenants include a minimal EBITDA amount per quarter over 2016.

On 9 November 2017 the Loan was extended with a Loan D for a total amount of € 540,000, resulting in a facility for a total amount of € 21,790,000.

On 29 April 2020 new loan conditions were agreed on with the Rabobank and a waiver was provided regarding the breach of the loan covenants per year-end 2019.

As per 6 April 2018 the maximum working capital credit facility has been reduced to € 500,000.

During 2019 a repayment of € 100,000 was made on Loan A. Further repayments of the loans will follow in 2020.

In addition to the repayment obligation as set forth, in case of no default on the Rabobank loan, 75% of excess free cash flow should be applied towards the repayment of the loans from the Rabobank en the shareholders. In case of a default on the Rabobank loan, 50% of the excess cash is applied towards repayment of the loan from Rabobank and 0% for the loans from the shareholders.

The interest is based on Euribor increased with a margin, depending on the net debt / EBITDA ratio. Over 2019 the average interest rate was 4.5% (2018: 2.9%).

Securities provided are pledges of receivables, movables, shares of investments and intellectual property rights.

Current liabilities

10 Current liabilities

The current liabilities have a validity shorter than a year. Regarding the amount payable to group companies (Axon Holding B.V.) nothing has been agreed in respect of repayment and securities.

Contingent assets and liabilities

Fiscal unity

Axon Investments B.V., Axon Holding B.V., Axon International B.V. and Axon Digital Design B.V. are a tax group and form a fiscal unity for corporation tax purposes. Axon Investments B.V. and Axon Digital Design B.V. form a fiscal unity for VAT purposes.

Each of the entities is therefore jointly and severally liable for the total corporate income tax obligation calculated on the consolidated or combined level. Within the (consolidated) financial statements of each

one of the entities within the fiscal unity the corporate income tax is calculated on the basis that each entity is responsible for its own corporate income tax obligation.

Rent- and lease contracts

The company has entered into a property lease contract. At the balance sheet date the remaining contract period is between one and six years. The annual obligation amounts to € 519,751 (2018: 395,339) excluding VAT. The obligation for 2-5 years amounts to € 2,188,216 and the rental obligation longer than 5 years amounts to € 43,235.

The company has entered into operating lease contracts for company car and for ICT infrastructure. At the balance sheet date the annual obligations under these contracts amounts to € 246,423 (2017: € 169,318) excluding VAT. The obligation for 2-5 years amounts to € 218,801 and the obligation longer than 5 years amounts to € 0.

Bank guarantees

At 31 December 2019 bank guarantees have been issued for a total amount of € 225,500 (2018: € 225,500).

Notes to the consolidated profit and loss account for the year 2019

Operating income

11 Net turnover

In 2019 the net turnover increased by 20.3% compared with previous year (2018: 10.2% decrease).

Operating expenses

12 Operating expenses

Remuneration of members of the Board of Management and Supervisory Board

The directors remuneration comprises one statutory director. Therefore, in accordance article 383 (1), Part 9, Book 2 of the Netherlands Civil Code, the remuneration of the director is not disclosed in the annual accounts.

Staff members

During the financial year, the average number of staff employed in the group, converted into full-time equivalents, amounted to 84 people (2018: 80). This staffing level can be divided into the following segments:

	2019	2018
	<i>fte</i>	<i>fte</i>
Sales	30	30
Development	40	36
Logistics	6	6
Staff/Administration	6	4
Product Management	2	4
	<u>84</u>	<u>80</u>

Financial income and expenses

13 Interest and other expenses

	2019	2018
	€	€
Interest expenses	(4,773)	(3,942)
Interest expenses loans	(78,857)	(51,978)
Exchange differences	(47,255)	(40,619)
Other financial costs	(16,102)	(19,460)
	<u>(146,987)</u>	<u>(115,999)</u>

14 Taxation on result from ordinary activities

	2019	2018
	€	€
Corporation tax	(145,025)	(519,320)
Other adjustments (DTA)	192,547	-
Prior-year adjustments	109,862	(12,775)
	<u>157,384</u>	<u>(532,096)</u>

The tax expense recognized in the profit and loss account for 2019 amounts to -26,93% of the result before tax (2018: 25.4%).

