Sofaco Holding ApS

Selandia Park 1, 4100 Ringsted

CVR no. 38 38 00 01

Annual report 2019

Approved at the Company's annual general meeting on 25 August 2020

Chairman:

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René Buchardt Hansen

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Sofaco Holding ApS for the financial year 1 January - 31 December 2019.

The annual report is prepared in accordance with the Danish Financial Statements Act.

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 Company at 31 December 2019 and of the results of the Group's and the Company's operations and of the consolidated cash flows for the financial year 1 January - 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Company's operations and financial matters and the results of the Group's and the Company's operations and financial position.

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

Ringsted, 25 August 2020
Executive Board:

Henrik Andersen	René Buchardt Hansen

Board of Directors:

Torben Ballegaard Sørensen Chairman	Bo Magnus Dimert	Hans Stefan Rönn
Christian Rudolph-Christiansen	Yana Dinkova Augustsson	Mattias Feiff
Hans Jörgen Andersson	Cecilia Linnea Waldehorn	

Independent auditor's report

To the shareholders of Sofaco Holding ApS

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Sofaco Holding ApS for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

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 2019, and of the results of the Group's and Parent Company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (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 consolidated financial statements and the parent Company financial statements" (herinafter collectively referred to as "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 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 rules and requirements.

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 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 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 the financial statements.

Independent auditor's report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 note 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.

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.

Independent auditor's report

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 Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 25 August 2020
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Robert Christensen
State Authorised Public Accountant
mne16653

Management's review

Company details

Name	Sofaco Holding ApS
Address, Postal code, City	Selandia Park 1, 4100 Ringsted
CVR no.	38 38 00 01
Established	1 February 2017
Registered office	Ringsted
Financial year	1 January - 31 December
Board of Directors	Torben Ballegaard Sørensen, Chairman Bo Magnus Dimert Hans Stefan Rönn Christian Rudolph-Christiansen Yana Dinkova Augustsson Mattias Feiff Hans Jörgen Andersson Cecilia Linnea Waldehorn
Executive Board	Henrik Andersen René Buchardt Hansen
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Financial highlights for the Group

DKK'000	2019	2018	2017
Key figures			
Revenue	439,388	373,344	215,956
Gross profit	76,001	63,443	38,432
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	17,035	14,820	14,743
Net financials	-10,359	-9,468	-7,746
Profit/loss for the year	**-13,062**	**-11,762**	**-5,516**
Total assets	383,231	371,046	372,819
Equity	**206,180**	**218,039**	**227,587**
Cash flows from operating activities	6,884	-4,861	16,416
Net cash flows from investing activities	-3,946	-10,345	-319,940
Investment in property, plant and equipment	-2,567	-2,504	-3,761
Cash flows from financing activities	7,279	7,488	332,148
Total cash flows	**10,217**	**-7,718**	**28,624**
Financial ratios			
Operating margin	-0.4%	-0.6%	1.9%
Gross margin	17.3%	17.0%	17.8%
EBITDA-margin	3.9%	4.0%	6.8%
Return on assets	-0.5%	-0.4%	1.1%
Current ratio	187.5%	200.6%	201.1%
Equity ratio	53.8%	58.8%	61.0%
Return on equity	-6.2%	-5.3%	-2.4%
Average number of employees	**264**	**229**	**197**

For terms and definitions, please see the accounting policies.

Management's review

Business review

The Company's main activity is to invest in group entities and related activities. The group entities are engaged in the design and international wholesaling of furniture, etc.

Financial review

The income statement for 2019 shows EBITDA of DKK 17,035 thousand (2018: DKK 14,820 thousand) and a loss after tax of DKK 13,062 thousand against a loss of DKK 11,762 thousand last year. The Group's balance sheet at 31 December 2019 shows equity of DKK 206,180 thousand.

The Company has continued its expansion and strengthening of the organization in general. The Company has invested in the opening of two new showrooms in Europe.
Furthermore, the Group has invested in continuing the development of its IT systems, especially its B2C web shop, which was launched in the autumn of 2018 together with a new ERP system.

Management considers the Group's financial performance in the year satisfactory and both turnover and profit are in line with expectations previously expressed.

