Tvilum ApS

Egon Kristiansens Allé 2, DK-8882 Fårvang

Annual Report for 1 January - 31 December 2015

CVR No 19 56 27 86

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 06/04 2016

Andrew Robert Long
Chairman

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Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Tvilum ApS for the financial year 1 January - 31 December 2015.

The Annual Report is 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 at 31 December 2015 of the Company and of the results of the Company operations and cash flows for 2015.

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

Fårvang, 6 April 2016

Executive Board

Andrew Robert Long CEO	Brian Dysted	Jørgen Iversen

Board of Directors

Cyrus Nikou Chairman	Robert Loring Jr.	Aman Bajaj
Vibeke Bredahl Omme Staff Representative		

Independent Auditor's Report on the Financial Statements

To the Shareholder of Tvilum ApS

Report on the Financial Statements

We have audited the Financial Statements of Tvilum ApS for the financial year 1 January - 31 December 2015, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement, notes and summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility 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.

Auditor's Responsibility
Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Financial Statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

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

Our audit has not resulted in any qualification.

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2015 and of the results of the Company operations and cash flows for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Independent Auditor's Report on the Financial Statements

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Financial Statements. On this basis, in our opinion, the information provided in Management's Review is in accordance with the Financial Statements.

Odense, 6 April 2016
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Michael Nielsson
State Authorized Public Accountant

Mette Holy Jørgensen
State Authorized Public Accountant

Company Information

The Company	Tvilum ApS Egon Kristiansens Allé 2 DK-8882 Fårvang CVR No: 19 56 27 86 Financial period: 1 January - 31 December Municipality of reg. office: Silkeborg
Board of Directors	Cyrus Nikou, Chairman Robert Loring Jr. Aman Bajaj Vibeke Bredahl Omme
Executive Board	Andrew Robert Long Brian Dysted Jørgen Iversen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Rytterkasernen 21 Postboks 370 DK-5100 Odense C

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2015 Mio. DKK	2014 Mio. DKK	2013 Mio. DKK	2012 Mio. DKK	2011 Mio. DKK
Key figures					
Profit/loss					
Revenue	1.407	1.549	1.501	1.450	1.592
Gross profit/loss	156	123	138	69	122
Operating profit/loss (EBITDA)	3	-34	-28	-128	-88
Profit/loss before financial income and expenses	-28	-69	-67	-177	-137
Net profit/loss for the year	-45	-64	-52	-186	-103
Balance sheet					
Balance sheet total	703	758	784	844	1.140
Equity	240	285	349	462	648
Cash flows					
Cash flows from:					
- operating activities	13	-45	53	-172	-58
- investing activities	-17	-8	-6	4	-64
including investment in property, plant and equipment	-13	-10	-10	-12	-66
- financing activities	53	28	-43	192	120
Change in cash and cash equivalents for the year	49	-25	4	24	-2
Number of employees	849	979	903	1.002	1.038
Ratios					
Gross margin	11,1%	7,9%	9,2%	4,8%	7,7%
Profit margin	-2,0%	-4,5%	-4,5%	-12,2%	-8,6%
Return on assets	-4,0%	-9,1%	-8,5%	-21,0%	-12,0%
Solvency ratio	34,1%	37,6%	44,5%	54,7%	56,8%
Return on equity	-17,1%	-20,2%	-12,8%	-33,5%	-14,2%
Operating profit margin	0,2%	-2,2%	-1,9%	-8,8%	-5,5%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies. In connection with changes to accounting policies, the comparative figures back to 2011 have been restated.

Management's Review

Main activity

The company's main activity is development, production and sale of furniture based on chipboard or MDF, which is covered with foil, melamine, lacquer or veneer. All furniture is sold as flat packed RTA (Ready To Assemble) furniture. The furniture is sold in more than 80 countries with Scandinavia, other countries in Europe, Australia, the Middle East, North and South America as the most important markets.

Development in the year

In 2015 the company has begun harvesting the benefits from the turnaround initiatives implemented in late 2014 and during 2015 resulting in a significant improvement to Operating Profit (EBITDA).

The RTA furniture market has remained highly competitive in 2015 resulting in a continued pressure on prices. However, the company sees an increased demand for its product ranges in several emerging markets globally, thus the company has succeeded in improving its contribution margin through new products sold to both existing and new customers.

