RCG Europe ApS

Egon Kristiansens Allé 2, DK-8882 Fårvang

Annual Report for 1 January - 31 December 2015

CVR No 25 52 27 61

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

Andrew Robert Long
Chairman

Contents

Management's Statement

The Executive Board has today considered and adopted the Annual Report of RCG Europe 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 and the Consolidated Financial Statements give a true and fair view of the financial position at 31 December 2015 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2015.

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

Fårvang, 6 April 2016

Executive Board

Cyrus Nikou	Robert Loring Jr.	Aman Bajaj

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Independent Auditor's Report on the Financial Statements and the Consolidated Financial Statements

To the Shareholder of RCG Europe ApS

Report on the Financial Statements and the Consolidated Financial Statements

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

Management's Responsibility for the Financial Statements and the Consolidated Financial Statements

Management is responsible for the preparation of Financial Statements and the Consolidated 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 and Consolidated 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 and the Consolidated 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 and the Consolidated 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 and the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements and the Consolidated 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 and Consolidated 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 and the Consolidated 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.

Independent Auditor's Report on the Financial Statements and the Consolidated Financial Statements

Opinion

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

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 and the Consolidated Financial Statements. On this basis, in our opinion, the information provided in Management's Review is in accordance with the Financial Statements and the Consolidated 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	RCG Europe ApS Egon Kristiansens Allé 2 DK-8882 Fårvang CVR No: 25 52 27 61 Financial period: 1 January - 31 December Municipality of reg. office: Silkeborg
Executive Board	Cyrus Nikou Robert Loring Jr. Aman Bajaj
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Rytterkasernen 21 Postboks 370 DK-5100 Odense C

Financial Highlights

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

	Group	
	2015	2014
	Mio. DKK	Mio. DKK
Key figures		
Profit/loss		
Revenue	1.407	1.549
Operating profit/loss (EBITDA)	105	71
Profit/loss before financial income and expenses	73	35
Net financials	-31	-16
Net profit/loss for the year	56	39
Balance sheet		
Balance sheet total	711	763
Equity	95	40
Cash flows		
Cash flows from:		
- operating activities	9	-44
- investing activities	-14	-25
including investment in property, plant and equipment	-15	-11
- financing activities	55	46
Change in cash and cash equivalents for the year	50	-23
Number of employees	875	1.014
Ratios		
Gross margin	19,0%	15,3%
Profit margin	5,2%	2,3%
Return on assets	10,3%	4,6%
Solvency ratio	13,4%	5,2%
Return on equity	83,0%	20,1%
Operating Profit margin	7,5%	4,6%

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

Main activity of RCG Europe ApS is to possess investments in subsidiaries. The company possesses shares in RCG Tvilum ApS and D-Scan Inc.

Main activity of RCG Tvilum ApS is to possess investments in subsidiaries. The company possesses shares in Tvilum ApS that develops, produces and sells furniture based on chipboard or MDF, which is covered with foil, melamine or veneer.

Main activity of D-Scan Inc. is to be a distribution center.

Development in the year

Parent

Investments in subsidiaries are recognized with a carrying amount of DKK 117 mill. on 31 December 2015.

In connection to this a negative goodwill of DKK 140 mill, is assigned to the investment in subsidiaries, due to a difference between purchase price and equity value on 31 December 2015.

Group

In 2015 the group 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 group sees an increased demand for its product ranges in several emerging markets globally, thus the group has succeeded in improving its contribution margin through new products sold to both existing and new customers.

The group 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 group 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 group'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.

Management's Review

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 1.237 mill. in 2014 to DKK 1.090 mill. in 2015, corresponding to a decrease of 11,9% 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 179 mill. in 2014 to DKK 152 mill. in 2015, corresponding to a saving of DKK 27 mill. or 15,1%.

Gross profit has increased from DKK 237 mill. in 2014 to DKK 268 mill. in 2015, as gross profit margin has increased from 15,3 % in 2014 to 19,0 % in 2015, hence an improvement in profitability.

