RCG Europe ApS

Egon Kristiansens Allé 2, DK-8882 Fårvang

Annual Report for 1 January - 31 December 2016

CVR No 25 52 27 61

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 27/03 2017

Andrew Robert Long
Chairman

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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 2016.

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

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

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Fårvang, 27 March 2017

Executive Board

Cyrus Keavan Nikou	Robert Loring Jr.	Aman Bajaj

Independent Auditor's Report

To the Shareholder of RCG Europe ApS

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 2016 and of the results of the Company and the Group operations and of consolidated cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

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

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

Statement on Management's Review
Management is responsible for Management's Review.

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

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

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

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

Management's Responsibilities for the Financial Statements

Independent Auditor's Report

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 that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

Odense, 27 March 2017
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 Keavan Nikou Robert Loring Jr. Aman Bajaj
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Rytterkasernen 21 Postboks 370 DK-5100 Odense C

Financial Highlights

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

	Group		
	2016	2015	2014
	Mio. DKK	Mio. DKK	Mio. DKK
Key figures			
Profit/loss			
Revenue	1.269	1.407	1.549
Operating profit/loss (EBITDA)	126	105	71
Profit/loss before financial income and expenses	107	73	35
Net financials	-18	-31	-16
Net profit/loss for the year	92	56	39
Balance sheet			
Balance sheet total	647	721	763
Equity	188	95	40
Cash flows			
Cash flows from:			
- operating activities	23	9	-44
- investing activities	-38	-14	-25
including investment in property, plant and equipment	-47	-15	-11
- financing activities	-20	55	46
Change in cash and cash equivalents for the year	-34	50	-23
Number of employees	673	875	1.014
Ratios			
Gross margin	21,7%	19,0%	15,3%
Profit margin	8,4%	5,2%	2,3%
Return on assets	16,5%	10,1%	4,6%
Solvency ratio	29,1%	13,2%	5,2%
Return on equity	65,0%	83,0%	20,1%
Operating Profit margin	9,9%	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 2014 have not been restated. See the description under accounting policies.

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.

The main activity of Tvilum ApS is development, production and sales of furniture based on chipboard or MDF, which is covered with foil, melamine or veneer. All furniture is sold as flat-packed ready to assemble furniture. The furniture is sold in more than 80 countries with Scandinavia, other countries in Europe, Australia, Asia, the Middle East, North and South America as the most important markets.

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

Development in the year

Parent

The income statement of the Company for 2016 shows a profit of DKK 92 million, and at 31 December 2016 the balance sheet of the Company shows equity of DKK 188 million. The Net profit of DKK 92 million is affected by amortisation of negative goodwill of DKK 104 million.

Investments in subsidiaries are recognized with a carrying amount of DKK 210 mill. on 31 December 2016.

In connection to this a negative goodwill of DKK 36 mill, is assigned to the investment in subsidiaries, due to a difference between purchase price and equity value on 31 December 2016.

Group

EBITDA amounts to DKK 126 mill. in 2016 which is an improvement of DKK 21 mill. compared to 2015 and an improvement of DKK 55 mill. compared to 2014.

EBIT amounts to DKK 107 mill. in 2016 which is an improvement of DKK 34 mill. compared to 2015 and an improvement of DKK 72 mill. compared to 2014.

Net profit/loss amounts to DKK 92 mill. in 2016 which is an improvement of DKK 36 million compared to 2015 and an improvement of DKK 53 mill. compared to 2014.

The RTA furniture market has remained highly competitive in 2016 resulting in a continued pressure on prices. However, the company sees an increased demand for its product ranges in Europe and several emerging markets globally, thus the company has succeeded in improving its contribution margin through new products sold to both existing and new customers.

Management's Review

The company has seen slightly decreasing prices on its main raw materials in 2016 which among other things is due to increasing availability of main raw materials in the market, hence an incipient decline in purchase prices.

Rationalization savings: The company has achieved significant savings in production, selling & Administration expenses through cost saving initiatives and process optimizations. Savings initiatives implemented during 2016 will also bring further savings in 2017 due to the carry over impact. The rationalization savings have among other things been achieved by a consolidation of the company's production facilities in Denmark where one production facility has been closed down in 2016. The consolidation of factories does not influence production capacity.

