FLEXA®

Flexa4Dreams Holding A/S

Hornsyld Industrivej 4
8783 Hornsyld

Annual report 2016

Reg. No.: 32 77 56 83

These financial statements are presented and approved at
the Annual General Meeting

on 30 May 2017

(chairman)

Statements

Management's review

Financial statements 1 January 2016 - 31 December 2016

Statements

Statement by the Executive Board and the Board of Directors

The Executive and the Board of Directors have today considered and adopted the Annual Report of Flexa4Dreams Holding A/S for the financial year 1 January – 31 December 2016.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and the Group and of the results of the Company and Group operations and cash flows for 2016.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Group and the Company, of the results for the year and of the financial position of the Group and the Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Hornsyld, 30 May 2017

Executive Board

Carsten Dan Madsen
CEO

Board of Directors

Mikael Hee Chairman	Adrian Vanderspuy	Carsten Madsen

Statements

Independent Auditor's Report

To the Shareholders of Flexa4Dreams Holding A/S

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2016, and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Flexa4Dreams Holding A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including af summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report 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 judgment and maintain professional skepticism 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 Group's and the Parent Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Conclude on the appropriateness of Management's 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 Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Trekantomraadet, 30 May 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No. 33 77 12 31

Arne Kristensen
State Authorised
Public Accountant

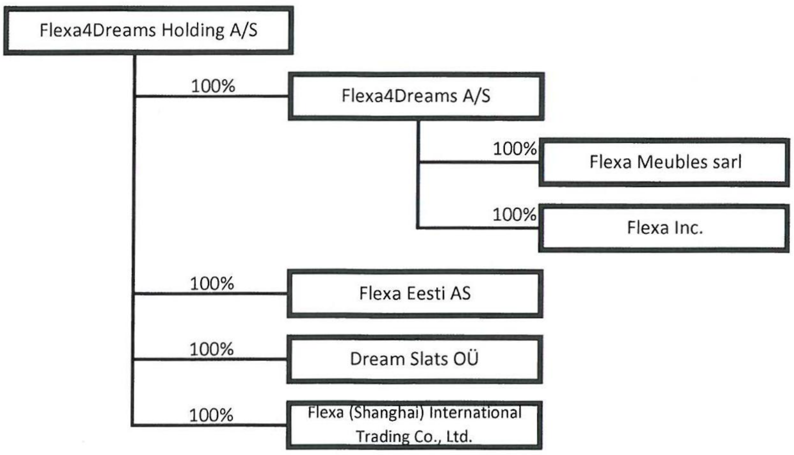
John Lindholm Bode
State Authorised
Public Accountant

Management's review

Company details

The Company	Flexa4Dreams Holding A/S Hornsyld Industrivej 4 8783 Hornsyld
Telephone	+45 76 68 80 55
Fax	+45 76 68 80 68
E-mail	flexa@flexa.dk
Registration No.	32 77 56 83
Established	23 February 2010
Registered office	Hedensted Kommune
Financial year	1 January - 31 December
Board of Directors	Mikael Hee, chairman Adrian Vanderspuy Carsten Dan Madsen
Executive Board	Carsten Dan Madsen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Herredsvej 32 7100 Vejle
Annual general meeting	Annual general meeting is held on 30 May 2017.

Group overview



Financial highlights for the group

Key figures	2016 DKK '000	2015 DKK '000	2014 DKK '000	2013 DKK '000	2012 DKK '000
Revenue	355.843	346.579	293.032	272.719	268.226
Gross profit	125.226	113.971	92.078	88.520	88.627
EBITDA	27.848	-3.255	-9.561	28	3.067
Adjusted EBITDA *)	22.678	-3.255	-5.542	28	-2.433
Ordinary operating profit	14.279	-6.250	-15.850	-11.143	-14.352
Profit/loss from financial income and expenses	-10.991	-9.081	-7.302	-5.989	-5.254
Profit/loss for the year	8.036	-23.999	-27.364	-25.266	-14.564
Non-current assets	25.734	40.805	48.379	52.857	57.506
Investment in property, plant and equipment	6.961	2.555	4.271	5.654	2.310
Current assets	159.107	117.806	122.662	104.876	122.363
Total assets	184.840	158.611	171.042	157.733	179.869
Total equity	13.208	-59.982	-38.404	-13.711	11.860
Total equity incl. subordinated loan capital	43.208	-19.982	1.596	26.289	11.860
Cash flows from operating activities	17.674	-14.198	-17.032	-20.345	-10.375
Cash flows from investing activities	-6.961	-2.859	-4.223	-5.236	11.304
Cash flows from financing activities	65.816	-289	-819	-1.761	-570
Financial ratios					
Operating margin	4,0%	-1,8%	-5,4%	-4,1%	-5,4%
Return on invested capital	13,9%	-5,7%	-14,3%	-10,2%	-12,5%
Gross margin	35,2%	32,9%	31,4%	32,5%	33,0%
EBITDA ratio	7,8%	-0,9%	-3,3%	0,0%	1,1%
Solvency ratio	7,1%	-37,8%	-22,5%	-8,7%	6,6%
Solvency ratio incl. subordinated loan capital	23,4%	-12,6%	0,9%	16,7%	6,6%
Average number of employees	425	470	444	380	415