Operating profit (EBITDA) has improved from DKK +71 mill. in 2014 to DKK +105 mill. in 2015 corresponding to an improvement of DKK +34 mill. The operating profit margin has improved from 4,6 % in 2014 to 7,5 % 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 group has been reduced from DKK 763 mill. in 2014 to DKK 711 mill. in 2015. This is a total decrease of DKK 52 mill. driven by a reduction in Inventory.

The Equity of the group remains solid and amounts to DKK 95 mill. corresponding to 13,4 % of the total balance.

Management's Review

Cash Flow Statement

In 2015 the group has generated positive cash flow from operating activities of DKK 9 mill. compared to a negative cash flow of DKK -44 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 -14 mill. compared to DKK -25 mill. in 2014. After investments the group generated cash flows of DKK -5 mill. in 2015 compared to DKK -69 mill. in 2014.

Cash flow from finance activities of DKK 55 mill. is driven by establishment of a secured credit facility in 2015.

In 2015 the change in cash and cash equivalents totals to DKK +58 mill.

Targets and expectations for the year ahead

The Group expects the positive development in operating profit (EBITDA) to continue in 2016.

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 group's production facilities.

These activities have demonstrated their effects as the group has achieved positive earnings in the first months of 2016 - which exceeds both budget and 2015 earnings. 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 2017 and 2018 through lower cost prices and increased competitiveness.

Special risks - operating risks and financial risks

Supply risk

The group 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 group uses GBP and USD.

Interest rate risks

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

Credit risks

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

Research and development

There is no research activity in the group.

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

The company has no specific politic on this.

The subsidiary Tvilum ApS 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.

Management's Review

The supreme management body consists of the Executive Board. The Executive Board 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.

Subsequent events

In April 2016, the subsidiary company Tvilum ApS 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 Tvilum ApS are ensured, and the company is going concern.

In January 2016 Tvilum ApS 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	Group 2015 TDKK	Group 2014 TDKK	Parent 2015 TDKK	Parent 2014 TDKK
Revenue	2	**1.406.642**	**1.548.876**	**0**	**0**
Other operating income		103.994	104.670	0	0
Expenses for raw materials and consumables		-1.090.086	-1.237.213	0	0
Other external expenses		-152.171	-179.091	-75	0
Gross profit/loss		**268.379**	**237.242**	**-75**	**0**
Staff expenses	3	-163.091	-166.580	0	0
Operating profit/loss (EBITDA)		**105.288**	**70.662**	**-75**	**0**
Depreciation, amortisation and impairment of negative goodwill and property, plant and equipment	4	-32.333	-35.774	0	0
Profit/loss before financial income and expenses		**72.955**	**34.888**	**-75**	**0**
Income from investments in subsidiaries		13	0	59.790	40.179
Financial income	5	3.007	2.407	2	0
Financial expenses	6	-33.945	-18.476	-3.865	-746
Profit/loss before tax		**42.030**	**18.819**	**55.852**	**39.433**
Tax on profit/loss for the year	7	13.822	20.614	0	0
Net profit/loss for the year		**55.852**	**39.433**	**55.852**	**39.433**

Distribution of profit

	Parent	
	2015	2014
	TDKK	TDKK
Proposed distribution of profit		
Reserve for net revaluation under the equity method	59.790	40.179
Retained earnings	-3.938	-746
	55.852	**39.433**