Profit improvement initiatives: In January 2016 the company announced the establishment of a new production facility in Poland. The production facility officially opened in September 2016 and the international expansion of manufacturing capabilities has contributed to increasing the company's competitive position in the market.

It has brought a more regionalized manufacturing approach and the company's competitive position has been improved by being both closer to raw materials and closer to market. This has already brought new business to the company and supports the offensive sales growth strategy by bringing the company closer to the emerging markets globally.

In 2016 the company has opened a new sales office in Japan and expanded the sales offices in both Latin America and North America to support the growth on both existing and new markets.

Income Statement

Revenue on Group level has decreased from DKK 1,407 mill. in 2015 to DKK 1,269 mill. in 2016, corresponding to a decrease of 9.8%. Revenue for Tvilum ApS has decreased from DKK 1,407 mill. in 2015 to DKK 1,250 mill. in 2016.

The development can be explained by a deliberate discontinuation of low margin business with two large clients. Setting aside these two clients, then the revenue has grown by more than 5% from 2015 to 2016 and at the same time this has led to an increase in the company's gross profit margin from 11.4% in 2015 to 13.1% in 2016.

Expenses for raw materials have on group level decreased from DKK 1,091 mill. in 2015 to DKK 977 mill. in 2016, corresponding to a decrease of 10.5% driven by the decrease in sales. The reduction in expenses for raw materials and consumables is higher than the decrease in sale, hence the decrease is on business with low gross margins.

Other external expenses have decreased from DKK 152 mill. in 2015 to DKK 127 mill. in 2016,

Management's Review

corresponding to a saving of DKK 11 mill. or 16.4%.

Tvilum ApS:

Gross profit has increased from DKK 158 mill. in 2015 to DKK 167 mill. in 2016. The gross profit margin has increased from 11.4% in 2015 to 13.1% in 2016, hence an improvement in profitability.

EBITDA has improved from DKK 0 mill. in 2015 to DKK +22 mill. in 2016 corresponding to an improvement of DKK 22 mill. The result is impacted by DKK 6 mill. from gain on sale of a building.

EBIT has improved from DKK -31 mill. in 2015 to DKK +4 in 2016 corresponding to an improvement of DKK 35 mill.

Net profit/loss has improved from DKK -45 mill. in 2015 to DKK -11 mill. in 2016 corresponding to an improvement of DKK 34 mill.

The management considers the EBITDA and EBIT levels of the company in 2016 satisfactory, and emphasizes the significant improvement compared to previous years. Further, the management notes that profit improvement initiatives implemented in 2016; such as establishing production facility in Poland and the continued global expansion of sales offices will bring further improvements to the 2017 results.

The management acknowledges that the 2016 EBITDA is below budget. However, the primary reason why the 2016 EBITDA is below budget is BREXIT as this has had a significant negative impact on the part of the company's revenue that was recognized in GBP (British pound sterling). The management emphasizes that despite EBITDA being lower than budget, the 2016 EBIT is exceeding the 2016 budget expectations.

The Board of Directors recommends that the company does not pay out dividend in 2016.

Balance Sheet

Balance Sheet of the Group has been reduced from DKK 721 mill. in 2015 to DKK 647 mill. in 2016. This is a total decrease of DKK 74 mill. driven by a reduction in Inventory and Trade receivables somewhat offset by higher Plant and machinery due to the new production facility in Poland.

The Equity of the Group remains solid and amounts to DKK 188 mill. corresponding to 29.1% of the total balance.

Management's Review

Cash Flow Statement

In 2016 the Group has generated a positive cash flow from operating activities of DKK 23 mill. compared to DKK 9 mill. in 2015. The positive development from 2015 to 2016 is driven by the improved EBITDA and the reduction in financial expenses.

Cash flows from investing activities amount to DKK -38 mill. compared to DKK -14 mill. in 2015. After investments the Group generated cash flows of DKK -15 mill. in 2016 compared to DKK -5 mill. in 2015.

The development in cash flows from investment activities is driven by the establishing the new production facility in Poland

Cash flow from finance activities of DKK -20 mill. is driven by repayment to credit institutions somewhat offset by a new bank loan obtained in Poland.

In 2016 the change in cash and cash equivalents totals DKK -34 mill.