Knowledge resources

The Company is not dependent on few employees with special knowledge resources. However, it is important for achieving the Company's growth plans that it is possible to continuously attract and retain qualified employees in the areas in which the Company operates.

Special risks

The Company does not have any special risks beyond what is normal in the course of carrying out its activities. The Company emphasizes minimizing the risk of events that can have unexpected negative operating and earnings impact, which is ensured, among other things, by risk hedging in the form of relevant and sufficient insurance coverage and by establishing internal procedures and controls to address errors and fraud.

Impact on the external environment

Due to the Group's field of business, the consumption of wood and other materials in the production is considerable. Despite the main factory facilities not being owned and operated by the Company, the Company has identified a risk of negatively impacting the environment due to the use of raw materials in the supply chain. The Company strives to conduct its business in an environmentally friendly and sustainable way.

The Company continuously works to ensure more sustainable choices of materials in the supply chain. In 2019, the Company has worked on ensuring that all wood used in the production is FSC certified. Furthermore, the Company is working on obtaining a FSC certification within the next year. In 2019, the Company managed to ensure that wood used in the production was sourced from FSC-certified suppliers.

Research and development activities

The Company and the Group are neither engaged in nor dependent on special research and development activities or resources.

Management's review

Statutory CSR report

Climate conditions

The main risk of negatively impacting the climate stems from the transportation of goods from the Group's main supplier in Vietnam to the warehouse in Denmark and the resulting CO2 emission. The Group is continuously working on reducing its carbon footprint. In the past year, we have switched to the supply of renewable 'green' energy at both the head office and the central warehouse in Denmark.

In addition, we have, during the year, entered into an agreement with an external partner, Climate Partner, for the purchase of CO2 allowances, corresponding to the impact relating to the transportation of the Company's goods.

The Company has also entered into collaborations with other organizations working on sustainability and climate conditions during the year. This collaboration involves ongoing donations to the organizations.

The Company has also worked on ensuring that the main supplier and manufacturer in Vietnam uses only FSC-branded wood in connection with the production of the Company's products.

The Company will continue its work on reducing the climate impact in the coming year. Please also refer to our website: https://uk.sofacompany.com/om-sofacompany/sustainability

Anti-corruption

The main risk of corruption and bribery occurs in the work with suppliers and distributors. No form of bribery or similar is offered or accepted in the Company and the Group. We work for openness and transparency both internally and externally with our business partners, including Business Social Compliance Initiatives [BSCI] compliance.

The Company has implemented a whistleblower mechanism in late 2019. No reports have been notified through this scheme.

The Company supports and adheres to UN's Global Compact 10 principles.

Human rights

As the main supplier of the Group is located in Vietnam, there are risks of violation of human rights in the supply chain. The Company supports the UN Human Rights and the ILO principle. Furthermore, the Company treats all employees, suppliers and others with respect and does not engage in child labor. To mitigate the risks of violations of human rights, the Company continuously visits the supplier to ensure compliance with policies on human rights. In 2019, no violations of human rights were observed.

Management's review

Account of the gender composition of Management

It is the Parent Company's goal to have at least three female members of the Board of Directors by 2024. In the end of 2019, the Board of Directors consisted of 7 men and 1 woman. The goal was not reached in 2019, as the candidate elected for the Board of Directors at the general meeting was male. This candidate was elected due to specific competencies and experience, leading to him being the most qualified candidate for the position. In the beginning of 2020 however, one woman was elected for the Board of Directors, corresponding to the current gender distribution of 80% men and 20% women.

Group management consists of 6 men and 2 women. The Company strives to be an attractive workplace and does not distinguish between gender or ethnicity in occupation. The Company wants to ensure that there is diversity in the staff both in terms of gender and age. To ensure that all employees have equal opportunities, the Company encourages both genders to apply for management positions. Furthermore, the Company encourages all candidates regardless of gender and ethnicity to apply when recruiting for managerial positions.

In addition, the Company works continuously on ensuring a healthy and safe working environment. The main risk in relation to social and employee conditions relates to the risk of work injuries and incidents in the warehouse in Denmark.
There have been no recorded work injuries or incidents that have resulted in long-term sick leave during the year.