*) In 2012 EBITDA is adjusted for profit from divestment of sawmill. In 2014 costs of 4 mill. DKK in connection with evaluation of strategic alternatives has been adjusted. In 2016 profit from divestment of production company in China, 12 mill. DKK, and costs in connection with change of owners and reestablishment of the the equity, 7 mill. DKK, has been adjusted.

Financial ratios

The Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios":

Operating margin:

$$\frac{\text{Ordinary operating profit x 100}}{\text{Revenue}}$$

Return on invested capital:

$$\frac{\text{Ordinary operating profit x 100}}{\text{Average capital invested}}$$

Invested capital:

Goodwill, property, plant and equipment and net working capital.

Gross margin

$$\frac{\text{Gross profit x 100}}{\text{Revenue}}$$

Solvency ratio:

$$\frac{\text{Total Equity, at the end of year x 100}}{\text{Total equity and liabilities, at the end of year}}$$

Management's review

Operating review

Principal activities of the Group

The Flexa4Dreams-Group's main activities are production, marketing and sale of furniture, interior and related products for children's rooms. The group is one of the largest focused manufacturers and suppliers of furniture and interior for children's rooms in Europe.

FLEXA Group has more than 140 specialist stores located in Europe, Asia, North Africa, South America and Hawaii. Everyday our dedicated and knowledgeable partners around the world guide and advice parents to design the best possible room solutions for their kids.

Development in activities and financial position

On the basis of the succesfull turnaround executed since 2012 the FLEXA Group underwent a change of ownership in June 2016 comprising a significant investment from the new owners and associated significantly strengthened balance sheet, thus providing an even stronger platform for continued future development and growth of the Group. Further information on the transaction is outlined in the section below on "Capital resources".

The revenue in 2016 was 355.8 mill. DKK compared to 346.6 mill. DKK the year before. Ordinary result before depreciations and financial expenses (EBITDA) was 22.7 mill. DKK compared to -3.3 mill. DKK in 2015. The ordinary operating profit was 14.3 mill. DKK compared to -6.3 mill. DKK. Cash generated from operations was 17.7 mill. DKK.

Despite a continuing weak business climate, especially in the European markets and negative currency impact from GBP, revenue for the year increased by 2.7%. This improvement is the result of a number of efforts during the year. Gaining new business and continued positive effects of implementation of the new shop layout and concept. A significant growth in branded products has been achieved.

The new and revitalized product assortment launched in 2015 and 2016 contributed to the overall development. Of the total revenue for the year, 25% came from products designed and launched within the past 24 months.

The Group's strategy to further grow sales within Europe have proven successful. Also sales in China is showing strong growth after the setup was restructured in 2015 with new general manager and sales organisation.

Result from ordinary activities after taxes is 8.0 mill. DKK compared to -24.0 mill. DKK last year.

The result in 2016 is impacted by the divestment of the Chinese production entitiy: Flexa (Suzhou) Furniture Products Ltd. A profit of 12,3 mill DKK has been recognized as Other operating income in the profit and loss. Furthermore costs of 7.4 mill. DKK in connection with the change of ownership has been booked as Other operating costs in the profit and loss statement.

In the annual report for 2015 we stated an expectation for increase in turnover and earnings in 2016. The realised increase in turnover of 9.2 mill. DKK and the increase in net profit of 32.0 mill. DKK are assessed satisfactory based on the group's current strategy.