Targets and expectations for 2017

The Group expects the positive development in Operating profit to continue in in 2017. Expectations for 2017 are stated below:

Budget/DKK mill.	2017
Revenue	1,277
Operating profit	36

The positive development in operating profit (EBITDA) in 2017 will be driven by a continued profitable growth in revenue on emerging markets globally, and a lowering of production expenses through the production facilities in Poland. Both elements will result in an improved gross profit margin.

Operating profit will also improve through savings in selling and administration expenses from savings initiatives already implemented during 2016.

These activities have demonstrated their effects as the Group has achieved positive earnings in the first months of 2017 and is exceeding targets on both gross profit margin and expenses. The positive developments are expected to continue throughout 2017 and in years to come.

The production facility in Poland will bring further improvement to Operating profit in especially 2017 and 2018 through lower production costs and increased competitiveness.

Management's Review

Special risks - operating risks and financial risks

Supply risk

The Group uses several suppliers on significant raw materials to ensure supplies independent of 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 this currency. Besides from this the company uses GBP and USD.

Part of the Group's revenue is recognized in GBP, from where it experiences a currency risk due to the uncertainty created by BREXIT. The company has implemented price increases to compensate the negative development in GBP seen in 2016. However, the company still considers some risk to be related to revenue recognized in GBP.

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

Interest rate risks

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

Credit risks

No single customer represents a significant risk to the Group. Credit insurance is assessed on each customer by credit insurance companies. The majority of the Groups significant customers are on this assessment credit insured at 31 December 2016.

Research and development

The company is developing and designing furniture based on chipboard or MDF, which is covered with foil, melamine or veneer. All developed furniture is sold as flat-packed ready to assemble furniture.

The cost directly allocated to the development process is capitalized as intangible assets.

Statement of corporate social responsibility

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

RCG Europes 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.

Management's Review

As the statutory statement on social responsibility the company refers to Tvilum's annual Communication on Progress (COP) from May 2016. The report is renewed annually and is available at https://www.unglobalcompact.org/system/attachments/cop_2016/282021/original/2016_Tvilum_COP_r1.pdf?1462367331.

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 Group is working on complying with provisions of the law for the underrepresented gender in the supreme management body and on 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.

The target of the Group 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 RCG Europe

The management of the Group consists of both men and women. The policy of the Group 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 on 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

The Group has evaluated events up to the filing date of the annual report and determined that no subsequent event activity required disclosure.

Income Statement 1 January - 31 December

	Note	Group 2016	Group 2015	Parent 2016	Parent 2015
		TDKK	TDKK	TDKK	TDKK
Revenue	2	**1.269.386**	**1.406.642**	**0**	**0**
Other operating income		110.185	103.994	0	0
Expenses for raw materials and consumables		-977.050	-1.090.086	0	0
Other external expenses		-127.101	-152.171	-1.178	-75
Gross profit/loss		**275.420**	**268.379**	**-1.178**	**-75**
Staff expenses	3	-149.373	-163.091	0	0
Operating profit/loss (EBITDA)		**126.047**	**105.288**	**-1.178**	**-75**
Depreciation, amortisation and impairment of negative goodwill and property, plant and equipment	4	-18.768	-32.005	0	0
Other operating expenses		0	-328	0	0
Profit/loss before financial income and expenses		**107.279**	**72.955**	**-1.178**	**-75**
Income from investments in subsidiaries		0	0	93.457	59.790
Financial income	5	2.491	3.055	0	2
Financial expenses	6	-20.835	-33.980	-622	-3.865
Profit/loss before tax		**88.935**	**42.030**	**91.657**	**55.852**
Tax on profit/loss for the year	7	3.314	13.822	592	0
Net profit/loss for the year		**92.249**	**55.852**	**92.249**	**55.852**

Distribution of profit

Proposed distribution of profit

	Parent 2016	Parent 2015
Reserve for net revaluation under the equity method	93.457	59.790
Retained earnings	-1.208	-3.938
	92.249	**55.852**