The company has seen slightly increased prices on its main raw materials in the first half of 2015, which among others was driven by increased USD currency rate. The second half of the year has indicated an increased availability of raw materials, hence an incipient decline in purchase prices.

The company has achieved significant savings in production, selling & administration expenses through cost saving initiatives and process optimizations. Savings initiatives implemented during 2015 will also bring further savings in 2016 due to the carry over impact.

Rationalization savings have among others been achieved by a consolidating of the company's production facilities. One production facility has been closed down in 2015 and close down of a second production facility was initiated in late 2015 and will be completed in the first half of 2016. The consolidation of factories does not influence production capacity considerably.

Income Statement

Revenue has decreased from DKK 1.549 mill. in 2014 to DKK 1.407 mill. in 2015, corresponding to decrease of 9,2%. The development can be explained by a few key clients.

Expenses for raw materials have decreased from DKK 1.235 mill. in 2014 to DKK 1.086 mill. in 2015, corresponding to a decrease of 12,1 % driven by the decrease in sales. The reduction in expenses for raw materials and consumables is higher than the decrease in sales due to the improved contribution margin.

Other external expenses have decreased from DKK 191 mill. in 2014 to DKK 166 mill. in 2015, corresponding to a saving of DKK 25 mill. or 13,1%.

Gross profit has increased from DKK 123 mill. in 2014 to DKK 156 mill. in 2015, as gross profit margin has increased from 7,9 % in 2014 to 11,1 % in 2015, hence an improvement in profitability.

Operating profit (EBITDA) has improved from DKK -34 mill. in 2014 to DKK +3 mill. in 2015 corresponding to an improvement of DKK +37 mill. The operating profit margin has improved from -2,2 % in 2014 to +0,2 % in 2015.

The management considers the Operating profit (EBITDA) of the company in 2015 to be satisfactory, as the result is in line with the expectations set out in the turnaround plan for the company. The management emphasizes the significant improvement compared to previous years and further notes that the profit improvement initiatives implemented in 2015 will bring further improvements to the results in 2016.

The Board of Directors proposes that the company does not pay out dividend in 2015.

Balance Sheet

Balance Sheet of the company has been reduced from DKK 758 mill. in 2014 to DKK 703 mill. in 2015. This is a total decrease of DKK 55 mill. driven by a reduction in Inventory.

The Equity of the Company remains solid and amounts to DKK 240 mill. corresponding to 34,1 % of the total balance.

Cash Flow Statement

In 2015 the company has generated positive cash flow from operating activities of DKK 13 mill. compared to a negative cash flow of DKK -45 mill. in 2014. The development from 2014 to 2015 is primarily driven by improved working capital through a decrease in inventory.

Cash flows from investing activities amount to DKK -17 mill. compared to DKK -8 mill. in 2014. After investments the company generated cash flows of DKK -4 mill. in 2015 compared to DKK -53 mill. in 2014.

Cash flow from finance activities of DKK 53 mill. is driven by establishment of a secured credit facility in 2015.

In 2015 the change in cash and cash equivalents totals to DKK +49 mill.

Targets and expectations for the year ahead

The company expects the positive development in operating profit (EBITDA) to continue in 2016. Expectations for 2016 are stated below:

Budget/DKK mill.	2016
Revenue	1.286
Operating profit(EBITDA)	30

The positive development in operating profit (EBITDA) in 2016 will be driven by a continued growth in sales on emerging markets globally, and a lowering of production expenses through establishing production facilities in Poland. Both elements will result in an improved contribution margin.

Operating profit (EBITDA) will also improve through savings in production, selling and administration expenses from savings initiatives already implemented during 2015 and from the continued consolidating of the company's production facilities.

These activities have demonstrated their effects as the company has achieved positive earnings in the first months of 2016 - which exceeds both budget and 2015 operating profit (EBITDA). The positive developments are expected to continue throughout 2016 and in years to come.

The establishment of production facilities in Poland will bring further improvement to operating profit in especially 2017 and 2018 through lower cost prices and increased competitiveness.

Special risks - operating risks and financial risks

Supply risk

The company uses several suppliers on significant raw materials, to ensure that supply is not independent on one single supplier.

Currency risk

Majority of trade is settled in EUR and DKK. EUR is used for payment of Danish and foreign suppliers, where it has been agreed to pay in the currency. Besides from this the company uses GBP and USD.