Capital resources

On the basis of the succesfull turnaround executed since 2012 the FLEXA Group underwent a change of ownership in June 2016. The transaction has significantly strengthened the capital structure of the Group, by comprising a cash investment into the Group of 50 mill. DKK (of which 20 mill. DKK as equity and 30 mill. DKK as subordinated debt) by the new investors, as well as a debt relief from the banks of 45.2 mill. DKK. The new ownership consists of financier Adrian Vanderspuy, a resident of Switzerland, who is majority shareholder of the company, and in addition to this, members of the management team have co-invested.
As part of the change in ownership the company bought back nominal 15.000 shares.
Equity end of December 2016 amounts to 13.2 mill. DKK.

Outlook

It is expected that the macro-economic situation remains unchanged in 2017. Consumption of furniture and decor items will continue to be subject to the downturn that we have experienced in recent years. Based on the current sales strategy, improvement of product portfolio and store concepts and optimization of the supply chain, the Group expects to gain further market share, with which continued increased turnover and ordinary earnings are expected in 2017.

The Group expects no single major investment in 2017, but only minor investments in connection with the ongoing maintenance of the production units.

Risks
General risks

The management of Flexa4Dreams assesses regularly the Group's risk exposure. Operational and strategic risks that may affect the Group's earnings and financial position are monitored and assessed regularly. The Group's risks in relation to the supply of commodities are continuously attempted to be minimized by entering contracts for the supply of timber, which is the Group's main raw material.

Financial risks

The Group is due to its operating, investing and financing exposed to fluctuations in exchange and interest rates. The Group's policy is not actively to speculate in financial risks. Group's financial management is only aimed at management of already assumed financial risks.

Currency risks

Currency risks relating to investments in foreign subsidiaries are not hedged, as it is the Group's opinion that an ongoing hedging of such long-term investments will not be optimal from an overall risk and cost consideration.

Interest rate risks

The Group's interest bearing net debt, calculated as bank debt less cash, amounted 31. December 2016 to 87.8 mill. DKK.

The Group's total bank debt is based on floating interest rates. There is no hedging of the operational impact of a rate increase.

Credit risks

The Group has no material risks relating to a single customer or partner. The Group's policy for inclusion of credit risks leads to that all major customers and partners are credit rated, and credit insurance has been established.

Intellectual capital

The employees are a significant asset in the group, which operates from a united set of values. Based on the shared values the Flexa4Dreams-Group can realise its vision to be the preferred supplier of furniture and interior for the children's room.

Environmental issues

Flexa4Dreams continuously tries to minimize the environmental impact of its activities. Flexa4Dreams continuously strives to produce products using materials and technologies giving the least possible impact on the environment.

The Group will constantly strive to meet customers' and society's demand for the least environmentally harmful products.

Research and development activities

Expenses for development and testing of both new and existing products are recognized as expenses in the income statement, as future earnings of this is uncertain.

Corporate social responsibility

Flexa4Dreams Group strives to continuously meet the laws and regulations of the countries and communities, where the Group operates.

No policy is adopted on social responsibility. Therefore no separate statement on social responsibility is prepared.

The underrepresented sex

The Group's policy for recruitment is to attract and hire the most competent leadership. The goal for female representation is a minimum of 20% in 2018. Females are currently represented by 20% in the management team, while no females are represented in the board.

The Group's policy is to encourage a greater share of female representation in leadership roles.

Financial statements

Income statement

	Note	Consolidated 2016 DKK '000	Parent company 2016 DKK '000	Consolidated 2015 DKK '000	Parent company 2015 DKK '000
Revenue	2	355.843	0	346.579	0
Production costs	3	-230.617	0	-232.608	0
Gross profit		125.226	0	113.971	0
Distribution costs	3	-68.225	0	-75.201	0
Administrative expenses	3	-42.722	-222	-45.021	-373
Ordinary operating profit/loss		14.279	-222	-6.250	-373
Other operating income	4	12.316	12.316	66	0
Other operating expenses	5	-7.146	-1.803	-8.609	0
Operating profit/loss		19.449	10.290	-14.793	-373
Profit/loss from investments	9	0	911	0	-21.066
Financial income	6	0	147	0	0
Financial expenses	7	-10.991	-3.312	-9.081	-2.560
Profit/loss from ordinary activities before income taxes		8.458	8.036	-23.874	-23.999
Tax on profit/loss from ordinary activities	8	-421	0	-125	0
Profit/loss for the year		8.036	8.036	-23.999	-23.999