Balance Sheet 31 December

Assets

	Note	Group 2016 TDKK	Group 2015 TDKK	Parent 2016 TDKK	Parent 2015 TDKK
Completed development projects		3.445	0	0	0
Development projects in progress		1.390	0	0	0
Intangible assets	8	**4.835**	**0**	**0**	**0**
Land and buildings		128.593	139.572	0	0
Plant and machinery		64.567	49.283	0	0
Other fixtures and fittings, tools and equipment		5.418	4.544	0	0
Property, plant and equipment in progress		22.223	7.252	0	0
Property, plant and equipment	9	**220.801**	**200.651**	**0**	**0**
Investments in subsidiaries	10	0	0	210.291	116.834
Fixed asset investments		**0**	**0**	**210.291**	**116.834**
Fixed assets		**225.636**	**200.651**	**210.291**	**116.834**
Inventories	11	**176.138**	**207.231**	**0**	**0**
Trade receivables		159.217	197.352	0	0
Receivables from group enterprises		0	0	4.839	5.445
Other receivables		6.539	2.847	0	0
Deferred tax asset	12	50.811	49.508	0	0
Prepayments	13	3.881	5.627	0	0
Receivables		**220.448**	**255.334**	**4.839**	**5.445**
Cash at bank and in hand		**24.309**	**58.162**	**0**	**0**
Currents assets		**420.895**	**520.727**	**4.839**	**5.445**
Assets		**646.531**	**721.378**	**215.130**	**122.279**

Balance Sheet 31 December

Liabilities and equity

	Note	Group 2016	Group 2015	Parent 2016	Parent 2015
		TDKK	TDKK	TDKK	TDKK
Share capital		80	80	80	80
Reserve for net revaluation under the equity method		0	0	193.427	99.970
Reserve for development costs		4.835	0	0	0
Retained earnings		182.699	95.285	-5.893	-4.685
Equity	14	**187.614**	**95.365**	**187.614**	**95.365**
Other provisions	15	3.316	3.793	0	0
Provisions		**3.316**	**3.793**	**0**	**0**
Subordinate loan capital		5.400	5.400	5.400	5.400
Credit institutions		56.080	0	0	0
Long-term debt	16	**61.480**	**5.400**	**5.400**	**5.400**
Credit institutions	16	148.971	223.930	0	0
Trade payables		123.563	154.270	0	0
Payables to group enterprises		3.006	3.486	5.028	4.947
Other payables		82.462	95.021	17.088	16.567
Deferred income	17	36.119	140.113	0	0
Short-term debt		**394.121**	**616.820**	**22.116**	**21.514**
Debt		**455.601**	**622.220**	**27.516**	**26.914**
Liabilities and equity		**646.531**	**721.378**	**215.130**	**122.279**

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Statement of Changes in Equity

Group

	Share capital	Reserve for net revaluation under the equity method	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	80	0	0	95.285	95.365
Development costs for the year	0	0	5.308	-5.308	0
Depreciation, amortisation and impairment for the year	0	0	-473	473	0
Net profit/loss for the year	0	0	0	92.249	92.249
Equity at 31 December	**80**	**0**	**4.835**	**182.699**	**187.614**

Parent

	Share capital	Reserve for net revaluation under the equity method	Reserve for development costs	Retained earnings	Total
Equity at 1 January	80	99.970	0	-4.685	95.365
Net profit/loss for the year	0	93.457	0	-1.208	92.249
Equity at 31 December	**80**	**193.427**	**0**	**-5.893**	**187.614**

Cash Flow Statement 1 January - 31 December

	Note	Group 2016	Group 2015
		TDKK	TDKK
Net profit/loss for the year		92.249	55.852
Adjustments	18	-76.219	-54.244
Change in working capital	19	23.542	38.487
Cash flows from operating activities before financial income and expenses		**39.572**	**40.095**
Financial income		2.492	3.056
Financial expenses		-20.833	-33.975
Cash flows from ordinary activities		**21.231**	**9.176**
Corporation tax paid		2.011	-184
Cash flows from operating activities		**23.242**	**8.992**
Purchase of intangible assets		-5.307	0
Purchase of property, plant and equipment		-46.675	-14.718
Sale of property, plant and equipment		14.418	644
Cash flows from investing activities		**-37.564**	**-14.074**
Repayment of loans from credit institutions		-27.958	-26.980
Changes to group enterprises		-650	2.965
Raising of loans from credit institutions		9.077	78.718
Cash flows from financing activities		**-19.531**	**54.703**
Change in cash and cash equivalents		**-33.853**	**49.621**
Cash and cash equivalents at 1 January		58.162	8.541
Cash and cash equivalents at 31 December		**24.309**	**58.162**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		24.309	58.162
Cash and cash equivalents at 31 December		**24.309**	**58.162**

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 2016 of Tvilum ApS is following listed:

The annual report of 2016 is prepared under the assumption of going concern.

