Łódź, 23 May 2019

Position of Management Board of Redan S.A. on refusal by audit firm to express opinion on consolidated financial statements and on report on activities of Redan SA Group for 2018.

(prepared in accordance with the requirement of § 71(1), p. 11 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on the conditions for recognising as equivalent the information required by law of a non-member state).

I. Reasons for refusing to issue opinion on consolidated financial statements of Redan Capital Group for financial year 2018.

On May 22, 2019, PKF Consult Limited Company Sp.k. with the registered office in Warsaw, entered on the list of the National Council of Statutory Auditors under No. 477 - an audit partnership appointed to audit the consolidated financial statements of the Redan Capital Group for the financial year 2018, **refused to issue an opinion on the consolidated financial statements and the report on the activities of the Redan SA Group for 2018**.

Justifying the refusal, the statutory auditor indicated that the situation of the Capital Group had deteriorated in 2018 compared to the previous year, which was significantly affected by the financial situation of a subsidiary of TXM S.A. in restructuring.

In relation to the situation of this Company, the statutory auditor in her audit report on the consolidated financial statements of the Redan Group has written: '*On 15 May 2019, the accelerated composition proceedings of the Subsidiary were initiated. In the petition for the commencement of accelerated composition proceedings, the Subsidiary's Management Board presented proposals for an arrangement together with a preliminary restructuring plan. In accordance with the procedure as required by the Restructuring Law Act of 15 May 2015 (Journal of Laws 2015, item 978), the court supervisor is obliged to prepare a rehabilitation plan within two weeks from the date of the commencement of the accelerated composition procedure. The Subsidiary's restructuring plan is to be based on a recovery plan prepared by an insolvency practitioner employed by the Subsidiary's Management Board. As at the date of the drafting of our audit report, the rehabilitation plan and consequently the restructuring plan, have not yet been drawn up, and the works on this should be completed by 31 May 2019.*

The restructuring plan is the basis for the preparation of the composition proposals, which should be presented to the creditors covered by the composition. In the absence of a restructuring plan, we are unable to comment on whether the composition proposals put forward in the petition for the accelerated composition proceedings will be linked to the restructuring plan.

The composition proposals included in the petition for commencing the accelerated composition proceedings assume that the banks financing the Subsidiary will join the arrangement despite the fact that they have security over the Subsidiary's assets and are not subject to composition under law. As at the day of drafting our audit report the financing banks did not confirm that they would join the composition.

On 31 May 2019, the deadline for repayment of the bank loans will expire and the Subsidiary does not have any secured bank financing for the period after that date, unless an agreement is concluded with banks. The further banks' financing of the Subsidiary, conclusion and terms of the agreement with the banks are subject to a recovery plan to be submitted to the banks by May 31, 2019.

The restructuring process is strictly formalised and complex. The success of the restructuring process being the basis for adopting by the Management Board of the Parent Company the assumption for the continuation of its business activities, is cumulatively dependent on whether the restructuring plan and the planned corrective actions will lead to a significant improvement in the effectiveness of operating activities and financial standing of the Subsidiary, the financing banks will join an arrangement or extend financing on the terms and conditions allowing the Subsidiary to conduct its operating activities and to carry out the planned corrective actions, composition proposals will significantly improve its financial situation and liquidity, the composition proposals submitted on the basis of the restructuring plan will be accepted by the creditors and whether the Subsidiary will implement the current commitments on time.

On 30 April 2019, the Management Board of the Subsidiary submitted an insolvency petition. Consideration of this petition will take place if the accelerated composition proceedings do not lead to the composition with the creditors.

Until the date of our audit report, the Subsidiary's Management Board has not convened the General Meeting of Members in order to adopt a resolution on the continuation of activities under Article 397 of the Commercial Companies Code Act of 15 September 2000'.