Balance sheet

	Note	Consolidated 2016 DKK '000	Parent company 2016 DKK '000	Consolidated 2015 DKK '000	Parent company 2015 DKK '000
ASSETS					
Non-current assets					
Intangible assets	9				
Goodwill		3.167	0	4.167	0
Property, plant and equipment	10				
Leasehold improvements		263	0	1.957	0
Land and buildings		10.929	0	24.666	0
Plant and machinery		9.300	0	7.380	0
Fixtures and fitting, tools and equipment		2.075	0	2.635	0
		22.567	0	36.638	0
Investments					
Investments in subsidiaries	12	0	17.118	0	19.297
Total non-current assets		25.734	17.118	40.805	19.297

Financial statements

Balance sheet

	Note	Consolidated 2016 DKK '000	Parent company 2016 DKK '000	Consolidated 2015 DKK '000	Parent company 2015 DKK '000
Current assets					
Inventories					
Raw materials and consumables		9.634	0	13.354	0
Work in progress		9.921	0	9.241	0
Finished goods and goods for resale		40.264	0	34.564	0
		59.819	0	57.159	0
Receivables					
Trade receivables		42.845	0	46.002	0
Amounts owed by affiliated companies		0	31.065	0	0
Deferred tax asset	13	0	0	0	0
Other receivables		29.857	11.393	4.662	0
Prepayments		2.383	67	2.955	83
		75.085	42.524	53.618	83
Cash at bank and in hand		24.202	1.014	7.029	0
Total current assets		159.107	43.539	117.806	83
TOTAL ASSETS		184.840	60.657	158.611	19.380

Balance sheet

	Note	Consolidated 2016 DKK '000	Parent company 2016 DKK '000	Consolidated 2015 DKK '000	Parent company 2015 DKK '000
EQUITY AND LIABILITIES					
Equity					
Share capital	14	1.000	1.000	1.000	1.000
Retained earnings		12.208	12.208	-60.982	-60.982
Total equity	11	13.208	13.208	-59.982	-59.982
Provisions					
Provisions, subsidiary	12	0	15.948	0	18.027
Other provisions	15	1.735	0	3.429	0
		1.735	15.948	3.429	18.027
Liabilities other than provisions					
Non-current liabilities other than provisions					
Subordinated loan capital	11	30.000	30.000	40.000	40.000
Bank loans	16	0	0	0	0
		30.000	30.000	40.000	40.000

Balance sheet

	Note	Consolidated 2016 DKK '000	Parent company 2016 DKK '000	Consolidated 2015 DKK '000	Parent company 2015 DKK '000
Current liabilities other than provisions					
Current portion of non-current liabilities other than provisions	16	2	0	157	0
Bank loans and overdraft		82.063	0	131.419	9.898
Trade payables		16.978	0	15.397	0
Amounts owed to affiliated companies		0	1.266	0	8.093
Corporation tax		75	0	0	0
Other payables	17	40.779	235	28.190	3.343
		139.897	1.501	175.163	21.335
Total liabilities other than provisions		169.897	31.501	215.163	61.335
TOTAL EQUITY AND LIABILITIES		184.840	60.657	158.611	19.380

Contingent liabilities and collateral	18
Related parties	19
Subsequent events	20
Notes without reference	21-22

Statement of changes in equity

Parent company
DKK '000

	Share capital 2016 DKK '000	Retained earnings 2016 DKK '000	Total 2016 DKK '000
Equity at 1 January	1.000	-60.982	-59.982
Capital increase	0	21.000	21.000
Purchase of own shares	0	-216	-216
Debt relief, bank loans	0	45.187	45.187
Foreign exchange adjustments of foreign subsidiaries etc.	0	-817	-817
Disposal for the year	0	8.036	8.036
Equity at 31 December	1.000	12.208	13.208

Subordinated loan capital of 30 mill. DKK has been established in supplement to equity, see note 8.

Consolidated
DKK '000

	Share capital 2016 DKK '000	Retained earnings 2016 DKK '000	Total 2016 DKK '000
Equity at 1 January	1.000	-60.982	-59.982
Capital increase	0	21.000	21.000
Purchase of own shares	0	-216	-216
Debt relief, bank loans	0	45.187	45.187
Foreign exchange adjustments of foreign subsidiaries etc.	0	-817	-817
Disposal for the year	0	8.036	8.036
Equity at 31 December	1.000	12.208	13.208

Subordinated loan capital of 30 mill. DKK has been established in supplement to equity, see note 8.