Furthermore, the company owns shares in its Russian subsidiary, from where it experiences a currency risk. However, the value of the subsidiary is not significant, why the risk is not material.

Interest rate risks

The company is exposed to interest rate risk on borrowing from external lenders.

Credit risks

No single customer represent a significant risk for the company. Each customer is credit insured at a credit insurance company from a separate assessment. The majority of the company´s significant customers are credit insured at December 31, 2015.

Research and development

There is no research activity in the company.

Development activity is related to new models and variants of furniture. Development projects of furniture are only for a short period of time. Cost of these projects is expensed as they incur.

Statutory statement of corporate social responsibility

Tvilum is a member of the United Nations Global Compact and endorses principles and guidelines in accordance with the compact.

Tvilum's business strategy and business activities also contain a number of elements related to ethics and personnel policy working environment and accidents as well as care for the environment and people.

As the statutory statement on social responsibility the company refers to Tvilum's annual Communication on Progress (COP) from May 2015. The report is renewed annually and is available at https://www.unglobalcompact.org/system/attachments/cop_2015/158071/original/2015_Tvilum_COP_r1.pdf?1430915152.

Statutory statement regarding the underrepresented gender in accordance with section 99 b of the Danish Financial Statements Act

Gender representation in the supreme management body

The company is working on complying with provisions of the law for the underrepresented gender in the supreme management body and in other management levels.

The supreme management body consists of the Board of Directors. The Board of Directors which is elected on the General Meeting consists of three men. No change to the supreme management body has been made in 2015.

The target of the company is to fill seats of the board with people that possess the best qualifications for the performance of the board. In addition to this the target is to have a gender distribution of at least 33/67 % (women/men) equal to 1 out of 3 in the Board of Directors elected on the General Meeting by 2019.

Equality in management levels at Tvilum ApS

The management of the company consists of both men and women. The policy of the company, that has been followed through 2015, says that women are encouraged equal as men to apply for vacant positions in the company. Women are also guaranteed the same rights and conditions during their employment as men. In connection to this, personnel is ensured good conditions regarding maternity leave, flexible working hours and the possibility to work from home.

The gender composition in other management levels is a positive mix of women and men, and conditions mentioned above have not led to a significant change to this.

Subsequent events

In April 2016, the company has extended the secured credit facility with the capital lender Gordon Brothers Finance Company in the amount of DKK 70 mill. The credit facility has been extended until June 2018. The current covenants of the secured credit facility remains unaltered over the extended loan period. Until February 2017 the company is still prohibited from distributing dividend, establish intercompany balances or pay management fee to the shareholders.

The secured credit facility means that activities of the company are ensured, and the company is going concern.

In January 2016, the company has informed that in 2016 it will expand its manufacturing capabilities internationally by establishing production facilities in Poland. This will increase the competitive position of the company and bring a more regionalized manufacturing approach. The competitive position will be improved by establishing production closer to raw materials and support the offensive sales growth strategy by bringing the company closer to the emerging markets globally.

Income Statement 1 January - 31 December

	Note	2015 TDKK	2014 TDKK
Revenue	2	**1.407.341**	**1.549.214**
Expenses for raw materials and consumables		-1.085.745	-1.235.291
Other external expenses		-166.018	-191.193
Gross profit/loss		**155.578**	**122.730**
Staff expenses	3	-152.213	-156.907
Operating profit/loss (EBITDA)		**3.365**	**-34.177**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-31.756	-35.278
Profit/loss before financial income and expenses		**-28.391**	**-69.455**
Income from investments in subsidiaries		-2.428	45
Financial income	5	2.375	2.408
Financial expenses	6	-29.499	-17.622
Profit/loss before tax		**-57.943**	**-84.624**
Tax on profit/loss for the year	7	13.138	20.733
Net profit/loss for the year		**-44.805**	**-63.891**

Distribution of profit

Proposed distribution of profit

	2015	2014
Reserve for net revaluation under the equity method	-466	45
Retained earnings	-44.339	-63.936
	-44.805	**-63.891**