Events after the balance sheet date

The ongoing global Covid-19 pandemic can potentially have effect on the Goup's turnover in the coming financial year. During the first seven months of 2020, the Group has generally achieved financial results according to budget. Management believes that, despite the beforementioned Covid-19 outbreak, the Group will reach its original budgets for 2020 in respect of both revenue and profit.

No events materially affecting the Group's and the Company's financial position have occurred subsequent to the financial year end.

Outlook

The Group's revenue for 2020 is expected to increase to a level above DKK 500 million and EBITDA to increase to DKK 25-35 million due to the continued growth in the Company's core markets.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Income statement

		Group		Parent company	
Note	DKK'000	2019	2018	2019	2018
2	**Revenue**	439,388	373,344	0	0
	Cost of sales	-243,417	-213,472	0	0
	Other operating income	106	0	0	0
	Other external expenses	-120,076	-96,429	-66	-128
	Gross profit	76,001	63,443	-66	-128
3	Staff costs	-58,966	-48,083	0	-121
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-18,918	-16,919	0	0
	Other operating expenses	0	-540	0	0
	Profit/loss before net financials	-1,883	-2,099	-66	-249
	Income from investments in group enterprises	0	0	-13,009	-11,677
	Income from investments in associates	-406	802	0	0
4	Financial income	2,797	843	0	171
5	Financial expenses	-13,156	-10,311	-2	-19
	Profit/loss before tax	-12,648	-10,765	-13,077	-11,774
6	Tax for the year	-414	-997	15	12
	Profit/loss for the year	-13,062	-11,762	-13,062	-11,762

Consolidated financial statements and parent company financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	Group 2019	Group 2018	Parent company 2019	Parent company 2018
	ASSETS				
	Fixed assets				
7	**Intangible assets**				
	Software	8,151	8,014	0	0
	Goodwill	244,012	257,972	0	0
		252,163	265,986	0	0
8	**Property, plant and equipment**				
	Fixtures and fittings, other plant and equipment	4,179	4,399	0	0
	Leasehold improvements	3,368	3,535	0	0
		7,547	7,934	0	0
9	**Investments**				
	Investments in group enterprises	0	0	195,057	207,863
	Investments in associates	2,358	3,135	0	0
	Deposits, investments	1,110	974	0	0
		3,468	4,109	195,057	207,863
	Total fixed assets	263,178	278,029	195,057	207,863
	Non-fixed assets				
	Inventories				
	Finished goods and goods for resale	36,373	35,730	0	0
	Prepayments for goods	7,901	1,460	0	0
		44,274	37,190	0	0
	Receivables				
	Trade receivables	33,871	28,433	0	0
	Receivables from group enterprises	0	0	10,367	10,270
	Receivables from associates	3,379	576	0	0
12	Deferred tax assets	1,456	1,262	21	6
	Corporation tax receivable	668	0	668	6
	Other receivables	1,856	3,265	0	0
10	Prepayments	3,430	1,385	0	0
		44,660	34,921	11,056	10,282
	Cash	31,119	20,906	69	35
	Total non-fixed assets	120,053	93,017	11,125	10,317
	TOTAL ASSETS	383,231	371,046	206,182	218,180

Consolidated financial statements and parent company financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	Group 2019	Group 2018	Parent company 2019	Parent company 2018
	EQUITY AND LIABILITIES				
	Equity				
11	Share capital	21,032	20,943	21,032	20,943
	Share premium account	0	0	0	0
	Retained earnings	185,148	197,096	185,149	197,097
	Total equity	206,180	218,039	206,181	218,040
	Provisions				
12	Deferred tax	0	50	0	0
	Total provisions	0	50	0	0
	Liabilities other than provisions				
13	**Non-current liabilities other than provisions**				
	Bank debt	300	127	0	0
	Other credit institutions	111,762	106,452	0	0
	Other payables	969	0	0	0
		113,031	106,579	0	0
	Current liabilities other than provisions				
	Bank debt	22	1,637	0	0
	Prepayments received from customers	11,258	9,078	0	0
	Trade payables	40,654	23,008	0	80
	Corporation tax payable	475	635	0	0
	Other payables	11,611	12,020	1	60
		64,020	46,378	1	140
	Total liabilities other than provisions	177,051	152,957	1	140
	TOTAL EQUITY AND LIABILITIES	383,231	371,046	206,182	218,180

