FLEXA®

Flexa4Dreams A/S

Hornsyld Industrivej 4
8783 Hornsyld

Annual report 2018

Reg. No.: 32 77 57 05

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

on 27. May 2019

(chairman)

Statements

Statement by the Executive Board and the Board of Directors 1

Independent Auditor's Report 2

Management's review

Company details 4

Group overview 4

Financial highlights for the Company 5

Operating review 6

Financial statements 1 January - 31 December 2018

Income statement 11

Balance sheet 12

Statement of changes in equity 15

Cash flow statement 16

Notes 17

Statements

Statement by the Executive Board and the Board of Directors

The Executive and Supervisory Boards have today considered and adopted the Annual Report of Flexa4Dreams A/S for the financial year 1 January - 31 December 2018.

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

In our opinion, the Financial Statement gives a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations and cash flow for 2018.

We recommend the Annual Report is approved at the Annual General Meeting.

Hornsyld, 27. May 2019

Carsten Dan Madsen
CEO

Mikael Hee
Chairman

Adrian Vanderspuy

Carsten Dan Madsen

Statements

Independent Auditor's Report

To the Shareholders of Flexa4Dreams A/S

Opinion

We have audited the financial statements of Flexa4Dreams A/S for the financial year 1 January – 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for Opinion

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

Independence

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

Management's Responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Odense, 27. May 2019

Ernst & Young
Godkendt Revisionspartnerselskab
CVR No. 30 70 02 28

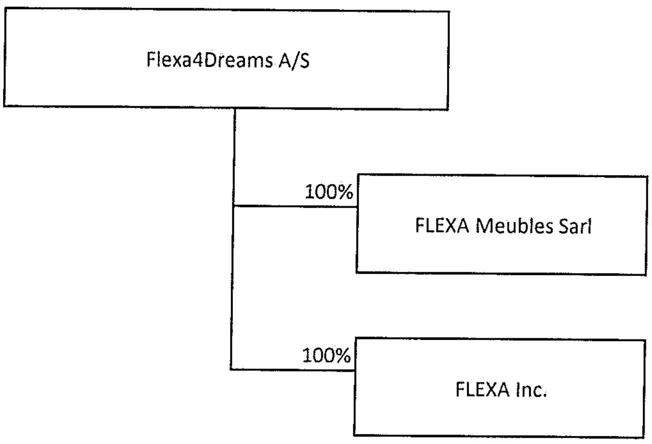
Brian Skovhus Jakobsen
State Authorised
Public Accountant
mne27701

Management's review

Company details

The Company	Flexa4Dreams A/S Hornsyld Industrivej 4 8783 Hornsyld
Telephone	+45 76 68 80 55
E-mail	flexa@flexa.dk
Registration No.	32 77 57 05
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	Ernst & Young Statsautoriseret Revisionspartnerselskab Englandsgade 25 5100 Odense C
Annual general meeting	Annual general meeting is held on 27. May 2019.

Group overview



Management's review

Financial highlights for the Company	2018 DKK '000	2017 DKK '000	2016 DKK '000	2015 DKK '000	2014 DKK '000
Revenue	338.055	332.676	316.484	290.860	238.488
Gross profit	71.388	79.133	82.578	68.775	52.032
EBITDA	-5.773	4.637	8.367	-2.191	-10.969
Operating profit	-7.694	2.949	6.621	-4.682	-12.885
Profit/loss from financial income and expenses	-1.596	-596	-4.508	-3.897	-2.192
Profit/loss for the year	-9.291	2.352	2.113	-8.579	-15.657

Non-current assets	4.496	11.755	21.290	5.209	6.977
Investment in property, plant and equipment	2.976	1.219	766	584	775
Current assets	89.133	103.019	97.550	94.697	87.171
Total assets	93.628	114.774	118.840	99.906	94.148
Total equity	32.169	11.480	-15.825	-18.029	-9.424