Cash flow statement

	Note	Consolidated 2016 DKK '000	Consolidated 2015 DKK '000
Revenue		355.843	346.579
Expenses		-327.995	-349.741
Cash from operations before changes in working capital		27.848	-3.161
Change in working capital	23	1.163	-1.499
Cash generated from operations (ordinary activities)		29.011	-4.660
Financial income and expenses, net		-10.991	-9.081
Taxes paid		-346	-457
Cash flows from operating activities		17.674	-14.198
Purchase of intangible assets and property, plant and equipment		-6.961	-2.555
Sales of intangible assets and property, plant and equipment		0	-304
Cash flows from investing activities		-6.961	-2.859
Repayment of long-term debt		-155	-289
Debt relief, bank loans		45.187	
Capital increase, net		20.784	0
Cash flows from financing activities		65.816	-289
Net cash flows form operating, investing and financing activities		76.529	-17.346

Cash flow statement (continued)

	Note	Consolidated	Consolidated
		2016	2016
		DKK '000	DKK '000
Net cash flows form operating, investing and financing activities		76.529	-17.346
Cash and cash equivalents at 1 January		-164.390	-147.044
Cash and cash equivalents at 31 December		-87.861	-164.390
Cash and cash equivalents at 31 December			
Cash and cash equivalents		24.202	7.029
Bank loans and overdraft		-82.063	-131.419
Subordinated loan capital		-30.000	-40.000
Cash and cash equivalents at 31 December		-87.861	-164.390

The cash flow statement cannot be derived directly from the accounting records.

Notes

1. Accounting policies

The annual report of Flexa4Dreams Holding A/S for 2016 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

The company has implemented the changes to the Danish Financial Statements Act which had come into force at 1 January 2016 cf. Act no. 738 of 1 June 2015.

Changes to the Danish Financial Statements Act, which had come into force at 1 January 2016, have not influenced the Group or the Parent Company's financial position at 31 December 2016, but have only resulted in further information in the Annual Report.

The accounting policies applied remain unchanged from last year, and financial statements for 2016 are presented in DKK.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the group and the value of the asset can be reliably measured.

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and when the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

Certain financial assets and liabilities are measured at amortised cost implying the recognition of a constant effective interest rate to maturity. Amortised cost is calculated as initial cost minus any principal repayments and plus or minus the cumulative amortisation of any difference between cost and nominal amount.

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities measured at fair value or amortised cost. Equally, costs incurred to generate the year's earnings are recognised, including depreciation, amortisation, impairment losses and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognised in the income statement.

Consolidated financial statements

The consolidated financial statements comprise the parent company, Flexa4Dreams Holding A/S, and subsidiaries in which Flexa4Dreams Holding A/S directly or indirectly holds more than 50% of the voting rights or which it, in some other way, controls.

On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains and losses on intra-group transactions are eliminated.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of net assets or liabilities at the acquisition date.

Notes

Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the consolidated income statement until the date of disposal. The comparative figures are not adjusted for acquisitions or disposals.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill) is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Non-current assets acquired in foreign currencies are translated at the rate at the transaction date.

Notes

Income statement

Revenue

Income from the sale of goods for resale and finished goods is recognised in the income statement provided that delivery and transfer of risk to the buyer has taken place and that the income can be reliably measured and is expected to be received.

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

Production costs

Production costs comprise costs, including depreciation and amortisation and salaries, incurred in generating the revenue for the year. Such costs include direct and indirect costs of raw materials and consumables, wages and salaries, rent and leases, and depreciation of production plant.

Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns etc. during the year are recognised as distribution costs. Also, costs relating to sales staff, advertising, exhibitions and depreciation are recognised as distribution costs.

Administrative expenses

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

Other operating income and expenses

Other operating income comprises items secondary to the principal activities of the enterprise.

Profits/losses from investments in subsidiaries

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement of the parent company after full elimination of intra-group profits/losses.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme etc.

Notes

Tax on profit/loss for the year

The company is covered by the Danish rules on compulsory joint taxation.

Flexa4Dreams Holding A/S is the administrative company for the joint taxation and consequently settles all corporation tax payments with the tax authorities.