1 Accounting policies
14 Contractual obligations and contingencies, etc.
15 Collateral
16 Related parties
17 Fee to the auditors appointed by the Company in general meeting
18 Appropriation of profit/loss

Consolidated financial statements and parent company financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Group			
		Share capital	Share premium account	Retained earnings	Total
	Equity at 1 January 2019	20,943	0	197,096	218,039
	Capital increase	89	911	0	1,000
	Transfer through appropriation of loss	0	0	-13,062	-13,062
	Transferred from share premium account	0	-911	911	0
	Adjustment of investments through foreign exchange adjustments	0	0	203	203
	Equity at 31 December 2019	21,032	0	185,148	206,180

Note	DKK'000	Parent company			
		Share capital	Share premium account	Retained earnings	Total
	Equity at 1 January 2019	20,943	0	197,097	218,040
	Capital increase	89	911	0	1,000
18	Transfer, see "Appropriation of profit/loss"	0	0	-13,062	-13,062
	Transferred from share premium account	0	-911	911	0
	Adjustment of investments through foreign exchange adjustments	0	0	203	203
	Equity at 31 December 2019	21,032	0	185,149	206,181

Consolidated financial statements and parent company financial statements 1 January - 31 December

Cash flow statement

		Group	
Note	DKK'000	2019	2018
	Profit/loss for the year	-13,062	-11,762
19	Adjustments	28,891	26,583
	Cash generated from operations (operating activities)	15,829	14,821
20	Changes in working capital	2,020	-6,219
	Cash generated from operations (operating activities)	17,849	8,602
	Interest received, etc.	240	843
	Interest paid, etc.	-9,720	-10,311
	Income taxes paid	-1,485	-3,995
	Cash flows from operating activities	6,884	-4,861
	Additions of intangible assets	-2,020	-8,424
	Additions of software, property, plant and equipment	-2,567	-2,504
	Net change of financial assets	641	583
	Cash flows to investing activities	-3,946	-10,345
	Contracting of other long-term liabilities	6,279	5,488
	Cash capital increase	1,000	2,000
	Cash flows from financing activities	7,279	7,488
	Net cash flow	10,217	-7,718
	Cash and cash equivalents at 1 January	20,906	28,624
21	**Cash and cash equivalents at 31 December**	31,123	20,906

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Sofaco Holding ApS for 2019 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Consolidated financial statements

Control

The consolidated financial statements comprise the Parent Company and subsidiaries controlled by the Parent Company.

Control means a parent company's power to direct a subsidiary's financial and operating policy decisions. Besides the above power, the parent company should also be able to yield a return from its investment.

In assessing if the parent company controls an entity, de facto control is taken into consideration as well.

The existence of potential voting rights which may currently be exercised or converted into additional voting rights is considered when assessing if an entity can become empowered to direct another entity's financial and operating decisions.

Significant influence

Entities over whose financial and operating policy decisions the group exercises significant influence are classified as associates. Significant influence is assumed to exist if the Parent Company directly or indirectly holds or controls 20% or more of the voting power of the investee, but does not control the investee.

The existence of potential voting rights which may presently be exercised or be converted into additional voting rights in considered when assessing if significant influence exists.

Preparation of consolidated financial statements

The consolidated financial statements are prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements, which are prepared according to the group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains if they do not reflect impairment.

In the consolidated financial statements, the accounting items of subsidiaries are recognised in full. Non-controlling interests' share of the profit/loss for the year and of the equity of subsidiaries which are not wholly-owned are included in the group's profit/loss and equity, respectively, but are disclosed separately.

Acquisitions and disposals of non-controlling interests which are still controlled are recognised directly in equity as a transaction between shareholders.

Investments in associates and joint ventures are recognised in the consolidated financial statements using the equity method.

The group's activities in joint operations are recognised on a line-by-line basis.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Intra-group business combinations

The aggregation method is applied to business combinations such as acquisition and disposal of investments, mergers, demergers, contributions of assets and share conversions, etc. in which entities controlled by the parent company are involved, provided that the combination is considered completed at the time of acquisition without any restatement of comparative figures. Differences between the agreed consideration and the carrying amount of the acquiree are recognised directly in equity.