Cash flows from operating activities	12.837	-3.219	-447	-10.920	-20.586
Cash flows from investing activities	-2.866	-1.219	36	-584	-775
Cash flows from financing activities	-11.539	5.837	-17.425	-290	-820

Financial ratios

Operating margin	-2,3%	0,9%	2,1%	-1,6%	-5,4%
Return on invested capital	-13,1%	4,6%	13,0%	-11,7%	-35,4%
Gross margin	21,1%	23,8%	26,1%	23,6%	21,8%
EBITDA ratio	-1,7%	1,4%	2,6%	-0,8%	-4,6%
Solvency ratio	34,4%	10,0%	-13,3%	-18,0%	-10,0%

Average number of employees	78	79	75	71	73

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:

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

Invested capital:

Goodwill, property, plant and equipment and net working capital

Gross margin:

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

EBITDA ratio:

$$\frac{\text{EBITDA x 100}}{\text{Revenue}}$$

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 Company

Flexa4Dreams' main activities are marketing and sale of furniture, interior and related products for children's rooms.

FLEXA Group today is the largest chain of stores dedicated to kids' room interior solutions. We have more than 150 specialist stores located in Europe, Asia, North Africa and Americas. 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 fiancial position

The revenue for 2018 was 338.1 mill. DKK compared to 332.7 mill. DKK the year before. Ordinary result before depreciations and financial expenses (EBITDA) was -5.8 mill. DKK compared to 4.6 mill. DKK, and operating profit was -7.6 mill. DKK compared to 2.9 mill. DKK. Cash generated from operating activities was 35,0 mill. DKK compared to 12.4 mill DKK.

Despite a continuing weak business climate in the European markets revenue for the year increased by 2%. This improvement is the result of a number of efforts during the year, gaining new business, especially within the B2B segment and launching new products, among others the new award winning Toys collection. Growth in turnover was mainly coming from our non-branded products.

The gross margin decreased by 2.7% point to 21.1%, being negatively impacted increase in cost prices and product mix. Distribution costs increased by 2.6 mill. DKK to 56.7 mill. DKK due to increased costs for product development and costs for expanding our digital presence. Similar to many other retail segments the consumers of children's products are fast shifting their preferred channel towards online. FLEXA has in 2018 invested in the upgrade of its digital business platform and will be launching a new webpage and e-commerce platform in summer 2019.

Profit for the year is -9.3 mill. DKK compared to 2.3 mill. DKK last year.

In the annual report for 2017 we stated an expectation for increase in turnover and ordinary earnings on same level as in 2017. Turnover increased but EBITDA decreased 10.4 mill DKK. The key reason for the reduced earnings is the adverse development in the gross margin. The above mentioned impact from material increase in cost prices, labour costs and other factors decreased the gross margin with 2.7%-points, corresponding to a negative impact on earnings, all else equal, of approx. 9 mill DKK.

Capital resources

In December 2018 the mother company: Flexa4Dreams Holding A/S made a capital grant of 30.0 mill. DKK in Flexa4Dreams A/S by converting debt to equity. Equity end of December 2018 amounts to 32.2 mill. DKK compared to 11.5 mill. DKK the year before. The company has sufficient capital resources to execute its business plan.

Management's review

Outlook

It is expected that the macro-economic situation remains unchanged in 2019. Consumption of furniture and decor items will continue to be flat. Based on the current sales strategy, improvement of product portfolio and store concepts, the Group expects to gain further market share within its core segment: Branded products. At the same time we will focus on customer and product profitability and phase out turnover that does not contribute with sufficient profit to the business. We furthermore expect to see positive effects on earnings from the savings initiated at the end of 2018. Consequently we expect turnover to decrease, but profitability to increase ending up in a small profit.

The Company continue investments in the Digital platform. Apart from that we do not expect any single major investment in 2019, but only minor investments in connection with the ongoing maintenance of the production units.

Risks

General risks

The management of Flexa4Dreams assesses regularly the Company's risk exposure. Operational and strategic risks that may affect the Company's earnings and financial position are monitored and assessed regularly.