II. Position of Redan Management Board in context of impact of financial situation of TXM SA in restructuring on situation of Redan Capital Group

The Management Board of Redan took into account all the information available as at the date of preparation of the report and analysed in detail the legal, economic and financial situation of the Redan Capital Group. The results of this analysis are presented in Note 50.2 of the consolidated statements on the continuation of the activity, disclosing that there is uncertainty as to the events or conditions, which may raise serious doubts as to the ability of the Redan Group to continue as a going concern and therefore it may not obtain the anticipated economic benefits of the assets and not settle liabilities in the ordinary course of business. The risk, however, applies directly to the discount segment only, because both

segments are independent of each other. The only element connecting them is the fact that Redan holds 58.7% of shares in TXM SA in restructuring. Possible exclusion of TXM SA in restructuring from the Redan Group would reduce the scale of operations of the Redan Capital Group and its revenues, but it could positively affect the results it generates and its balance sheet structure.
Each of the segments, fashion and discount, carries out separate unrelated and disconnected operations for itself (except for IT support provided by Redan to TXM). Particularly in each segment there are: (i) other goods, (ii) separate stores, (iii) separate warehouses; (iv) other sources of finance for the activity and (v) there are no employees working simultaneously in both segments. Consequently, TXM's current financial position does not have in any material influence on companies in the fashion segment, as none of these companies:

- granted a loan or other similar instruments to any entity in the discount segment;
- warranted or otherwise provided security for any obligation of any entity in the discount segment;
- has any significant business relations with the companies in the discount segment;
- has considerable receivables from the companies in the discount segment.

III. Position of Redan Management Board in context of impact of financial situation of TXM SA in restructuring on situation of Redan Capital Group.

The Redan Management Board stresses that despite the failure to issue an opinion on the financial statements of TXM SA undergoing restructuring, the statutory auditor confirms in her audit report that the restructuring report of TXM SA was drawn up, in all material aspects, based on properly maintained accounting books in accordance with the binding regulations, except for the fact that it was prepared on a going concern basis.
The Management Board of Redan shares the opinion of the statutory auditor that there is uncertainty as to the continuation of the activity of TXM SA in restructuring. A detailed description of what it results from and on what basis and what this uncertainty is, is included in Note 50.1 to the consolidated financial statements of the Redan Capital group for 2018. However, after analysing this issue, the Management Board of Redan will take the view that the financial statements should be drawn up according to the principle of operating as a going concern. This assumption is based on the following premises:
1) the development of a restructuring programme for TXM based on other, much more far-reaching assumptions than those made in the previous years (a detailed description of the restructuring programme is included in the Management Board's report on operations);
2) the opening of the court accelerated composition proceedings on 15 May this year;
3) concluding a status quo agreement with the banks as a restructuring process stage;
4) the assessment of the high probability that creditors will accept unsecured composition proposals and the company will conclude a restructuring agreement with the banks;

5) submitted statements of majority shareholders concerning voting at the General Meeting of Shareholders for the continuation of the Company's operations.

Firstly, it should be stated that when analysing the statutory auditor's reasons for the refusal to issue an opinion, for any entity undergoing restructuring it should not be possible to adopt a principle of business continuity, as there is uncertainty for each such entity about the content of the rehabilitation plan, composition proposals (until their final adoption), certainty of their acceptance by creditors (until voting or approval by the court), or the willingness of any financing bank to enter into a restructuring agreement (until its entry into force). These factors are always present together, and therefore potentially interact with one other. However, under the provisions of the Restructuring Law, it is precisely the retention of the debtor's activity that is the key objective of restructuring proceedings.

Referring to the specific arguments of the auditor, it should be noted that:

1. Due to the early stage of the restructuring process, 7 days after the opening of the accelerated TXM composition proceedings, a targeted rehabilitation plan in cooperation with the court supervisor had not yet been developed, of course. However, the basis for assessing the likelihood of the success of the restructuring should be the initial restructuring plan submitted by TXM to the court together with the motion to open a restructuring procedure. It is clear from this plan that the restructuring can be successfully implemented. TXM's Management Board submitted this plan to the auditor but received no comments or reservations from the auditor as to the content of the plan itself or the underlying assumptions.