Income statement

Revenue

Income from the sale of goods for resale and finished goods is recognised in revenue when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

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

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Software	5 years
Goodwill	20 years
Fixtures and fittings, other plant and equipment	3-5 years
Leasehold improvements	5 years

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Profit/loss from investments in subsidiaries and associates

A proportionate share of the underlying entities' profit/loss after tax is recognised in the income statement according to the equity method. Shares of profit/loss after tax in subsidiaries and associates are presented as separate line items in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries. Only proportionate elimination of intra-group gains/losses is made for equity investments in associates.

The proportionate share of the individual subsidiaries' profit/loss after tax after full elimination of internal gains/losses are recognised in the parent company's income statement.

The item includes dividend received from subsidiaries and associates.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

The parent company is covered by the Danish rules on mandatory joint taxation of the Group's Danish subsidiaries. Subsidiaries are included in the joint taxation arrangement from the date at which they are included in the consolidated financial statements and up to the date when they are no longer consolidated.

The parent company acts as management company for the joint taxation arrangement and consequently settles all corporate income tax payments with the tax authorities.

On payment of joint taxation contributions, the Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

Tax for the year, which comprises the current income tax charge, joint taxation contributions and deferred tax adjustments, including adjustments arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

The Company's investment in subsidiaries and also the acquisition of activities in regional areas is considered to be of strategic importance to the Group, taking into account the Group's future growth plans. Against this background, goodwill is amortised on a straight-line basis over the amortisation period, which is 20 years.

Sofware is measured at cost less accumulated amortisation and impairment losses.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

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

Investments

Deposits and investments are measured at cost.

Investments in subsidiaries and associates

Equity investments in subsidiaries and associates are measured according to the equity method. Equity investments in joint ventures are also measured according to the equity method in the consolidated financial statements.

On initial recognition, equity investments in subsidiaries and associates are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding business combinations.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deduced from the carrying amount.

Equity investments in subsidiaries and associates measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

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

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Equity

Grants without consideration within a group

Grants to subsidiaries without consideration are recognised as a capital injection under "Investments in group entities". Grants received from subsidiaries are recognised as dividend received from the subsidiary.

Provisions

Provisions comprise anticipated expenses relating to warranty commitments, onerous contracts, restructurings, etc. Provisions are recognised when the Company has a legal or constructive obligation at the balance sheet date as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

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

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets 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. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

As management company for all the entities in the joint taxation arrangement, the parent company is liable for payment of the subsidiaries' income taxes vis à vis the tax authorities as the subsidiaries pay their joint taxation contributions. Joint taxation contributions payable or receivable are recognised in the balance sheet as income tax receivables or payables.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, 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. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Prepayments received from customers

Prepayments received from costumers, is payments received concerning income in subsequent financial reporting years.

Cash flow statement

The cash flow statement shows the Company's net cash flows broken down according to operating, investing and financing activities, the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non cash operating items, changes in working capital and paid corporate income tax.

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

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

Cash and cash equivalents comprise cash, short term bank loans and short term securities which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial ratios

The financial ratios stated under "Financial highlights" have been calculated as follows:

Operating profit/loss	Profit/loss before financial items adjusted for other operating income and other operating expenses
Operating margin	$\frac{\text{Operating profit (EBIT) x 100}}{\text{Revenue}}$
Gross margin ratio	$\frac{\text{Gross margin x 100}}{\text{Revenue}}$
EBITDA-margin	$\frac{\text{Earnings before interest, taxes and amortisations (EBITDA) x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss from operating activites x 100}}{\text{Average assets}}$
Current ratio	$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$
Equity ratio	$\frac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss after tax x 100}}{\text{Average equity}}$

	Group		Parent company	
DKK'000	2019	2018	2019	2018
2 Segment information				
Breakdown of revenue by geographical segment:				
Denmark	80,994	61,762	0	0
Nordic Countries	53,570	37,509	0	0
Europe	156,692	154,545	0	0
USA	95,598	53,841	0	0
Others	52,534	65,687	0	0
	439,388	373,344	0	0

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

		Group		Parent company	
	DKK'000	2019	2018	2019	2018
3	**Staff costs**				
	Wages/salaries	50,163	42,538	0	0
	Pensions	2,775	775	0	0
	Other social security costs	3,618	2,959	0	0
	Other staff costs	2,410	1,811	0	121
		58,966	48,083	0	121
	Average number of full-time employees	264	229	0	0
	Remuneration to members of Management:				
	Executive Board	1,533	3,001	0	0
	Board of Directors	708	738	0	121
		2,241	3,739	0	121

Parent company

The parent company has no employees.