Financial risks

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

Currency risks

The Company is exposed to currency risk on three levels. First of all there is currency risks relating to investments in foreign subsidiaries. These risks 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. Secondly, there is a risk in realtion to the current cash flow. The Group hedges currency risks on estimated cash flows 6-12 months forward. Finally, there is currency risk in relation to translation of intra-group debts in foreign currency at the balance sheet date. Such translation comprises an exchange rate adjustment which is not hedged.

Interest rate risks

The Company's interest bearing net debt, calculated as bank debt less cash and part of other debt, amounted 31 December 2018 to 16.3 mill. DKK compared to 56.3 mill. DKK.

The Company'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 Company has no material risks relating to a single customer or partner. The Company'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 company, which operates from a united set of values. Based on the shared values the Company can realise its vision to be the preferred supplier of furniture and interior for the children's room.

Management's review

Environmental issues

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

The Company 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 strives to continuously meet the laws and regulations of the countries and communities, where the Company operates.
FLEXA develops, produces and markets Scandinavian interior solutions for kids. All FLEXA products are designed to create a safe and stimulating environment, which adapts, grows and transforms to meet children's ongoing developmental needs. We use our knowledge of children to create the world's best functional, playful and sustainable room solutions at affordable prices.
We produce beds and storage products in pine, birch and MDF, but we also have textiles, toys, metal and oak-veneered furniture.

Human rights:
At FLEXA, we are committed to support and respect internationally declared human rights, and to not be complicit in any human rights abuse. Our products are distributed all over the world, sold via e-commerce or through specialist stores and studios located in Europe, Asia, North Africa and America. But most of our products are produced in our own factories in Estonia where we have more than 250 dedicated and skilled employees. We do also supply products from external suppliers, among others in Eastern Europe and Asia.

As a global manufacturer and distributor of Scandinavian interior solutions for kids, FLEXA has to comply with a number of standards in terms of product safety and environment. It is therefore essential for us that all our main suppliers adhere to the same standards as we do. These standards are based on the overall principles of the UN Global Compact and cover areas such as:
Child labour, discrimination, forced labour, working environment, working hours and salary, the right to organise and collective bargaining, right to privacy, environment (pollution prevention and resource reduction, chemicals and hazardous materials, air emissions, waste water and solid waste, recycling and reuse of materials and products), and corruption.

When making new contracts, the supplier must confirm and commit to complying with these standards. In 2019 we will continue to expand the number of suppliers following these standards.

Article 31 (Leisure, play and culture):
Children have the right to relax and play, and to join in a wide range of cultural, artistic and other recreational activities. (UN Convention on the Rights of the Child)

Through our business activity, FLEXA supports the UN's Convention on the Rights of the Child. Every day our products encourage and enable children to play and be active, which has a beneficial impact on their development in terms of motor coordination, intellect and social skills. FLEXA wishes to develop products that help improve children's physique in fun, safe surroundings.
Every detail in Flexa's furniture is carefully designed to support a safe environment in the child's room. All beds with a sleeping height of more than 60 cm are safety tested by TÛV and meet EU standard EN747:2012 + A1:2015

Management's review

Labour standards
For FLEXA's own activities, we aim to ensure that we provide our employees with a safe working environment, whether in the headquarters in Hornsyld, Denmark, or in the factories in Estonia, as well as in our sales company in China. Occupational health and safety is an equivalent and integral part of all FLEXA's activities and one of our permanent top priorities. Our Health and Safety policy focuses on preventing injuries and illness, ensuring that we comply with all legal regulations, and that we efficiently and actively involve our employees in this area. As an important step in this direction, our factory in Estonia is certified according to ISO 14001. This implies that the operating practices are up to date and in compliance with health and safety requirements. It further enables our organisation to control and gain knowledge of all relevant risks and hazards, and consequently improves our performance.
Our factories in Estonia are also audited against the SMETA 2 pillar ethical audit. SMETA ethical audit results confirm that factories comply with Labour standards as well as Health and Safety requirements.