Balance Sheet 31 December

Assets

	Note	2015	2014
		TDKK	TDKK
Land and buildings		123.935	139.073
Plant and machinery		49.153	56.207
Other fixtures and fittings, tools and equipment		4.343	5.697
Prepayments for property, plant and equipment		7.252	3.114
Property, plant and equipment	8	**184.683**	**204.091**
Investments in subsidiaries	9	13.269	11.800
Fixed asset investments		**13.269**	**11.800**
Fixed assets		**197.952**	**215.891**
Inventories	10	**206.094**	**300.744**
Trade receivables		186.863	190.864
Receivables from group enterprises		336	2.370
Other receivables		2.198	3.504
Deferred tax asset	11	48.915	35.591
Prepayments	12	5.462	3.377
Receivables		**243.774**	**235.706**
Cash at bank and in hand		**55.125**	**6.027**
Currents assets		**504.993**	**542.477**
Assets		**702.945**	**758.368**

Balance Sheet 31 December

Liabilities and equity

	Note	2015 TDKK	2014 TDKK
Share capital		97.926	97.926
Reserve for net revaluation under the equity method		0	913
Retained earnings		141.678	186.017
Equity		**239.604**	**284.856**
Other provisions		3.793	2.059
Provisions		**3.793**	**2.059**
Subordinate loan capital		5.400	5.400
Long-term debt	13	**5.400**	**5.400**
Mortgage loans		70.883	0
Credit institutions		153.047	172.193
Trade payables		153.531	165.699
Payables to group enterprises		9.769	11.015
Other payables		66.918	117.146
Short-term debt		**454.148**	**466.053**
Debt		**459.548**	**471.453**
Liabilities and equity		**702.945**	**758.368**
Capital resources and subsequent events	1		
Contingent assets, liabilities and other financial obligations	14		
Related parties and ownership	15		

Statement of Changes in Equity

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
2015				
Equity at 1 January	97.926	913	186.017	284.856
Exchange adjustments relating to foreign entities	0	-447	0	-447
Net profit/loss for the year	0	-466	-44.339	-44.805
Equity at 31 December	**97.926**	**0**	**141.678**	**239.604**
2014				
Equity 1. januar	97.926	1.388	249.953	349.267
Exchange adjustments relating to foreign entities	0	-520	0	-520
Net profit/loss for the year	0	45	-63.936	-63.891
Equity at 31 December	**97.926**	**913**	**186.017**	**284.856**

The share capital consists of 9,792,553 shares of a nominal value of DKK 97,926 thousands. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

Cash Flow Statement 1 January - 31 December

	Note	2015	2014
		TDKK	TDKK
Net profit/loss for the year		-44.805	-63.891
Adjustments	16	48.170	29.715
Change in working capital	17	37.209	3.344
Cash flows from operating activities before financial income and expenses		**40.574**	**-30.832**
Financial income		2.375	2.407
Financial expenses		-29.499	-17.572
Cash flows from ordinary activities		**13.450**	**-45.997**
Corporation tax paid		-187	1.400
Cash flows from operating activities		**13.263**	**-44.597**
Purchase of property, plant and equipment		-12.991	-9.678
Fixed asset investments made etc		-4.344	-1.750
Sale of property, plant and equipment		644	3.187
Cash flows from investing activities		**-16.691**	**-8.241**
Repayment of mortgage loans		-7.835	0
Change in debt to other credit institutions		-19.145	26.395
Change in intercompany balances		788	1.199
Raising of mortgage loans		78.718	0
Cash flows from financing activities		**52.526**	**27.594**
Change in cash and cash equivalents		**49.098**	**-25.244**
Cash and cash equivalents at 1 January		6.027	31.271
Cash and cash equivalents at 31 December		**55.125**	**6.027**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		55.125	6.027
Cash and cash equivalents at 31 December		**55.125**	**6.027**

Notes to the Financial Statements

1 Capital resources and subsequent events

The annual report of 2015 is prepared under the assumption of going concern. Cash and cash equivalents amount to DKK 55 mill. as of 31 December 2015.

The financing agreement with Midt Factoring A/S in the amount of DKK 250 mill is retained. The credit facility is provided against security in trade receivables.

In April 2016, the company has extended the secured loan agreement with the capital lender Gordon Brothers Finance Company in the current amount of DKK 70 mill. The secured loan agreement is extended until June 2018 and during the loan period the company is prohibited from distributing dividend, establishing intercompany balances or pay management fee to the shareholders.