		Group		Parent company	
	DKK'000	2019	2018	2019	2018
4	**Financial income**				
	Interest receivable, group entities	0	0	0	170
	Exchange adjustments	1,647	0	0	0
	Exchange gain	0	4	0	0
	Other financial income	1,150	839	0	1
		2,797	843	0	171
5	**Financial expenses**				
	Other interest expenses	9,720	9,492	0	0
	Exchange adjustments	2,513	419	0	0
	Exchange losses	0	5	0	0
	Other financial expenses	923	395	2	19
		13,156	10,311	2	19
6	**Tax for the year**				
	Estimated tax charge for the year	658	1,985	0	-6
	Deferred tax adjustments in the year	-244	-988	-15	-6
		414	997	-15	-12

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

7 Intangible assets

DKK'000	Group Software	Goodwill	Total
Cost at 1 January 2019	8,424	281,415	289,839
Additions on corporate acquisition	2,020	0	2,020
Cost at 31 December 2019	10,444	281,415	291,859
Impairment losses and amortisation at 1 January 2019	410	23,443	23,853
Other adjustments	0	-110	-110
Amortisation for the year	1,883	14,070	15,953
Impairment losses and amortisation at 31 December 2019	2,293	37,403	39,696
Carrying amount at 31 December 2019	8,151	244,012	252,163
Amortised over	5 years	20 years	

8 Property, plant and equipment

DKK'000	Group Fixtures and fittings, other plant and equipment	Leasehold improvements	Total
Cost at 1 January 2019	6,968	5,945	12,913
Foreign exchange adjustments	45	-24	21
Additions	1,452	1,115	2,567
Disposals	-43	0	-43
Cost at 31 December 2019	8,422	7,036	15,458
Impairment losses and depreciation at 1 January 2019	2,569	2,410	4,979
Foreign exchange adjustments	24	-16	8
Depreciation	1,693	1,274	2,967
Reversal of accumulated depreciation and impairment of assets disposed	-43	0	-43
Impairment losses and depreciation at 31 December 2019	4,243	3,668	7,911
Carrying amount at 31 December 2019	4,179	3,368	7,547
Depreciated over	3-5 years	5 years	

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

9 Investments

	Group		
DKK'000	Investments in associates	Deposits, investments	Total
Cost at 1 January 2019	2,710	974	3,684
Foreign exchange adjustments	0	15	15
Additions	0	187	187
Disposals, contribution	0	-66	-66
Cost at 31 December 2019	2,710	1,110	3,820
Value adjustments at 1 January 2019	425	0	425
Foreign exchange adjustments	-8	0	-8
Dividend received	-363	0	-363
Result for the period	-279	0	-279
Depreciation, goodwill	-127	0	-127
Value adjustments at 31 December 2019	-352	0	-352
Carrying amount at 31 December 2019	2,358	1,110	3,468

Group goodwill on investments in shares in associates in the year amounts to DKK 2,203 thousand (2018: DKK 2,542 thousand).

Group

Name	Domicile	Interest
Associates		
The Sofa Company Limited South Africa	South Africa	50.00%

	Parent company
DKK'000	Investments in group enterprises
Cost at 1 January 2019	219,325
Cost at 31 December 2019	219,325
Value adjustments at 1 January 2019	-11,462
Foreign exchange adjustments	203
Result for the period	-13,009
Value adjustments at 31 December 2019	-24,268
Carrying amount at 31 December 2019	195,057

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

9 Investments (continued)

Parent company

Subsidiaries

Sofaco International ApS	Denmark	100.00%
- Sofaco Design ApS	Denmark	100.00%
-- Scandinavian Design Asia Limited	Hong Kong	100.00%
-- Scandinavian Design Vietnam Co. Ltd.	Vietnam	100.00%
-- Sofa Company Vietnam Company Limited	Vietnam	100.00%
-- Sofakompagnie BV NL	The Netherlands	100.00%
-- Sofacompany BV BA	Belgium	100.00%
-- Sofa Company GmbH	Germany	100.00%
-- Sofakompaniet Norge AS	Norway	100.00%
-- The Soffkompaniet AB	Sweden	100.00%
-- Sofacompany GmbH	Switzerland	100.00%
-- Sofa Company Spolka	Poland	100.00%

10 Prepayments

Group

Prepayments include accrual of expenses relating to subsequent financial years, including rent, insurance and other service agreements.