We will continue to pursue a structured and managed approach to work actively for a safe and healthy working environment for our employees in 2019. We will continue to focus particularly on work safety around complex machinery, where the exposure to injuries is higher. Over the past two years, we have reduced the number of accidents by 20%, but we remain focused on continuous improvements and on halving this figure.

Environment:
As a manufacturer of Scandinavian interior solutions for kids, FLEXA has an integrated approach to environmental considerations. FLEXA aims to produce sustainable products with a long lifespan, which require a low level of maintenance. We aim to use materials and technologies that have minimal impact on the environment, and to use PEFCTM and FSC-certified sources where possible.
We have optimised the use of wood in all our production and we recycle tree stumps, wood shavings and even sawdust at the factories.

Playing and sleeping should be absolutely free from chemicals and other harmful substances. That's why we use eco-friendly UV-lacquer, which is free from solvents and toxic colorants. All Flexa's furniture is tested according to and complies with strict international safety standards, such as EN71-3, DIN717 and DIN 53160, to ensure non-toxic furniture.

Flexa textiles and mattresses are Standard 100 by Oeko-tex certified. The Oeko-tex label guarantees that the products meet stringent requirements for chemical and harmful substances. Our mattress covers are washable for optimal hygiene and convenience.
We want to take Flexa's responsibility a step further in 2020, as we plan to get our textiles GOTS (global organic textile standard) certified.
GOTS is the strictest and most comprehensive textile certification, addressing the whole value chain of a textile product. GOTS ensures an environmentally friendly approach from start to end product. The certification provides a credible, traceable, and documented guarantee for environmentally friendly, organic and chemical-free textiles, produced under strict social criteria, to ensure better working conditions for the people producing the textiles.

FLEXA's production plants in Estonia are ISO 9001 and ISO 14001 certified, which implies a specific and structured management approach to environmental issues. The plants have also implemented control systems that work towards compliance with requirements on active substances in accessible components, and independent third-party tests are being run.

In the years to come, FLEXA will focus even more on how to minimise the waste of resources and reduce environmental hazards.

Climate:
FLEXA designs furniture for children – and we want them to grow up in a green world. That's why we recycle all remaining wood from our preparation process. We collect everything, even sawdust, and send it to a sawmill, where it is compressed to wood pellets. The wood pellets are free from additives and lacquer, which makes them environmentally friendly and CO2-neutral. These wood pellets have a long combustion and offer a real alternative to other less environmentally friendly forms of energy

Management's review

In 2019 we will continue to reduce our energy consumption by, among other things, replacing our current light fittings with LED lightning in the office building and in the warehouse in Hornsyld, DK, thus reducing the energy consumption for lighting by approx. 60%.

Anti-corruption:
Corruption and bribery are recognised as barriers to sustainable development and free trade. At FLEXA, we do not accept these practices and therefore do not accept any kind of undue payment in any of our business transactions. It is our policy that all elements of our supply chain and sales must be completely transparent for everyone interested in knowing more. Principles for working against anti-corruption are integrated in the valuation process when finding new suppliers.

Anti-corruption is still a relatively new area for FLEXA in terms of working actively with the issue in our own activities. All new employees in the HQ in Hornsyld are, as part of the employee handbook, introduced to our polices around bribery, facilitation payments, gifts/entertainment, political contributions and charity contributions.

In FLEXA we will continue to develop our focus on compliance issues in the future.

Report on the Gender Composition in Management, cf. Section 99 b of the Danish Financial Statements Act

FLEXAs policy for recruitment is to attract and hire the most competent leadership. The goal for female representation in the Board and in the Management team is a minimum of 25% in 2021. In the current financial year, the Board has consisted of the 3 persons who are the main owners of the company. The owners have not found it relevant to extend or change the seat of the Board. The 3 persons are all males. The stated objective has therefore not yet been met. The Board of Directors will, as far as possible, appoint a suitable female candidate to the Board. In the current financial year, the management team has consisted of 27% females. In order to meet the above objective of more female leaders, FLEXA has launched a number of initiatives that can promote the development and support of female leaders, a.o. in connection with recruitment to management posts, where the objective is to have male as well as female candidates.