The current Danish corporation tax is allocated by the settlement of joint taxation contribution between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carryforwards receive joint taxation contribution from companies that have used these losses to reduce their own taxable profits.

Tax for the year comprises current tax, joint taxation contributions for the year and changes in deferred tax for the year – due to changes in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Notes

Balance sheet

Intangible assets

Goodwill is amortised over its estimated useful life determined on the basis of Management's experience. Goodwill is amortised on a straight-line basis over the amortisation period.

The amortisation period is 10 years, longest for strategically acquired enterprises with strong market positions and long-term earnings profiles.

The carrying amount of goodwill is assessed regularly and written down to the recoverable amount over the income statement if the carrying amount exceeds forecast future net income from the activities to which goodwill relates.

Property, plant and equipment

Leasehold improvements represent the renovation of storage facilities for continuous use and leasehold improvements of concept shops.

Leasehold improvements recognised in the balance sheet are measured at cost less accumulated depreciation or recoverable amount if this is lower.

Recognised costs of renovation are depreciated on a straight-line basis over the residual term of leases.

Other property, plant and equipment are measured at cost less accumulated depreciation. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub suppliers, and wages and salaries.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Leasehold improvements	3-5 years
Buildings	15-20 years
Plant and machinery	4-7 years
Fixtures and fittings, tools and equipment	3-10 years

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Notes

Impairment of assets

The carrying amount of intangible assets and property, plant and equipment as well as investments in subsidiaries is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

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

Leases

Leases in terms of which the group assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments cumputed by applying the interest rate implicit in the lease or an approximated value as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the fixed assets of the group.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Investments in subsidiaries

Investments in subsidiaries are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the group's accounting policies minus or plus unrealised intra-group profits and losses and plus or minus any residual value of positive or negative goodwill determined in accordance with the purchase method.

Investments in subsidiaries with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down if the amount owed is irrecoverable. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluation of investments in subsidiaries is recognised in the reserve for net revaluation according to the equity method in equity to the extent that the carrying amount exceeds cost.

Enterprises acquired or formed during the year are recognised in the financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the income statement until the date of disposal.

Notes

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in the cost.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost. Write-down is made for bad debt losses based on an individual assessment of receivables.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity - dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Net revaluation of investments in subsidiaries is recognised at cost in the reserve for net revaluation according to the equity method. The reserve may be eliminated in case of losses, realisation of investments or a change in accounting estimates.

Corporation tax and deferred tax

According to the joint taxation rules, the subsidiaries' liability for their own corporation tax payments to the tax authorities is settled concurrently with payment of the joint taxation contribution to the administrative company, Flexa4Dreams Holding

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Corporation tax receivable" or "Corporation tax payable".

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Notes

Provisions

Provisions comprise anticipated costs related to warranties, losses on work in progress, restructurings, etc. Provisions are recognised when, as a result of past events, the group has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Provisions are measured at net realisable value or fair value. If the obligation is expected to be settled far into the future, the obligation is measured at fair value.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received concerning income in subsequent years.

Segment information

Segment information is based on the group's accounting policies, risks and internal financial management. Information is provided on geographical markets, because the group only has one business segment.

Cash flow statement

The cash flow statement shows the group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the group's cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of enterprises is shown separately in cash flows from investing activities. Cash flows from acquisitions of enterprises are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of enterprises are recognised up until the date of disposal.

Cash flows from operating activities

Cash flows from operating activities are calculated as the group's share of the profit/loss adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises and activities and of intangible assets, property, plant and equipment and investments.

Notes

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the group's share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, and payment of dividends to shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term operating credits.

Notes

	Consolidated 2016 DKK '000	Consolidated 2015 DKK '000
2 Revenue		
Geographical markets		
Europe	299.285	293.531
America	2.902	2.921
Asia	53.656	50.128
Total	355.843	346.579

	Consolidated 2016 DKK '000	Consolidated 2015 DKK '000
3 Staff costs		
Wages and salaries	79.502	76.597
Pensions	3.255	3.309
Other social security costs	10.097	9.196
Other staff costs	1.705	1.321
	94.559	90.423

In parent company, no remuneration has been paid to the Executive Board and the Board of Directors.