Balance Sheet 31 December

Assets

	Note	Group 2015 TDKK	Group 2014 TDKK	Parent 2015 TDKK	Parent 2014 TDKK
Land and buildings		139.572	153.601	0	0
Plant and machinery		49.283	56.328	0	0
Other fixtures and fittings, tools and equipment		4.544	5.865	0	0
Prepayments for property, plant and equipment		7.252	3.114	0	0
Property, plant and equipment	8	**200.651**	**218.908**	**0**	**0**
Investments in subsidiaries	9	0	0	116.834	57.043
Fixed asset investments		**0**	**0**	**116.834**	**57.043**
Fixed assets		**200.651**	**218.908**	**116.834**	**57.043**
Inventories	10	**207.231**	**300.921**	**0**	**0**
Trade receivables		186.898	190.864	0	0
Receivables from group enterprises		0	0	5.445	5.480
Other receivables		2.847	4.012	0	0
Deferred tax asset	11	49.508	35.700	0	0
Prepayments	12	5.627	3.982	0	0
Receivables		**244.880**	**234.558**	**5.445**	**5.480**
Cash at bank and in hand		**58.162**	**8.541**	**0**	**0**
Currents assets		**510.273**	**544.020**	**5.445**	**5.480**
Assets		**710.924**	**762.928**	**122.279**	**62.523**

Balance Sheet 31 December

Liabilities and equity

	Note	Group 2015 TDKK	Group 2014 TDKK	Parent 2015 TDKK	Parent 2014 TDKK
Share capital		80	80	80	80
Reserve for net revaluation under the equity method		0	0	99.970	40.179
Retained earnings		95.285	39.433	-4.685	-746
Equity	13	**95.365**	**39.513**	**95.365**	**39.513**
Other provisions		3.793	2.059	0	0
Provisions		**3.793**	**2.059**	**0**	**0**
Subordinate loan capital		5.400	5.400	5.400	5.400
Long-term debt	14	**5.400**	**5.400**	**5.400**	**5.400**
Mortgage loans		70.883	0	0	0
Credit institutions		153.047	172.193	0	0
Trade payables		154.270	166.540	0	0
Payables to group enterprises		3.486	2.545	4.947	4.264
Other payables		84.567	131.678	16.567	13.346
Deferred income	15	140.113	243.000	0	0
Short-term debt		**606.366**	**715.956**	**21.514**	**17.610**
Debt		**611.766**	**721.356**	**26.914**	**23.010**
Liabilities and equity		**710.924**	**762.928**	**122.279**	**62.523**

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Cash Flow Statement 1 January - 31 December

	Note	Group 2015	Group 2014
		TDKK	TDKK
Net profit/loss for the year		55.852	39.433
Adjustments	19	-54.242	-73.739
Change in working capital	20	38.487	5.168
Cash flows from operating activities before financial income and expenses		**40.097**	**-29.138**
Financial income		3.008	2.406
Financial expenses		-33.936	-18.426
Cash flows from ordinary activities		**9.169**	**-45.158**
Corporation tax paid		-187	1.199
Cash flows from operating activities		**8.982**	**-43.959**
Purchase of property, plant and equipment		-14.718	-11.440
Fixed asset investments made etc		0	-16.864
Sale of property, plant and equipment		644	3.187
Cash flows from investing activities		**-14.074**	**-25.117**
Repayment of mortgage loans		-7.835	0
Repayment of loans from credit institutions		-19.145	0
Changes to group enterprises		2.975	3.087
Raising of mortgage loans		78.718	0
Raising of loans from credit institutions		0	43.259
Cash flows from financing activities		**54.713**	**46.346**
Change in cash and cash equivalents		**49.621**	**-22.730**
Cash and cash equivalents at 1 January		8.541	31.271
Cash and cash equivalents at 31 December		**58.162**	**8.541**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		58.162	8.541
Cash and cash equivalents at 31 December		**58.162**	**8.541**

Notes to the Financial Statements

1 Capital resources and subsequent events

The main activity of the company is the investment in Tvilum ApS. In the annual report 2015 of Tvilum ApS is following listed:

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.

Notes to the Financial Statements

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.