Financial statements

Income statement

	Notes	2018 DKK '000	2017 DKK '000
Revenue		338.055	332.676
Production costs	2	-266.667	-253.543
Gross profit		71.388	79.133
Distribution costs	2	-56.310	-56.678
Administrative expenses	2	-21.454	-19.506
Ordinary operating profit/loss		-6.375	2.949
Other operating expenses	3	-1.318	0
Exceptional items		0	0
Operating profit/loss		-7.694	2.949
Profit/loss from investments		219	504
Financial income	4	934	1.289
Financial expenses	5	-2.749	-2.390
Profit/loss from ordinary activities before income taxes		-9.291	2.352
Tax on profit/loss from ordinary activities	6	0	0
Profit/loss for the year		-9.291	2.352

Financial statements

Balance sheet

	Note	2018	2017
		DKK '000	DKK '000
ASSETS			
Non-current assets			
Intangible assets	7		
Goodwill		1.167	2.167
		1.167	2.167
Property, plant and equipment	8		
Leasehold improvements		642	212
Plant and machinery		0	50
Fixtures and fitting, tools and equipment		2.687	1.121
		3.329	1.383
Investments			
Investments in subsidiaries	9	0	322
Amounts owed by affiliated companies	10	0	7.882
		0	8.204
Total non-current assets		4.496	11.755
Current assets			
Inventories			
Finished goods and goods for resale		31.087	23.169
		31.087	23.169

Balance sheet (continued)

	Note	2018 DKK '000	2017 DKK '000
Receivables			
Trade receivables		41.062	49.015
Amounts owed by affiliated companies		9.656	26.165
Other receivables		2.621	1.560
Deferred tax asset	11	0	0
Prepayments		4.667	1.503
		58.006	78.243
Cash at bank and in hand		40	1.607
Total current assets		89.133	103.019
TOTAL ASSETS		93.628	114.774

Balance sheet (continued)

	Note	2018 DKK '000	2017 DKK '000
EQUITY AND LIABILITIES			
Equity			
Share capital	12	1.000	1.000
Retained earnings		31.169	10.480
Total equity		32.169	11.480
Provisions	13		
Other provisions		2.379	2.245
		2.379	2.766
Liabilities other than provisions			
Current liabilities other than provisions			
Current portion of non-current liabilities other than provisions		0	0
Bank loans and overdraft		16.341	57.880
Prepayments from customers		737	0
Trade payables		13.713	8.998
Amounts owed to affiliated companies		14.356	17.929
Other payables		13.933	15.721
		59.080	100.528
Total liabilities other than provisions		59.080	100.528
TOTAL EQUITY AND LIABILITIES		93.628	114.774
Contingent liabilities and collateral	14		
Related parties	15		
Subsequent events	16		

Financial statements

Statement of changes in equity
DKK '000

	Share capital	Retained earnings	Total
Equity at 1 January	1.000	10.480	11.480
Profit for the year	0	-9.291	-9.291
Group contribution	0	30.000	30.000
Foreign exchange adjustments of foreign subsidiaries etc.	0	-20	-20
Equity at 31 December	1.000	31.169	32.169

Financial statements

Cash flow statement	Note	2018 DKK '000	2017 DKK '000
Revenue		338.055	332.676
Expenses		-343.828	-328.040
Cash from operations before changes in working capital		-5.773	4.636
Change in working capital	17	20.426	-6.755
Cash generated from operations (ordinary activities)		14.653	-2.119
Financial income and expenses, net		-1.815	-1.100
Cash flows from operating activities		12.837	-3.219
Purchase of intangible assets and property, plant and equipment		-2.866	-1.219
Cash flows from investing activities		-2.866	-1.219
Capital contribution		30.000	25.000
Repayment of long-term debt and bank overdrafts		-41.539	-19.163
Cash flows from financing activities		-11.539	5.837
Net cash flows form operating, investing and financing activities		-1.568	1.399
Cash and cash equivalents at 1 January		1.607	208
Cash and cash equivalents at 31 December		40	1.607

The cash flow statement cannot be derived directly from the accounts.