The financing agreement with Midt Factoring A/S is provided against security in trade receivables.

The secured loan agreement with Gordon Brothers Finance Company is provided against security in the company´s inventory, machinery & equipment and land & building. The secured loan agreement expires in June 2018 but it contains a possibility to negotiate an extension beyond this date. During the loan period, the company is prohibited from distributing dividend or pay management fee to the shareholders.

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 loan immediately.

The financial covenants are determined based on the company´s 2017 budget although the financial covenants do not require a full achievement of the 2017 earnings expectations.

The Budget 2017 is prepared on basis of several assumptions of positive developments, where improved earnings are main targets.

These activities have demonstrated their effects as the company in the first months of 2017 has exceeded targets on both gross profit margin and expenses. The positive developments are expected to continue throughout 2017 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

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK
2 Revenue				
Geographical segments				
Revenue, Scandinavia	188.214	213.614	0	0
Revenue, Europe	780.573	805.857	0	0
Revenue, North- and South America	251.063	296.883	0	0
Revenue, Rest of world	49.536	90.288	0	0
	1.269.386	**1.406.642**	**0**	**0**

3 Staff expenses				
Wages and salaries	277.364	303.618	0	0
Pensions	19.833	22.751	0	0
Other social security expenses	8.338	10.746	0	0
Other staff expenses	980	265	0	0
	306.515	**337.380**	**0**	**0**
Transfer to production wages	-157.142	-174.289	0	0
	149.373	**163.091**	**0**	**0**
Including remuneration to the Executive Board and Board of Directors	**6.348**	**5.729**	**0**	**0**
Average number of employees	**673**	**875**	**0**	**0**

The Executive Board have consisted of 3 persons in 2016.

Notes to the Financial Statements

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK
4 Depreciation, amortisation and impairment of negative goodwill and property, plant and equipment				
Amortisation of negative goodwill	473	0	0	0
Depreciation of property, plant and equipment	18.295	32.005	0	0
	18.768	**32.005**	**0**	**0**
5 Financial income				
Interest received from group enterprises	0	0	0	2
Other financial income	2.491	3.055	0	0
	2.491	**3.055**	**0**	**2**
6 Financial expenses				
Interest paid to group enterprises	0	0	2	0
Other financial expenses	20.394	31.243	620	3.865
Exchange adjustments, expenses	441	2.737	0	0
	20.835	**33.980**	**622**	**3.865**
7 Tax on profit/loss for the year				
Current tax for the year	491	187	0	0
Deferred tax for the year	-809	-14.009	0	0
Adjustment of tax concerning previous years	-687	0	-592	0
Adjustment of deferred tax concerning previous years	-2.309	0	0	0
	-3.314	**-13.822**	**-592**	**0**

Notes to the Financial Statements

8 Intangible assets

Group

	Completed development projects	Development projects in progress
	TDKK	TDKK
Cost at 1 January	0	0
Additions for the year	0	5.308
Transfers for the year	3.918	-3.918
Cost at 31 December	3.918	1.390
Impairment losses and amortisation at 1 January	0	0
Amortisation for the year	473	0
Impairment losses and amortisation at 31 December	473	0
Carrying amount at 31 December	**3.445**	**1.390**

The company is developing and designing furniture based on chipboard or MDF, which is covered with foil, melamine or veneer. All developed furniture is sold as ready to assemble furniture in flat-pack.

Notes to the Financial Statements

9 Property, plant and equipment

Group

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	509.712	715.143	98.815	7.252	1.330.922
Additions for the year	3.481	25.875	3.251	14.971	47.578
Disposals for the year	-51.072	-93.484	-7.972	0	-152.528
Cost at 31 December	462.121	647.534	94.094	22.223	1.225.972
Impairment losses and depreciation at 1 January	370.495	666.181	94.102	0	1.130.778
Depreciation for the year	7.351	8.400	2.546	0	18.297
Reversal of impairment and depreciation of sold assets	-44.318	-91.614	-7.972	0	-143.904
Impairment losses and depreciation at 31 December	333.528	582.967	88.676	0	1.005.171
Carrying amount at 31 December	**128.593**	**64.567**	**5.418**	**22.223**	**220.801**

Notes to the Financial Statements

	Parent	
	2016	2015
	TDKK	TDKK
10 Investments in subsidiaries		
Cost at 1 January	16.864	16.864
Cost at 31 December	16.864	16.864
Value adjustments at 1 January	99.970	40.179
Net profit/loss for the year	-10.537	-44.203
Amortisation of goodwill	103.994	103.994
Value adjustments at 31 December	193.427	99.970
Carrying amount at 31 December	**210.291**	**116.834**

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%

All foreign subsidiaries are recognised and measured as separate entities.