	Group		Parent	
	2015	2014	2015	2014
	TDKK	TDKK	TDKK	TDKK
2 Revenue				
Geographical segments				
Revenue, Scandinavia	213.614	277.971	0	0
Revenue, Europe	832.618	947.048	0	0
Revenue, North- and South America	296.883	261.802	0	0
Revenue, Rest of world	63.527	62.055	0	0
	1.406.642	**1.548.876**	**0**	**0**

3 Staff expenses

Wages and salaries	303.618	337.172	0	0
Pensions	22.751	25.462	0	0
Other social security expenses	10.746	10.182	0	0
Other staff expenses	265	1.661	0	0
	337.380	**374.477**	**0**	**0**
Transfer to expenses for raw materials and consumables	-174.289	-207.897	0	0
	163.091	**166.580**	**0**	**0**
Average number of employees	**875**	**1.014**	**0**	**0**

Notes to the Financial Statements

	Group		Parent	
	2015	2014	2015	2014
	TDKK	TDKK	TDKK	TDKK

4 Depreciation, amortisation and impairment of negative goodwill and property, plant and equipment

	2015	2014	2015	2014
Depreciation of property, plant and equipment	32.005	35.775	0	0
Gain and loss on disposal	328	-1	0	0
	32.333	**35.774**	**0**	**0**

5 Financial income

	2015	2014	2015	2014
Interest received from group enterprises	0	0	2	0
Other financial income	3.007	2.407	0	0
	3.007	**2.407**	**2**	**0**

6 Financial expenses

	2015	2014	2015	2014
Other financial expenses	31.208	16.627	3.865	746
Exchange adjustments, expenses	2.737	1.849	0	0
	33.945	**18.476**	**3.865**	**746**

7 Tax on profit/loss for the year

	2015	2014	2015	2014
Current tax for the year	0	0	0	0
Deferred tax for the year	-13.822	-20.614	0	0
	-13.822	**-20.614**	**0**	**0**

Notes to the Financial Statements

8 Property, plant and equipment

Group

	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	499.438	731.832	99.640	3.114	1.334.024
Additions for the year	1.673	14	788	12.239	14.714
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	502.908	713.658	96.745	7.252	1.320.563
Impairment losses and depreciation at 1 January	345.837	675.504	93.777	0	1.115.118
Depreciation for the year	17.499	11.736	2.770	0	32.005
Impairment and depreciation of sold assets for the year	0	-22.865	-4.346	0	-27.211
Impairment losses and depreciation at 31 December	363.336	664.375	92.201	0	1.119.912
Carrying amount at 31 December	**139.572**	**49.283**	**4.544**	**7.252**	**200.651**

Notes to the Financial Statements

	Parent	
	2015	2014
	TDKK	TDKK

9 Investments in subsidiaries

	2015 TDKK	2014 TDKK
Cost at 1 January	16.864	0
Additions for the year	0	16.864
Cost at 31 December	16.864	16.864
Value adjustments at 1 January	40.179	0
Exchange adjustment	0	0
Net profit/loss for the year	-44.203	-64.491
Amortisation of negative goodwill	103.994	104.670
Value adjustments at 31 December	99.970	40.179
Carrying amount at 31 December	**116.834**	**57.043**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
RCG Tvilum ApS	Fårvang, Denmark	503	100%
D-Scan Inc.	South Boston, USA	245	100%

Negative goodwill of the company is capitalized over 3 years. At 31 December 2015 negative goodwill amounts to DKK 140 mill.

Notes to the Financial Statements

	Group		Parent	
	2015	2014	2015	2014
	TDKK	TDKK	TDKK	TDKK
10 Inventories				
Raw materials and consumables	54.339	78.855	0	0
Work in progress	16.618	20.972	0	0
Finished goods and goods for resale	136.274	201.094	0	0
	207.231	**300.921**	**0**	**0**

11 Provision for deferred tax

Provisions for deferred tax at 1 January	-35.700	-16.257	0	0
Additions for the year	-13.808	-19.443	0	0
Transferred to deferred tax asset	49.508	35.700	0	0
	0	**0**	**0**	**0**

Deferred tax has been provided at 22% corresponding to the current tax rate.