Staff costs are recognised in the financial statements as follows:

Production costs	47.412	42.776
Distribution costs	22.597	25.837
Administrative expenses	24.550	21.809
	94.559	90.423
Average number of employees	425	470

4 Other operating income

Other operating income includes profit from the divestment of the subsidiary Flexa (Suzhou) Furniture Porducts Ltd.

5 Other operating expenses

Other operating expenses include costs in connection with change of owners and the reestablishment of the equity.

Notes

	Consolidated 2016 DKK '000	Parent company 2016 DKK '000	Consolidated 2015 DKK '000	Parent company 2015 DKK '000
6 Financial income				
Interest from affiliated companies	0	95	0	0
Other interest income	0	52	0	0
	0	147	0	0
7 Financial expenses				
Interest from affiliated companies	0	0	0	0
Other interest expenses	10.991	3.312	9.081	2.560
	10.991	3.312	7.302	3.037

8 Tax on profit/loss from ordinary activities	Consolidated 2016 DKK '000	Parent company 2016 DKK '000	Consolidated 2015 DKK '000	Parent company 2015 DKK '000
Current tax for the year	421	0	125	0
	421	0	125	0

9 Intangible assets	Consolidated 2016 DKK '000	Consolidated 2015 DKK '000
Goodwill		
Cost at 1 January	10.000	10.000
Disposal	0	0
Cost at 31 December	10.000	10.000
Amortisation and impairment losses at 1 January	5.833	4.833
Amortisation	1.000	1.000
Reversed depreciation on disposal	0	0
Amortisation and impairment losses at 31 December	6.833	5.833
Carrying amount at 31 December	3.167	4.167

Notes

10 Property, plant and equipment
Consolidated

DKK '000	Leasehold improvements	Land and buildings	Plant and machinery	Fixtures and fittings, tools, etc.
Cost at 1 January	3.322	46.785	24.969	5.937
Foreign exchange adjustments	-75	-727	-267	-18
Addition	234	304	5.633	789
Disposal, devisted entities	-2.031	-16.750	0	-986
Disposal	0	0	-5.573	-295
Cost at 31 December	1.450	29.612	24.762	5.428
Amortisation and impairment losses at 1 January	1.365	22.118	17.589	3.302
Foreign exchange adjustments	-10	-263	-217	-63
Depreciation	147	3.272	3.136	844
Depreciations, devisted entities	-315	-6.444	0	-547
Depreciation of assets sold	0	0	-5.046	-183
Depreciation and impairment losses at 31 December	1.187	18.683	15.462	3.353
Carrying amount at 31 December	263	10.929	9.300	2.075
Finance lease included in above figures	0	0	0	463

11 Capital	**Consolidated** 2016 DKK '000	**Parent company** 2016 DKK '000	**Consolidated** 2015 DKK '000	**Parent company** 2015 DKK '000
Equity	13.208	13.208	-59.982	-59.982
Subordinated loan capital	30.000	30.000	40.000	40.000
Total capital	43.208	43.208	-19.982	-19.982

Special terms related to the subordinated loan capital:
Subordinated loan capital is subordinated to bank debt and falls due in 3 portions of 10 million DKK begin of 2019, 2020 and 2021.

Notes

	Parent Company 2016 DKK '000	Parent Company 2015 DKK '000
12 Investments in subsidiaries		
Cost at 1 January	144.765	144.765
Disposal	-25.879	0
Cost at 31 December	118.886	144.765
Value adjustments at 1 January	-143.496	-124.851
Foreign exchange adjustments etc.	-817	2.421
Disposal	23.961	0
Other adjustements, debt relief	1.724	0
Share of profit/loss for the year	911	-21.066
Value adjustments at 31 December	-117.716	-143.496
Negative equity value included in receivable at associated entities		
Provision, subsidiary	15.948	18.027
Carrying amount at 31 December	17.118	19.297

Notes

12 Investment in subsidiaries (cont.)

Name	Domicile	Stake	Share capital	Equity share DKK '000	Profit/loss after tax DKK '000
Flexa4Dreams A/S	Hornsyld, DK	100%	1.000 thDKK	-15.825	2.114
Flexa Eesti AS	EE	100%	51,1 thEUR	9.787	4.331
Dream Slats OÜ	EE	100%	2,5 thEUR	-123	-295
Flexa (Suzhou) Furniture Products Ltd.	CN	0%	-	0	1.628
Flexa (Shanghai) Int. Trading Ltd.	CN	100%	1.655 thRMB	12.401	-4.196
				6.240	3.581
Intra-group profit on inventories, at the end of year				-5.070	-2.670
Negative net asset value transferred to provisions				15.948	0
Carrying amount at 31 December				17.118	911