In 2014 the company entered into a bridge-loan agreement with a private lender. The loan was repaid in August 2014 but the loan covenants remain effective until February 2017. The loan covenants are similar to the covenants of the secured loan agreements in terms of prohibition from distributing dividend, establishing intercompany balances and paying management fee. If the covenant terms are breached, the private lender still has an option to buy majority of land and buildings for DKK 43 mill.

The secured loan agreement with Gordon Brothers Finance Company is provided against security in the company's inventory, machinery & equipment and land & buildings.

The secured loan agreement is subject to certain events of default. If an event of default is continuing the lender may cancel the commitment where upon the company shall repay the secured term loan immediately.

The financial covenants are determined based on the company´s 2016 Budget although the financial covenants do not require a full achievement of the 2016 earnings expectations.

The Budget 2016 is prepared on basis of a number of assumptions of positive development, where improved earnings are main targets.

Savings initiatives and turnaround activities have been implemented to improve earnings. These activities have demonstrated their effects as the company has achieved positive earnings in the first months of 2016 and exceeded both budget expectations and 2015 on earnings.

The positive developments are expected to continue throughout 2016 and thus ensuring that the financial covenants are being met.

As the assessment of capital resources of the company relies on expectations for the future, uncertainty may be connected to it. Based on the above stated the Executive Board is of the opinion that an event of default; including breach of financial covenants, will not occur during the loan period. Further, the Executive Board is of the opinion, that the company is going concern.

Notes to the Financial Statements

2 Revenue

	2015	2014
	TDKK	TDKK
Geographical segments		
Revenue, Scandinavia	213.614	277.971
Revenue, Europe	832.618	947.387
Revenue, North- and South America	296.883	261.802
Revenue, Rest of world	64.226	62.054
	1.407.341	**1.549.214**

3 Staff expenses

	2015	2014
Wages and salaries	293.759	328.799
Pensions	22.751	25.462
Other social security expenses	9.738	10.182
Other staff expenses	254	361
	326.502	**364.804**
Transfer to expenses for raw materials and consumables	-174.289	-207.897
	152.213	**156.907**
Including remuneration to the Executive Board and Board of Directors	**5.729**	**3.134**
Average number of employees	**849**	**979**

Notes to the Financial Statements

	2015	2014
	TDKK	TDKK

4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

	2015	2014
Depreciation of property, plant and equipment	31.428	35.279
Gain and loss on disposal	328	-1
	31.756	**35.278**

5 Financial income

	2015	2014
Other financial income	2.375	2.408
	2.375	**2.408**

6 Financial expenses

	2015	2014
Interest paid to group enterprises	46	15
Other financial expenses	26.716	16.053
Exchange adjustments, expenses	2.737	1.554
	29.499	**17.622**

7 Tax on profit/loss for the year

	2015	2014
Current tax for the year	0	0
Deferred tax for the year	-13.138	-20.733
	-13.138	**-20.733**

Notes to the Financial Statements

8 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Prepayments for property, plant and equipment	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	484.437	731.706	99.457	3.114	1.318.714
Additions for the year	0	0	752	12.239	12.991
Disposals for the year	0	-23.659	-4.516	0	-28.175
Transfers for the year	1.797	5.471	833	-8.101	0
Cost at 31 December	486.234	713.518	96.526	7.252	1.303.530
Impairment losses and depreciation at 1 January	345.364	675.499	93.759	0	1.114.622
Depreciation for the year	16.935	11.731	2.762	0	31.428
Impairment and depreciation of sold assets for the year	0	-22.865	-4.338	0	-27.203
Impairment losses and depreciation at 31 December	362.299	664.365	92.183	0	1.118.847
Carrying amount at 31 December	**123.935**	**49.153**	**4.343**	**7.252**	**184.683**

Notes to the Financial Statements

9 Investments in subsidiaries

	2015 TDKK	2014 TDKK
Cost at 1 January	10.887	9.137
Additions for the year	4.344	1.750
Cost at 31 December	15.231	10.887
Value adjustments at 1 January	913	1.388
Exchange adjustment	-447	-520
Net profit/loss for the year	-2.428	45
Value adjustments at 31 December	-1.962	913
Carrying amount at 31 December	**13.269**	**11.800**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Tvilum GmbH	Munich	190	100%
Tvilum RU LLC	Moscow	6.094	100%
Tvilum ApS Agencia Chile S.A.	Santiago	0	100%
Tvilum Poland Sp. z o.o.	Warsaw	0	100%
Tvilum Australia Pty. Ltd.	Victoria	0	100%