Financial statements

Notes

1. Accounting policies

The annual report of Flexa4Dreams A/S for 2018 has been prepared in accordance with the provisions applying to reporting class C medium large enterprises under the Danish Financial Statements Act.

There has been no changes to the Danish Financial Statements Act, consequently no influence to the Company´s financial position at 31 December 2018.

The accounting policies applied remain unchanged from last year, and financial statements for 2018 are presented in DKK.

According to section 112(1) of the Danish Financial Statements Act no consolidated financial statements is prepared. The financial statements of Flexa4Dreams A/S and subsidiaries are included in the consolidated financial statements of the parent company, Flexa4Dreams Holding A/S, Hornsyld

Recognition and measurement

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

Liabilities are recognised in the 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.

Income statement

Revenue

Income from the sale of goods for resale and finished goods, which comprises sale of furniture products, 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.

Notes

Production costs also include research- and development costs, which do not fulfill the conditions for capitalisation.

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 company 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 payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities.

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.

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 and is based on the acquired activities strong market position and longterm earning profile.

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.

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
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.

Impairment of assets

The carrying amount of intangible and tangible 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 company 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 company.

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.

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 A/S.

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.

Provisions

Provisions are recognised when the company as a result of a past event has a legal or constructive obligation or intention to undertake a commitment, and it is likely that the obligation will result in an outflow of economic resources.

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.

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.

Cash flow statement

The cash flow statement shows the company'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 company'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 company'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.

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the company'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.

Financial statements

Notes

		2018 DKK '000	2017 DKK '000
2	**Staff costs**		
	Wages and salaries	38.852	35.375
	Pensions	2.514	2.488
	Other social security costs	531	499
	Other staff costs	323	263
		42.220	38.625
	Remuneration to the Executive Board and the Board of Directors	4.243	4.597
	Staff costs are recognised in the financial statements as follows:		
	Production costs	11.463	11.807
	Distribution costs	20.112	19.404
	Administrative expenses	9.670	7.414
	Other operating expences	974	0
		42.220	38.625
	Average number of employees	78	79

3 **Other operating expences**
Other operating costs in 2018 relates to severance pay to released employees in connection with restructuring of business and loss on receivables with subsidiary.

		2018	2017
4	**Financial income**		
	Foreign exchange gain, net	0	223
	Interest from affiliated companies	932	1.063
	Other interest income	2	3
		934	1.289
5	**Financial expenses**		
	Foreign exchange loss, net	885	0
	Interest to affiliated companies	0	0
	Other interest expenses	1.864	2.390
		2.749	2.390
6	**Tax on profit/loss from ordinary activities**		
	Withholding taxes	0	0
	Adjustment of deferred tax for the year	0	0
		0	0

Financial statements

Notes

7 Intangible assets

Goodwill	**2018** DKK '000	**2017** DKK '000
Cost at 1 January	10.000	10.000
Cost at 31 December	10.000	10.000
Amortisation and impairment losses at 1 January	7.833	6.833
Depreciation	1.000	1.000
Amortisation and impairment losses at 31 December	8.833	7.833
Carrying amount at 31 December	1.167	2.167

Depreciation over 10 years

Depreciations are included in the financial statement under distribution costs.