	Parent company	
DKK'000	2019	2018
11 Share capital		
Analysis of the share capital:		
10,836,264 A shares of DKK 1.00 nominal value each	10,836	10,765
10,195,723 B shares of DKK 1.00 nominal value each	10,196	10,178
	21,032	20,943

Each A share carries one voting right and each B share carries one voting right and has a right to dividend before A share.

Analysis of changes in the share capital over the past 3 years:

DKK'000	2019	2018	2017
Opening balance	20,943	20,765	50
Capital increase	89	178	20,715
	21,032	20,943	20,765

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	Group 2019	Group 2018	Parent company 2019	Parent company 2018
12 Deferred tax				
Deferred tax at 1 January	-1,212	-496	-6	0
Change in the year	-244	-716	-15	-6
Deferred tax at 31 December	-1,456	-1,212	-21	-6
Analysis of the deferred tax				
Deferred tax assets	-1,456	-1,262	-21	-6
Deferred tax liabililties	0	50	0	0
	-1,456	-1,212	-21	-6

13 Non-current liabilities other than provisions

	Group			
DKK'000	Total debt at 31/12 2019	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Bank debt	300	0	300	0
Other credit institutions	111,762	0	111,762	0
Other payables	969	0	969	0
	113,031	0	113,031	0

14 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

DKK'000	Group 2019	Group 2018	Parent company 2019	Parent company 2018
Rent and lease liabilities	30,669	25,265	0	0

Group

Rent and lease liabilities include a rent obligation totalling DKK 29,597 thousand in interminable rent agreements with remaining contract terms of 0-4 years. Furthermore, the Company has liabilities under operating leases for cars, totalling DKK 1,072 thousand, with remaining contract terms of 0-4 years.

Parent company

As management company, the Company is jointly taxed with other Danish group entities. The Company is jointly and severally liable with other jointly taxed group entities for the payment of income taxes in the income year 2017 and withholding taxes falling due for payment on or after 1 February 2017 in the group of jointly taxed entities.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

15 Collateral

Group

The Group has provided a bank guarantee of DKK 3,060 thousand for rent of premises.

Parent company

The Company has provided a guarantee assuming primary liability for the external loan in Sofaco International ApS in the amount of DKK 111,762 thousand at 31 December 2019.

16 Related parties

Group

Related party transactions

According to section 98c(3) of the Danish Financial Statements Act transactions with wholly-owned group entities are not disclosed.

Parent company

Transactions with related parties

According to section 98c(3) of the Danish Financial Statements Act transactions with wholly-owned group entities are not disclosed.

	Group		Parent company	
DKK'000	2019	2018	2019	2018
17 Fee to the auditors appointed by the Company in general meeting				
Total fees to EY	603	125	63	80
Statutory audit	212	60	21	40
Tax assistance	246	20	11	10
Other assistance	145	45	31	30
	603	125	63	80

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	Parent company 2019	Parent company 2018
18 Appropriation of profit/loss		
Recommended appropriation of profit/loss		
Retained earnings/accumulated loss	-13,062	-11,762
	-13,062	-11,762

DKK'000	Group 2019	Group 2018
19 Adjustments		
Amortisation/depreciation and impairment losses	18,918	16,919
Financial income	-2,798	-843
Financial expenses	13,161	10,311
Tax for the year	412	997
Other adjustments	-802	-801
	28,891	26,583
20 Changes in working capital		
Change in inventories	-7,084	-4,728
Change in receivables	-8,877	-6,138
Change in trade and other payables	17,981	4,647
	2,020	-6,219
21 Cash and cash equivalents at year-end		
Cash according to the balance sheet	31,119	20,906
	31,119	20,906

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