Notes to the Financial Statements

10 Inventories

	2015 TDKK	2014 TDKK
Raw materials and consumables	54.601	78.678
Work in progress	16.618	20.972
Finished goods and goods for resale	134.875	201.094
	206.094	**300.744**

11 Provision for deferred tax

	2015 TDKK	2014 TDKK
Provisions for deferred tax at 1 january	-35.591	-16.257
Additions for the year	-13.324	-19.334
Transferred to deferred tax asset	48.915	35.591
	0	**0**
Deferred tax asset		
Calculated tax asset	48.915	35.591
Carrying amount	**48.915**	**35.591**

Deferred tax asset is recognized in accordance with expectations for the future. The asset is expected to be used within the next 5 years. As the recognition is based om expectations, there may be uncertainly to it.

12 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well as fair value adjustments of derivative financial instruments with a postitive fair value.

Notes to the Financial Statements

13 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2015	2014
	TDKK	TDKK
Subordinate loan capital		
After 5 years	5.400	5.400
Long-term part	5.400	5.400
Within 1 year	0	0
	5.400	**5.400**

Notes to the Financial Statements

14 Contingent assets, liabilities and other financial obligations

Rental agreements and leases

	2015	2014
	TDKK	TDKK
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	4.545	6.838
Between 1 and 5 years	7.342	4.559
After 5 years	1.204	0
	13.091	**11.397**

Security

The following assets have been placed as security with Gordon Brothers Finance Company:

Land, buildings, plant, machinery and inventory with a carrying amount of	123.935	139.073
The following assets have been placed as security with Midt Factoring:		
Trade receivables with a carrying amount of	186.863	190.864

Contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of RCG Europe ApS, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

15 Related parties and ownership

	Basis
Controlling interest	
RCG Europe ApS	Majority shareholder
Ultimate ownership:	

RCG Europe Holdings LLC
2285 Sherwood Rd.
San Marino, CA 91108
USA

Transactions

All transactions have been effected at arm's length.

All transactions are eliminated in the Consolidated Financial Statements in RCG Europe ApS.

Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

RCG Europe ApS

Consolidated Financial Statements

Tvilum ApS is a part of the Consolidated Financial Statements of RCG Europe ApS.

16 Cash flow statement - adjustments

	2015	2014
	TDKK	TDKK
Financial income	-2.375	-2.408
Financial expenses	29.499	17.622
Depreciation, amortisation and impairment losses, including losses and gains on sales	31.756	35.279
Income from investments in subsidiaries	2.428	-45
Tax on profit/loss for the year	-13.138	-20.733
	48.170	**29.715**

17 Cash flow statement - change in working capital

Change in inventories	94.650	-4.420
Change in receivables	3.222	-6.947
Change in other provisions	1.734	1.544
Change in trade payables, etc	-62.397	13.167
	37.209	**3.344**

Accounting Policies

Basis of Preparation

The Annual Report of Tvilum ApS for 2015 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

Financial Statements for 2015 are presented in TDKK.

Changes in accounting policies

The income statement has been changed from being classified by function to be classified by nature to give a more truly and fairly view of the financial position of the Company.

Classifying by nature makes consistency between the annual report of Tvilum ApS and the internal reporting and framework.

Net income and equity in previous years remains unchanged.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of RCG Europe ApS, the Company has not prepared consolidated financial statements.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

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

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Accounting Policies

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 computed 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 other 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.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Accounting Policies

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses other than production wages.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the core activities of the enterprise, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Balance Sheet

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Buildings	15-30 years
Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-5 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method.

The items "Investments in subsidiaries" and "Investments in associates" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill).

The total net revaluation of investments in subsidiaries and associates is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in subsidiaries and associates.

Subsidiaries and associates with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Accounting Policies

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales sum.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Accounting Policies

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

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

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Cash Flow Statement

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

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Accounting Policies

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand", "Current asset investments" and "Overdraft facilities". "Current asset investments" consist of short-term securities with an insignificant risk of value changes that can readily be turned into cash.

The cash flow statement cannot be immediately derived from the published financial records.

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$
Operating Profit margin	$\frac{\text{Operating Profit/Loss (EBITDA) x 100}}{\text{Revenue}}$