Notes

	Consolidated 2016 DKK '000	Consolidated 2015 DKK '000
13 Deferred tax asset		
Deferred taxes at 1 January	0	0
	0	0
Deferred taxes include:		
Non-current assets	-3.859	-3.475
Current asssets	-526	646
Provisions	-382	-754
Tax loss carryforwards	-14.505	-18.159
	-19.272	-21.742
Write-down of calculated deferred taxes	19.272	21.742
	0	0

14 Share capital and proposed distribution of profit

Development in share capital

DKK '000	Parent company 2016 DKK '000	Parent company 2015 DKK '000
Share capital at 1 January	1.000	1.000
Capital increase	0	0
Share capital at 31 December	1.000	1.000

Share capital is in 2016 increased by 105 shares to nominel 1.000.105 shares

Proposed distribution of profit

Retained earnings	8.036	-23.999

Notes

	Consolidated 2016 DKK '000	Consolidated 2015 DKK '000
15 Provisions		
Provisions at 1 January	3.429	2.900
Change in the year	-1.694	529
Provisions at 31 December	1.735	3.429

Provision for agent commission obligation, based on average of last 5 year commissions.

16 Non-current liabilities

Credit institutions

	2016	2015
Total liabilities at 31 December	2	157
Instalments first year	2	157

17 Other payables

	2016	2015
Staff-related liabilities	8.193	6.271
Other payables	32.587	21.920
	40.780	28.190

Notes

18 **Contingent liabilities and collateral**	**Consolidated** 2016 DKK '000	**Parent company** 2016 DKK '000	**Consolidated** 2015 DKK '000	**Parent company** 2015 DKK '000
Rent commitments	3.135	0	4.540	0
Operating lease liabilities	1.298	0	1.520	0

Collateral (Consolidated)
The following assets have been provided as collateral for Flexa4Dreams A/S and Flexa Eesti AS' agreements with banks and subordinated loan capital in Flexa4Dreams Holding A/S:

	Registered collateral DKK '000	Carrying amount at 31.12.2016 DKK '000
Company charge in operating equipment, goodwill, inventories and unsecured claims	70.000	116.088

Collateral (Parent company)

Suretyship provided to the following companies' bank engagements	Midt Factoring DKK '000	Nordea DKK '000	Danske Bank DKK '000
Flexa4Dreams A/S	29.465	25.199	22.204

The shares in Flexa4Dreams A/S and Flexa Eesti AS are provided as collateral for commitments against credit institutions. The carrying amount of the shares was resp. DKK -15,825 thousand and DKK 9,787 thousand at 31 December.

19 Related parties

Transactions with related parties are made on market terms.

Control
The parent company's related parties exercising control include the majority owner Adrian Vanderspuy.

20 Subsequent events

No events have occurred subsequent to the end of the reporting year, which could significantly affect the financial statements at 31 December 2016.

Notes
Notes without reference:

21 Depreciation, amortisation and impairment losses	**Consolidated** 2016 DKK '000	**Consolidated** 2015 DKK '000
Intangible assets	1.000	1.000
Property, plant and equipment	7.399	10.538
	8.399	11.538
Depreciation, amortisation and impairment losses are recognised as follows:		
Production costs	6.355	8.878
Distribution costs	62	225
Administrative expenses	1.982	2.435
	8.399	11.538

22 Auditors' fees

	Consolidated 2016 DKK '000	**Parent company** 2016 DKK '000	**Consolidated** 2015 DKK '000	**Parent company** 2015 DKK '000
Fees to the auditors appointed at the annual general meeting				
Statutory audit	646	137	596	176
Other assurance engagements, PricewaterhouseCoopers	32	27	3	0
Other assurance engagements, Suzhou Fangben CPAs	43	0	86	0
Other assistance	36	0	36	0
	757	164	720	176

Notes

	Consolidated 2016 DKK '000	Consolidated 2015 DKK '000
23 Change in working capital		
Other provisions	-1.694	529
Exchange adjustments booked on equity	-817	2.421
Of which related to fixed assets	533	-1.199
Inventories	-2.660	4.304
Receivables	-8.368	-274
Trade payables and other payables	14.169	-7.280
	1.163	-1.499