Company balance sheet as at 31 December 2019

(after appropriation of result)

ASSETS

		31 December 2019		31 December 2018	
		€	€	€	€
Fixed assets					
Tangible fixed assets					
Other fixed operating assets	15	413,120		364,681	
Financial fixed assets					
Participations	16	661,986		403,848	
Deferred tax asset	17	<u>356,337</u>		<u>490,895</u>	
			1,431,443		1,259,424
Current assets					
Inventories	18		1,742,669		1,203,222
Receivables	19				
Trade debtors		1,162,238		1,106,463	
Amounts receivable from group companies		1,416,406		2,638,066	
Taxes and social security contributions		45,131		41,690	
Other receivables and current assets		<u>200,188</u>		<u>268,082</u>	
			2,823,963		4,054,301
Cash and banks	20		6,130		131,317
Total assets			<u>6,004,205</u>		<u>6,648,264</u>

EQUITY AND LIABILITIES

		31 December 2019		31 December 2018	
		€	€	€	€
Shareholders' equity	21				
Share capital		34,896		34,896	
Share premium reserve		1,019,558		1,019,558	
Reserve differences on exchange		(10,705)		(17,870)	
Other reserve		<u>(1,416,466)</u>		<u>(667,600)</u>	
			(372,717)		368,984
Provisions	22		84,650		-
Long-term liabilities	23		355,006		755,006
Current liabilities	24				
Repayments on long-term loans		800,000		500,000	
Debt to credit institutions	20	409,757		-	
Trade creditors		1,441,130		1,840,330	
Amounts payable to group companies		2,426,848		2,426,848	
Taxes and social security contributions		128,296		142,337	
Other liabilities, accruals & deferred income		<u>731,234</u>		<u>614,759</u>	
			5,937,265		5,524,273
Total equity and liabilities			<u>6,004,205</u>		<u>6,648,264</u>

Company profit and loss account for the year 2019

	2019	2018
	€	€
Income from operations after income tax	(977,932)	(1,500,028)
Share in the result of investment -or participations	236,231	(64,871)
Result after taxation	<u>(741,701)</u>	<u>(1,564,899)</u>

Notes to company balance sheet as at 31 December 2019

ASSETS

Fixed assets

15 Tangible fixed assets

	<i>Other fixed operating assets</i>
	€
<u>Balance as at 1 January 2019</u>	
Acquisition cost	3,200,659
Accumulated depreciation	(2,835,978)
Book value as at 1 January 2019	<u>364,681</u>
<u>Changes in book value</u>	
Investments	220,237
Depreciation	(171,798)
Net changes	<u>48,439</u>
<u>Balance as at 31 December 2019</u>	
Acquisition cost	3,420,896
Accumulated depreciation	(3,007,776)
Book value as at 31 December 2019	<u>413,120</u>
Depreciation percentage	<u>20-35%</u>

16 Financial fixed assets

Consolidated companies are valued at net capital value. The net result from participations is in accordance with the participation in the profit of the financial year for the respective companies.

Equity interests

<u>Name</u>	<u>Registered office</u>	<u>Interest in equity (%)</u>
Axon Digital Design Ltd.	Luton, Great Britain	100%
Balance as at 1 January 2019		401,348
Dividend received		-
Result from participating interests		236,231
Foreign currency differences		21,908
Investments		-
Disposals		-
Balance as at 31 December 2019		<u>659,486</u>

<u>Name</u>	<u>Registered office</u>	<u>Interest in equity (%)</u>
Coöperatie Gilze en Rijen Glas	Gilze, the Netherlands	100%
Balance as at 1 January 2019		2,500
Dividend received		-
Result from participating interests		-
Foreign currency differences		-
Investments		-
Disposals		-
Balance as at 31 December 2019		<u>2,500</u>

17 Deferred tax assets

Deferred income tax assets relate to unutilized tax losses. These losses can be offset against expected future fiscal profits and have been recognized on the balance sheet as a deferred income tax receivable, under the item Financial fixed assets.

The total balance of losses to be compensated for Axon Digital Design B.V. and its group companies to € 5,342,969 (2018: € 4,995,304) at the end of the 2019 financial year. It is expected that the compensated losses will be (partly) used in 2020. The deferral for Axon Digital Design B.V. amounts to € 356,337 (2018: € 490,895) and is valued at the nominal value and calculated at the nominal tax rate of 15% resp. 21.7%.

The necessary uncertainties are linked to the valuation of this item. These are mainly due to the period in which the losses are settled (a maximum of nine years) and the question of whether the company is able to obtain sufficient tax-compensable results. The management has expressed the expectation that from the fiscal year 2020 onwards there will be a recovery of the results and expects to be able to make positive results from that moment onwards. As the realization continues in the future, the uncertainty in the expectations naturally increases.

18 Inventories

	<u>12-31-2019</u>	<u>12-31-2018</u>
	€	€
Finished goods and goods available resale	2,040,667	1,527,505
Provision for obsolete inventories	(297,997)	(324,283)
	<u>1,742,669</u>	<u>1,203,222</u>

A right of pledge has been established on inventories as security to the bank.