2. Also, in view of the early stage of the restructuring process, the targeted composition proposals were not yet prepared. However, the basis for assessing the probability of the restructuring success should be composition proposals which TXM lodged with the court together with the motion for the opening of restructuring proceedings. They assume full (in terms of principal amounts) satisfaction of creditors, partly through the conversion of the debt into shares of the new TXM issue and partly by paying off the remaining liabilities within 5 years from 2020 to 2024.

Based on the submitted initial composition proposals and analysing what the creditors will obtain in an alternative scenario in case of failure in the restructuring proceedings, the probability of the creditor's acceptance of the presented proposals and conclusion of the agreement can be assessed. An alternative to the restructuring of TXM is its liquidation. Below, in the point on the impact of the quantitative assessment of the auditor's reservation, the valuation of TXM's assets is presented in such a scenario. Given that virtually all TXM's assets are collateralised by the bank loans currently worth around PLN 60 million, it is clear that unsecured creditors will receive nothing in the event of insolvency. From this point of view, it is in their best interest to accept the composition proposals, since the expected value of their return is higher than in case of insolvency. The interviews conducted by TXM's Management Board with the largest creditors since the submission of the motion to open the restructuring procedure show that they are fully aware of that. In addition, especially suppliers of goods, see for themselves the benefits of the ongoing cooperation, which also allows them to continue the sale of TXM and to realise the margin on it.

3. In no document did TXM assume that the banks would enter into the composition agreement. The truth is that in the preliminary proposals for a composition, points concerning the principles of repayment of liabilities to the banks were included. However, it cannot be concluded from this that TXM presupposes the accession of the banks to the composition. Similarly, the rules of repayment of liabilities towards the Social Insurance Institution (ZUS) were written down which TXM did not have any at the time of filing the petition. The composition proposals covered all types of possible TXM liabilities in order to have the certainty that any type of such liabilities will be included in the rehabilitation plan and creditors' repayment forecasts. Therefore, this point should not be the basis for doubts in the scope of the possibility of adopting the going concern principle while preparing the financial statements of TXM.

4. Under the provisions of the loan agreements with the banks as amended by the status quo agreement, TXM's current availability of funding expires on 31 May 2019. TXM submitted to the banks a proposal to extend this financing until 31 August 2019, i.e. for the time needed to negotiate the terms of the targeted restructuring agreement. Regardless of the date until which the loan agreements are currently in force, as in the case of unsecured creditors, the assessment of the probability of acceptance by the banks of the repayment proposals submitted to them can be made (included in the preliminary proposals) analysing what they can gain from an alternative scenario in the case of the failure of the restructuring procedure. An alternative to restructuring TXM is its liquidation. Below, in the point regarding the impact of the quantitative assessment of the auditor's reservation, the valuation of TXM's assets in such a scenario is presented. The banks having security on virtually all TXM assets are certainly in a better position than the unsecured creditors. However, also in the situation of the banks, in the process of liquidation they cannot count on more than approx. 20% of the value of their engagement into the TXM financing. Taking this into account, it is also much more beneficial for the banks to restructure TXM, because in this scenario they have a chance to regain all their involvement (including the conversion of some loans into shares of the new TXM issue) than to reject it and recover funds in liquidation proceedings.

5. The TXM Management Board filed a petition for receivership. However, it immediately also submitted with this petition an application to suspend its examination pending the final judgment on the restructuring motion. Pursuant to art. 9a of the Bankruptcy Law Act, you cannot declare bankruptcy in the period from the opening of the restructuring proceedings to their termination or legally valid discontinuation. Because the decision on the opening of the accelerated composition proceedings will be effective and enforceable as of the date of

its issue, also the effect of excluding the possibility of insolvency declaration is already present from the moment of issuing an order, i.e. from 15 May of this year. Therefore, this petition cannot be examined in terms of substance. Therefore, in the opinion of the Management Board, the fact of submitting this petition should not affect the assessment of the Company's ability to continue as a going concern.