Notes to the Financial Statements

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK

11 Inventories

Raw materials and consumables	39.923	54.339	0	0
Work in progress	17.489	16.618	0	0
Finished goods and goods for resale	118.726	136.274	0	0
	176.138	**207.231**	**0**	**0**

12 Provision for deferred tax

Provisions for deferred tax at 1 January	-49.508	-35.700	0	0
Additions for the year	-1.303	-13.808	0	0
Transferred to deferred tax asset	50.811	49.508	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	50.811	49.508	0	0
Carrying amount	**50.811**	**49.508**	**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.

Notes to the Financial Statements

13 Prepayments

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

14 Equity

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 3 years.

15 Other provisions

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK
Other provisions	3.316	3.793	0	0
	3.316	**3.793**	**0**	**0**

Notes to the Financial Statements

16 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	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK
Subordinate loan capital				
After 5 years	10.800	5.400	5.400	5.400
Between 1 and 5 years	-5.400	0	0	0
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**
Credit institutions				
Between 1 and 5 years	56.080	0	0	0
Long-term part	56.080	0	0	0
Within 1 year	9.495	70.883	0	0
Other short-term debt to credit institutions	139.476	153.047	0	0
Short-term part	148.971	223.930	0	0
	205.051	**223.930**	**0**	**0**

Notes to the Financial Statements

17 Deferred income

Deferred income consists negative goodwill of the company which is capitalized over 3 years. At 31 December 2016 negative goodwill amounts to DKK 36 mill.

18 Cash flow statement - adjustments

	Group	
	2016	2015
	TDKK	TDKK
Financial income	-2.491	-3.055
Financial expenses	20.835	33.980
Depreciation, amortisation and impairment losses, including losses and gains on sales	12.578	32.333
Tax on profit/loss for the year	-3.314	-13.822
Other adjustments	-103.827	-103.680
	-76.219	**-54.244**

19 Cash flow statement - change in working capital

	2016	2015
Change in inventories	31.095	93.690
Change in receivables	36.192	-16.809
Change in other provisions	-477	1.734
Change in trade payables, etc	-43.268	-40.128
	23.542	**38.487**

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK

20 Contingent assets, liabilities and other financial obligations

Charges and security

The following assets have been placed as security with mortgage credit institutes:

Land, buildings, plant, machinery and inventory with a carrying amount of	257.280	294.082	0	0

The following assets have been placed as security with Midt Factoring:

Trade receivables with a carrying amount of	158.604	197.315	0	0

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:				
Within 1 year	6.675	4.545	0	0
Between 1 and 5 years	15.338	7.342	0	0
After 5 years	2.964	1.204	0	0
	24.977	**13.091**	**0**	**0**

Other 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 by the Group amounts to TDKK 0. 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

21 Related parties

	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.

Apart from the above, there have been no transactions with the Supervisory Board, the Executive Board, senior officers, significant shareholders, group enterprises or other related parties, except for intercompany transactions and normal management remuneration.

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

22 Fee to auditors appointed at the general meeting

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK
Audit fee to PricewaterhouseCoopers	448	463	15	10
Tax advisory services	517	144	0	0
Other services	201	149	0	5
	1.166	**756**	**15**	**15**

Notes, Accounting Policies

Basis of Preparation

The Annual Report of RCG Europe ApS for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

Consolidated and Parent Company Financial Statements for 2016 are presented in TDKK.

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 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.

Notes, Accounting Policies

Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate 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 Group.

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

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

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 geo gra phi cal seg ments 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.

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.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Group, 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

Notes, Accounting Policies

joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

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

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

Notes, Accounting Policies

at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

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.

Notes, Accounting Policies

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

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.

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.

Notes, Accounting Policies

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

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	$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$

Notes, Accounting Policies

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	$\frac{\text{Operating Profit/Loss x 100}}{\text{Revenue}}$