
RCG Tvilum ApS

Egon Kristiansens Allè 2, DK-8882 Fårvang

Annual Report for 1 January - 31 December 2015

CVR No 25 72 75 76

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

Andrew Robert Long
Chairman



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Management's Statement

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

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2015 of the Company and of the results of the Company operations for 2015.

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

Fårvang, 6 April 2016

Executive Board


Robert Loring Jr.


Cyrus Nikou

Independent Auditor's Report on the Financial Statements

To the Shareholder of RCG Tvilum ApS

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

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

Our audit has not resulted in any qualification.

Opinion

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

Independent Auditor's Report on the Financial Statements

Statement on Management's Review

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

Odense, 6 April 2016

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31



Michael Nielsson

State Authorized Public Accountant



Mette Holy Jørgensen

State Authorized Public Accountant

Company Information

The Company

RCG Tvilum ApS
Egon Kristiansens Allè 2
DK-8882 Fårvang

CVR No: 25 72 75 76

Financial period: 1 January - 31 December

Municipality of reg. office: Silkeborg

Executive Board

Robert Loring Jr.
Cyrus Nikou

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Rytterkasernen 21
Postboks 370
DK-5100 Odense C

Financial Highlights

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

	2015	2014	2013	2012	2011
	Mio. DKK	Mio. DKK	Mio. DKK	Mio. DKK	Mio. DKK
Key figures					
Profit/loss					
Net financials	-44	-64	-52	-513	-913
Net profit/loss for the year	-44	-64	-59	-533	-971
Balance sheet					
Balance sheet total	240	285	350	573	1.115
Equity	240	285	349	166	299

In connection with changes to accounting policies, the comparative figures back to 2011 have been restated. See the description under accounting policies.

Management's Review

Main activity

The main activity of the company is to possess investments in subsidiaries. The company owns shares in Tvilum ApS and Tvilum RU LLC.

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.

The main activity of Tvilum RU LLC is sales of furniture.

Development in the year

The income statement of the Company for 2015 shows a loss of TDKK 44.497, and at 31 December 2015 the balance sheet of the Company shows equity of TDKK 239.736.

Investments in subsidiaries have a carrying amount of DKK 240 mill. in 2015 towards DKK 285 mill. in 2014. Value of Tvilum ApS amounts almost to the complete carrying amount.

Targets and expectations for the year ahead

The company expects an improved income from investments in subsidiaries, which also will improve profit/loss in RCG Tvilum ApS.

Subsequent events

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

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

Income Statement 1 January - 31 December

	Note	2015 TDKK	2014 TDKK
Other external expenses		-15	0
Gross profit/loss		-15	0
Income from investments in subsidiaries	2	-44.805	-63.891
Financial income	3	418	1
Profit/loss before tax		-44.402	-63.890
Tax on profit/loss for the year	4	-95	0
Net profit/loss for the year		-44.497	-63.890

Distribution of profit

Proposed distribution of profit

Retained earnings		-44.497	-63.890
		-44.497	-63.890

Balance Sheet 31 December

Assets

	<u>Note</u>	<u>2015</u> TDKK	<u>2014</u> TDKK
Investments in subsidiaries	5	239.603	284.857
Fixed asset investments		239.603	284.857
Fixed assets		239.603	284.857
Receivables from group enterprises		238	239
Receivables		238	239
Currents assets		238	239
Assets		239.841	285.096

Balance Sheet 31 December

Liabilities and equity

	<u>Note</u>	<u>2015</u> TDKK	<u>2014</u> TDKK
Share capital		503	503
Retained earnings		<u>239.233</u>	<u>284.178</u>
Equity	6	<u>239.736</u>	<u>284.681</u>
Corporation tax		95	0
Other payables		<u>10</u>	<u>415</u>
Short-term debt		<u>105</u>	<u>415</u>
Debt		<u>105</u>	<u>415</u>
Liabilities and equity		<u>239.841</u>	<u>285.096</u>
Capital resources and subsequent events	1		
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Related parties and ownership	8		

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.

	<u>2015</u> TDKK	<u>2014</u> TDKK
2 Income from investments in subsidiaries		
Share of losses of subsidiaries	-44.805	-63.891
	<u>-44.805</u>	<u>-63.891</u>
3 Financial income		
Interest received from group enterprises	9	1
Other financial income	409	0
	<u>418</u>	<u>1</u>
4 Tax on profit/loss for the year		
Current tax for the year	95	0
	<u>95</u>	<u>0</u>

Notes to the Financial Statements

	<u>2015</u> TDKK	<u>2014</u> TDKK
5 Investments in subsidiaries		
Cost at 1 January	2.841.969	2.841.969
Cost at 31 December	<u>2.841.969</u>	<u>2.841.969</u>
Value adjustments at 1 January	-2.557.112	-2.492.701
Exchange adjustment	-449	-520
Net profit/loss for the year	<u>-44.805</u>	<u>-63.891</u>
Value adjustments at 31 December	<u>-2.602.366</u>	<u>-2.557.112</u>
Carrying amount at 31 December	<u>239.603</u>	<u>284.857</u>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Tvilum ApS	Fåvang, Denmark	97,926	100%

Notes to the Financial Statements

6 Equity

	Share capital TDKK	Retained earnings TDKK	Total TDKK
2015			
Equity at 1 January	503	284.178	284.681
Exchange adjustments	0	-448	-448
Net profit/loss for the year	0	-44.497	-44.497
Equity at 31 December	503	239.233	239.736
2014			
Equity 1. januar	503	348.588	349.091
Exchange adjustments	0	-520	-520
Net profit/loss for the year	0	-63.890	-63.890
Equity at 31 December	503	284.178	284.681

The share capital consists of 503 shares of a nominal value of TDKK 1. No shares carry any special rights.

The share capital has developed as follows:

	2015 TDKK	2014 TDKK	2013 TDKK	2012 TDKK	2011 TDKK
Share capital at 1 January	503	503	502	501	500
Capital increase	0	0	1	1	1
Capital decrease	0	0	0	0	0
Share capital at 31 December	503	503	503	502	501

Notes to the Financial Statements

7 Contingent assets, liabilities and other financial obligations

Contingent liabilities

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

There are no security at 31 December 2015.

8 Related parties and ownership

Basis

Controlling interest

RCG Europe ApS

Majority shareholder

Ultimate ownership:

RCG Europe Holdings LLC

2285 Sherwood Rd.

San Marino, CA 91108

USA

Transactions

All transactions have been affected at arm's length.

All transactions are eliminated in the group Annual report in RCG Europe ApS.

Ownership

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

RCG Europe ApS

Notes to the Financial Statements

8 Related parties and ownership (fortsat)

Consolidated Financial Statements

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

Accounting Policies

Basis of Preparation

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

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 Tvilum ApS and the internal reporting and framework.

Net income and equity in previous years remains unchanged.

Consolidated financial statements

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

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, herunder afskrivninger, nedskrivninger og hensatte forpligtelser samt tilbageførsler som følge af ændrede regnskabsmæssige skøn af beløb, der tidligere har været indregnet i resultatopgørelsen.

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.

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Accounting Policies

Translation policies

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

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

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

Income Statement

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

Investments in subsidiaries and associates

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

Accounting Policies

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

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

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

Equity

Dividend

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

Deferred tax assets and liabilities

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

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

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

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

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