8 Property, plant and equipment **2018 DKK '000**

	Leasehold improve-ments	Plant and machinery	Fixtures and fittings, tools, etc.	Total
Cost at 1 January	1.365	2.822	4.982	9.169
Addition	572	95	2.309	2.976
Disposal	-73	0	-600	-673
Cost at 31 December	1.864	2.917	6.690	11.471
Depreciation and impairment losses at 1 January	1.153	2.772	3.861	7.786
Depreciation	124	146	651	921
Depreciation of assets sold	-55	0	-509	-564
Depreciation and impairment losses at 31 December	1.222	2.918	4.003	8.143
Carrying amount at 31 December	642	0	2.687	3.329
Finance lease included in above figures	0	0	0	0

Notes

Note		2018 DKK '000	2017 DKK '000
8	**Property, plant and equipment (continued)**		
	Depreciation, amortisation and impairment losses are recognised as follows:		
	Production costs	75	81
	Distribution costs	78	25
	Administrative expenses	768	582
		921	688
9	**Investment in subsidiaries**		
	Cost at 1 January	3.686	3.686
	Disposal for the year	0	0
	Cost at 31 December	3.686	3.686
	Value adjustments at 1 January	-3.885	-4.342
	Disposal for the year	0	0
	Foreign exchange adjustments	-20	-47
	Share of profit/loss for the year	219	504
	Value adjustments at 31 December	-3.686	-3.885
	Book value at 31 December	0	-199
	Negative equity value set off against receivables from group enterprises	0	521
	Carrying amount at 31 December	0	322

Name and domicile	Stake	Share capital	Equity share	Profit/loss after tax	Carrying amount
Flexa Meubles Sarl, Frankrig	100%	8 tEUR	0	-323	0
Flexa Inc., USA	100%	1 tUSD	0	542	0
Book value at 31 December			0	219	0

Financial statements

Notes

		2018	2017
10	**Amounts owed by affiliated companies**	DKK '000	DKK '000
	Cost at 1 January	7.882	17.270
	Addition/disposal for the year	-7.882	-9.388
	Cost at 31 December	0	7.882
11	**Deferred tax asset**		
	Deferred taxes at 1 January	0	0
	Deferred taxes for the year, recognised in the income statement	0	0
		0	0
	Deferred taxes include:		
	Non-current assets	-4.654	-4.231
	Current asssets	-291	-403
	Provisions	-523	-494
	Tax loss carryforwards	-15.777	-14.032
		-21.245	-19.160
	Write-down of calculated deferred taxes	21.245	19.160
		0	0
12	**Share capital and proposed distribution of profit**		
	Development in share capital		
	Share capital, at the beginning of year	1.000	1.000
	Share capital, at the end of year	1.000	1.000
	Share capital consist of 10.001 shares of 100 DKK each.		
	Proposed distribution of profit		
	Retained earnings	-9.291	2.352
13	**Provisions**		
	Provisions at 1 January	2.245	1.735
	Adjustments for the year	134	510
	Provisions at 31 December	2.379	2.245

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

Notes

14 Contingent liabilities and collateral

	2018 DKK '000	2017 DKK '000
Rent commitments	2.262	2.943
Operating lease liabilities	1.567	1.790

Collateral
The following assets have been provided as collateral for Flexa4Dreams A/S agreements with banks and subordinated loan capital in Flexa4Dreams Holding A/S:

	Registered collateral DKK '000	Carrying amount at 31.12.2018 DKK '000
Company charge in operating equipment, goodwill, inventories and unsecured claims	70.000	87.078

Other financial liabilities
Flexa4Dreams A/S is parties to a few pending lawsuits. The outcome of these cases is not expected to materially effect the financial position of the Group, neither individually nor in the aggregate.

15 Related parties

Transactions with related parties are made on market terms.

Control

The company's related parties exercising control include Flexa4Dreams Holding A/S, Hornsyld, parent company.

Flexa4Dreams A/S is included in the consolidated accounts for Flexa4Dreams Holding A/S

16 Subsequent events

No events have occured subsequent to the end of the reporting year, which could significantly affect the financial statements at 31 December 2018

17 Change in working capital	2018 DKK '000	2017 DKK '000
Inventories	-7.919	2.026
Receivables	20.759	-5.961
Prepayments from customers	737	0
Trade payables and other payables	6.849	12.791
	20.426	8.857