6. TXM received from majority shareholders i.e. Redan (with shares entitling up to 68.4% of the vote at the AGM) and 21 Concordia Sarl (14.5% of the vote)-statements that at the closest general meeting of shareholders they would vote for the further existence of TXM SA in restructuring. The Board of Directors of TXM forwarded these statements to the statutory auditor.

In its belief, the likelihood of adopting by the general meeting of the resolution on the continuation of TXM SA in restructuring has been sufficiently demonstrated and the absence of that resolution before the date of the financial statements should not influence the assessment of TXM's ability to continue its activities.

IV. Position of Redan Management Board in context of increased financial debt of Redan Capital Group

As at December 31, 2018, there were cases of violation of loan agreements concluded by Redan and Top Secret Sp. z o. o. with HSBC Bank Polska SA, as well as by Redan and Top Secret with Santander Bank Polska SA and the general conditions of the issue of series F bonds issued by Redan. The violation was related to the failure to comply with the financial ratios specified in the contract. The Company has met with the banks and bondholders where it presented the reasons for exceeding the ratios and it holds talks on the continuation of funding.

In the opinion of the Management Board, cases of violation of the loan agreements and terms of issue of bonds are not a sufficient argument to question the possibility of continuing operations by the Redan Capital Group.

V. Indication of impact, in quantitative and qualitative terms, of factors underlying refusal to issue audit opinion on consolidated financial statements containing withdrawal from issuing opinion, including impact on results and other financial data, providing materiality assessment in each case

The consolidated statement of the Redan Capital Group would be significantly influenced by the assumption that the financial statements of TXM SA in restructuring should be prepared on the premise that it will not continue its operations. In such a case, the valuation of TXM's assets should take into account the forced sales procedure and the reduction of exposure time due to the liquidation sale. The main component of TXM's assets are stocks of goods. Translating the above into the structure of TXM's assets, it can be assumed that:

- new goods that are still in containers, will be sold for around 50-60% of their market value;
- goods in stores will be sold for approx. 20-40% of their market value;
- other goods (in the off-season warehouse, mostly incomplete in size and colour), will be sold for approx. 1-10% of their market value

Below, an estimate of the value of TXM's assets in the liquidation option as at the date of submitting the petition for opening the restructuring procedure (April 3, 2019):

1) the estimated liquidation value of inventories is only about PLN 22 million, while their market value (at sales prices) is about PLN 129 million (their book value as at the balance sheet date was PLN 103 million);
2) the estimated liquidation value of fixed assets - in the dominant part of the equipment and expenditure on the adaptation of store premises amounts to approx. PLN 3 million; (their book value as at the balance sheet date was PLN 22.1 million);
3) intangible assets, in the dominant part the dedicated IT system are close to zero (their book value as at the balance sheet date was PLN 15.2 million).

These write-offs would be charged to the cost of sales and other operating expenses in total of the amount of over PLN 100 million, and thus would have a significant impact on the result for 2018.

The above analyses clearly indicate that the restructuring, and thus the continuation of TXM's operations, is the most advantageous solution and the most optimal way of proceeding for both TXM's systematic creditors and the financing banks.

The above-mentioned changes to the financial statements of TXM SA in restructuring would be transferred in the same way to the consolidated financial statements of the Redan Capital Group.

VI. Presentation of actions taken or planned by Issuer in relation to situation

In connection with the situation, the Redan Management Board undertakes the following activities:

1) it supports TXM SA in restructuring by participating in the company's governing bodies in the implementation of the rehabilitation programme and negotiations with the creditors and banks; Redan has no financial possibilities to support TXM in restructuring in this way;
2) conducts some talks with the institutions financing the fashion segment in order to maintain funding;
3) continues the review of possible strategic options supporting the further development of the Redan Capital Group. The Company's Management Board is considering

making changes in the Group's balance sheet structure, including, inter alia, the exclusion of all or part of the discount segment concentrated in the subsidiary TXM SA in restructuring from the capital structure of the Group so as to limit the impact of its results on the consolidated statement of the Redan Capital Group.