19 Receivables

The amounts receivable have a validity shorter than a year. No provision for bad debts was deemed necessary and recognized. Regarding the amount receivable from group companies (Axon Investments B.V.) nothing has been agreed in respect of repayment and securities. A right of pledge has been established on receivables as security to the bank.

20 Cash and banks

During 2019 the current account Rabobank offered a maximum working capital credit facility of € 500,000. The securities are disclosed at the long term liabilities.

LIABILITIES

Equity

21 Shareholders' equity

Movements in equity were as followed:

	<i>Paid up and called up share capital</i>	<i>Share premium reserve</i>	<i>Other reserves</i>	<i>Reserve differences on exchange</i>	<i>Total</i>
	€	€	€	€	€
Balance as at 1 January 2019	34,896	1,019,558	(667,600)	(17,870)	368,984
Result for the year			(741,701)		(741,701)
Other movements			(7,165)	7,165	-
Dividend					-
Balance as at 31 December 2019	34,896	1,019,558	(1,416,466)	(10,705)	(372,717)

Share capital

The authorized share capital amounts € 113,500, divided into 25,000 shares of € 4.54. Issued share capital consists of 7,690 shares.

Share premium reserve

The share premium concerns the income from the issuing of shares in so far as this exceeds the nominal value of the shares (above par income).

Other reserves

The result of the year has been reduced from the other reserves.

Provisions

22 Jubilee benefits

	<u>12-31-2019</u>	<u>12-31-2018</u>
€	€	€
	84,650	-

The provision for jubilee benefits, recognized for the expected jubilee payments during employment, amounts to € 84,650 (2018: € 0) as at 31 December 2019.

Liabilities

23 Long-term liabilities

Credit institutions payables

	<u>12-31-2019</u>	<u>12-31-2018</u>
	€	€
Loan Rabobank	355,006	755,006

All long-term liabilities are repayable within five years.

Loan Rabobank

Bankers have granted Axon Digital Design B.V. and it's group companies a loan facility of originally € 18,750,000 and working credit facilities for the total amount of € 1,000,000 (excluding rental guarantee of € 225,500). Axon Digital Design B.V. is jointly and severally liable to each present and future bank obligation for Axon Digital Design B.V. and it's group companies.

As of 16 June 2015 the former Loan A for a total amount of € 18,750,000 has been extended with a Loan

C for a total amount of € 2,500,000 resulting in a facility for a total amount of € 21,250,000.

On 9 March 2016 the company's loan package was amended based on the company's cash needs. The bank covenants include a minimal EBITDA amount per quarter over 2016.

On 9 November 2017 the Loan was extended with a Loan D for a total amount of € 540,000, resulting in a facility for a total amount of € 21,790,000.

On 29 April 2020 new loan conditions were agreed on with the Rabobank and a waiver was provided regarding the breach of the loan covenants per year-end 2019.

As per 6 April 2018 the maximum working capital credit facility has been reduced to € 500,000.

During 2019 a repayment of € 100,000 was made on Loan A. Further repayments of the loans will follow in 2020.

In addition to the repayment obligation as set forth, in case of no default on the Rabobank loan, 75% of excess free cash flow should be applied towards the repayment of the loans from the Rabobank en the shareholders. In case of a default on the Rabobank loan, 50% of the excess cash is applied towards repayment of the loan from Rabobank and 0% for the loans from the shareholders.

The interest is based on Euribor increased with a margin, depending on the net debt / EBITDA ratio. Over 2019 the average interest rate was 4.4% (2018: 2.9%).

Securities provided are pledges of receivables, movables, shares of investments and intellectual property rights.

Current liabilities

24 Current liabilities

The current liabilities have a validity shorter than a year. Regarding the amount payable to group companies (Axon Holding B.V.) nothing has been agreed in respect of repayment and securities.

Contingent assets and liabilities

Fiscal unity

Axon Investments B.V., Axon Holding B.V., Axon International B.V. and Axon Digital Design B.V. are a tax group and form a fiscal unity for corporation tax purposes. Axon Investments B.V. and Axon Digital Design B.V. form a fiscal unity for VAT purposes.

Each of the entities is therefore jointly and severally liable for the total corporate income tax obligation calculated on the consolidated or combined level. Within the (consolidated) financial statements of each one of the entities within the fiscal unity the corporate income tax is calculated on the basis that each entity is responsible for its own corporate income tax obligation.