Deferred tax asset

Calculated tax asset	49.508	35.700	0	0
Carrying amount	**49.508**	**35.700**	**0**	**0**

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

12 Prepayments

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

Notes to the Financial Statements

13 Equity

Group

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	80	0	39.433	39.513
Net profit/loss for the year	0	0	55.852	55.852
Equity at 31 December	**80**	**0**	**95.285**	**95.365**

Parent Company

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
Equity at 1 January	80	40.180	-747	39.513
Net profit/loss for the year	0	59.790	-3.938	55.852
Equity at 31 December	**80**	**99.970**	**-4.685**	**95.365**

The share capital consists of 80 shares of a nominal value of TDKK 1. No shares carry any special rights.

There have been no changes in the share capital during the last 2 years.

14 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:

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

Notes to the Financial Statements

15 Deferred income

Deferred income consists negative goodwill of the company which is capitalized over 3 years. At 31 December 2015 negative goodwill amounts to DKK 140 mill.

16 Contingent assets, liabilities and other financial obligations

	Group		Parent	
	2015	2014	2015	2014
	TDKK	TDKK	TDKK	TDKK
Rental agreements and leases				
Lease obligations under operating leases. Total future lease payments:				
Within 1 year	4.545	6.838	0	0
Between 1 and 5 years	7.342	4.559	0	0
After 5 years	1.204	0	0	0
	13.091	**11.397**	**0**	**0**
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	139.572	153.601	0	0
The following assets have been placed as security with Midt Factoring: Trade receivables with a carrying amount of	186.898	190.864	0	0

Contingent liabilities

The Danish 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 by the Group amounts to TDKK 0. Moreover, the Danish 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

	Group		Parent	
	2015	2014	2015	2014
	TDKK	TDKK	TDKK	TDKK
17 Fee to auditors appointed at the general meeting				
Audit fee to PricewaterhouseCoopers	463	500	10	15
Tax advisory services	144	100	0	0
Other services	149	170	5	23
	756	**770**	**15**	**38**

18 Related parties and ownership

	Basis
Controlling interest	
RCG Europe Holdings LLC	Majority shareholder

Transactions

All transctions have been affected at arm's length.

All transctions 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 Holdings LLC
2285 Sherwood Rd.
San Marino, CA 91108
USA

Notes to the Financial Statements

19 Cash flow statement - adjustments

	Group 2015 TDKK	Group 2014 TDKK
Financial income	-3.007	-2.407
Financial expenses	33.945	18.476
Depreciation, amortisation and impairment losses, including losses and gains on sales	32.333	35.774
Income from investments in subsidiaries	-13	0
Tax on profit/loss for the year	-13.822	-20.614
Other adjustments	-103.678	-104.968
	-54.242	**-73.739**

20 Cash flow statement - change in working capital

	Group 2015 TDKK	Group 2014 TDKK
Change in inventories	93.690	-4.596
Change in receivables	-3.845	689
Change in other provisions	1.734	2.058
Change in trade payables, etc	-53.092	7.017
	38.487	**5.168**

Accounting Policies

Basis of Preparation

The Annual Report of RCG Europe 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 .

Consolidated and Parent Company 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 RCG Europe ApS and the internal reporting and framework.

Net income and equity in previous years remains unchanged.

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.

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, RCG Europe ApS, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and

Accounting Policies

losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Business combinations

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences 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 rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

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

Revenue

Information on business segments and geographical segments based on the Group´s risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

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 Group.

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 enterprice.

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 expenses for raw materials and consumables.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment 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.

Assets costing less than DKK 25,000 are expensed in the year of acquisition.

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

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

The item"Investments in subsidiaries" 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 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 the subsidiaries.

Subsidiaries 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.

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 of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

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 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 or in equity if the deferred tax relates to items recognised in equity.

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 ,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 Group´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 Group´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.

Cash flows from financing activities

Accounting Policies

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	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$
Operatin profit margin	$\frac{\text{Operating profit x 100}}{\text{Revenue}}$