Rent- and lease contracts

The company has entered into a property lease contract. At the balance sheet date the remaining contract period is between one and six years. The annual obligation amounts to € 493,640 (2018: 395,339) excluding VAT. The obligation for 2-5 years amounts to € 2,024,420 and the rental obligation longer than 5 years amounts to € 43,235.

The company has entered into operating lease contracts for company car and for ICT infrastructure. At the balance sheet date the annual obligations under these contracts amounts to € 246,423 (2017: € 169,318) excluding VAT. The obligation for 2-5 years amounts to € 218,801 and the obligation longer than 5 years amounts to € 0.

Bank guarantees

At 31 December 2019 bank guarantees have been issued for a total amount of € 225,500 (2018: € 225,500).

Companies Act 2006, s. 479A

The below UK subsidiary has sought and received a parental guarantee from Axon Digital Design B.V. under section 479A of the UK Companies Act 2006 which has allowed it to be exempt from filing subsidiary audited financial statements. Unaudited financial statements will be filed with the UK Companies House in the course of 2020.

COMPANY NAME	REGISTERED NUMBER
Axon Digital Design Limited	03513824

Subsequent Events

COVID-19

An outbreak of a new coronavirus called COVID-19 started in China in December 2019. The virus has spread from China in 2020 to the rest of the world and therefore also to the markets of Axon Digital Design B.V.

Strict measures have been taken in various countries to prevent further contamination of the population. In March 2020, the Dutch (and foreign) authorities urgently advised people to stay home as much as possible. As such, public life has been partly shut down leading to economic contraction in various countries. The economic crisis due to the virus is expected to continue for several months.

Axon Digital Design B.V. will be affected by the coronavirus during 2020 as well. On the one hand, projects such as the UEFA Euro 2020 and Olympic Games 2020 are postponed, which will have a negative effect on turnover. However on the other hand, new live production projects may provide opportunities to positively influence sales. Therefore Axon Digital Design B.V. has taken various measures to maintain a positive cash flow. For example, it will make use of the tax payment deferral schemes offered by local authorities. In addition, unnecessary expenses will be kept to a minimum. Axon Digital Design B.V. assumes that the market will recover again during the year. In order to be well prepared for this, it has decided to continue a number of planned investments in 2020. These investments are necessary to continue to grow fully on Cerebrum and Neuron.

The current liquidity position, as well as the liquidity forecast for the coming period, is still sufficient to guarantee undisturbed business operations. Despite the current economic crisis, this enables management to make the aforementioned investments to continue without jeopardizing the (future) continuity of the company. Given the positive cash flows, it is not expected that additional external financing is necessary in the medium term.

Business merger

In order to safeguard Axon's further growth and business continuity in the years to come, merger negotiations are currently ongoing with a strategic organization. The final SPA is expected to be finalized by the end of April.

Proposed appropriation of result

At the general meeting at which the annual accounts will be adopted, it will be proposed to reduce the result after tax 2019 from the other reserves. This proposal has already been included in the these financial statements.

Gilze, 2020,
Axon Investments B.V., on behalf,

M. Duijvendijk
Board of management

Other information

Statutory appropriation of the result

The appropriation of the result takes place in accordance with article 20 of the articles of association. In this article is stated that the result is at the disposal of the general shareholders' meeting.

Branches

The company operates branches in the following countries: China and Singapore.

Independent auditor's report

To: the shareholders and Supervisory Board of Axon Digital Design B.V.

A. Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the financial statements 2019 of Axon Digital Design B.V. based in Udenhout. The financial statements comprise the consolidated financial statements and the company financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Axon Digital Design B.V. as at 31 December 2019 and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. the consolidated and company balance sheet as at 31 December 2019;
2. the consolidated and company profit and loss account for 2019; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Axon Digital Design B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Material uncertainty related to going concern

We draw attention to the going concern paragraph in the notes of the financial statements which indicates that the company depends on a future positive result development and the willingness of the bank to continue its financing in case of non-compliance due to a breach of the covenants. These conditions indicate the existence of material uncertainty which may cast significant doubt about the company's ability to continue as going concern.

Furthermore we draw attention to the going concern paragraph and the subsequent events paragraph in the financial statements, which describe the uncertainties surrounding the possible consequences of COVID-19 for Axon Digital Design B.V.

Our opinion is not modified in respect of these matters.

B. Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the management report, and
- other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

C. Description of responsibilities regarding the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements 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.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.



The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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;
- obtaining 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 entity's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity'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 a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.



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

Eindhoven, April 29, 2020

For and on behalf of BDO Audit & Assurance B.V.,

was signed

drs. C.F. Mateijssen RA
