REGISTERED NUMBER: 04805003 (England and Wales)

# Group Strategic Report, Report of the Director and

# Consolidated Financial Statements for the Year Ended 31 December 2015

# for

# Brasslink Limited

Brasslink Limited (Registered number: 04805003)

## Contents of the Consolidated Financial Statements for the Year Ended 31 December 2015

**Brasslink Limited**

**Company Information**
**for the Year Ended 31 December 2015**

| | |
|---|---|
| **DIRECTOR:** | M C Smith |
| **SECRETARY:** | K P Pusey |
| **REGISTERED OFFICE:** | 3rd Floor Fairgate House<br>78 New Oxford Street<br>London<br>WC1A 1HB |
| **REGISTERED NUMBER:** | 04805003 (England and Wales) |
| **AUDITORS:** | S H Landes LLP<br>Statutory Auditors<br>3rd Floor, Fairgate House<br>78 New Oxford Street<br>London<br>WC1A 1HB |

**Brasslink Limited (Registered number: 04805003)**

**Group Strategic Report**
**for the Year Ended 31 December 2015**

The Directors present their strategic report for the year ended 31 December 2015.

**REVIEW OF BUSINESS**
The loss for the year, after taxation is $5,904,087. No dividends will be distributed for the year ended 31 December 2015.

The Company's key financial and other performance indicators during the year were as follows:

| | 2015 $'000 | 2014 $'000 | Change % |
|---|---|---|---|
| Turnover | 10,419 | 16,352 | (36) |
| Operating loss | (3,566) | (8,835) | 60 |
| Loss for the financial year | (5,904) | (10,812) | 45 |
| Shareholder's funds | (33,317) | (30,901) | (8) |
| Average number of employees | 460 | 518 | (11) |

The Company's consolidated financial statements show the loss reduced in 2015. The main reason for this is the economic crisis in the countries of the business causing a considerable drop in sales. In the meantime, the group achieved positive results in diversifying the range of products and developing cooperation with corporate customers, enhanced its franchising network by signing further contracts with new franchisees, multiplying the number of the outlets in Moscow, Saint-Petersburg, as well as outlets of franchisees 'Wolkonsky nearby', and continue with a new project in chocolate retail. As at the end of the reporting period, the Group had 27 outlets in three cities and plan to open four new shops during the year. The franchising partners opened 2 new outlets achieving the total of 3 outlets overall. Moreover, the franchisees of small outlets multiplied as well and achieved the total number of 13. The Group employs on average 460 employees with a tendency to optimize the number of employees for better performance.

The Company's key principles are enhancing the reputation of the company, the efficiency of production and the quality of products and personnel training. In order to improve the Group's performance the management held annual business planning conference attended by the owners and participators of the Group, as well as the directors and managers. The Management presented their plan and budget for the year 2016 and further development of the business by way of opening more outlets, expanding the franchisees structure to other cities in Russia.

**PRINCIPAL RISKS AND UNCERTAINTIES**
The Company's risks are generally assessed by the management in cooperation with the financial management of the Company on a regular basis.

The principal risks and uncertainties facing the Company are mostly related to the current political and economic situation in the countries of the business, i.e. Russia and Ukraine. The unstable situation in Ukraine made impossible for the Ukrainian subsidiaries to go on covering the trade and loan debts to the parent Company. Due to continuing devaluation of local currencies, the Group is exposed to currency exchange rate risk.

As the Group uses some imported products in its production in Russia, there can be a risk of embargo imposed by the Russian government against European imports to the country. However, notwithstanding the embargo imposed in August 2014 the Company's management did its best to solve the problem by starting to cooperate with local manufacturers and retailers to substitute the foreign-made products.

The Company is also facing competitive risks related to the growing number of competitors producing the same range of products and targeting the same market. To face this risk the Company puts emphasis to the concepts of natural and healthy food production.

**ON BEHALF OF THE BOARD:**

........................................................................
M C Smith - Director

Date: 21/4/16

**Report of the Director**
**for the Year Ended 31 December 2015**

The director presents his report with the financial statements of the company and the group for the year ended 31 December 2015.

**DIVIDENDS**
No dividends will be distributed for the year ended 31 December 2015.

**DIRECTOR**
M C Smith held office during the whole of the period from 1 January 2015 to the date of this report.

**FINANCIAL INSTRUMENTS**
The group's principal financial instruments comprise trade debtors, trade creditors and loans. The group's exposure to risks in respect of these and risk management policies are discussed below:

**Credit Risk**
The group is exposed to credit risk on its trade debtors. Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. The maximum exposure to risk is represented by the carrying value of the financial assets in the balance sheet.

**Liquidity Risk**
The group manages its liquidity by ensuring that it has sufficient funds to meet its liabilities as they fall due. Liquidity is maintained by the use of long term borrowings. Management monitors the maturity of liabilities and ensures that, where necessary, sufficient additional borrowings can be negotiated to meet these.

**Interest Rate Risk**
Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

**Foreign Exchange Risk**
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's measurement currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Russian Rouble, the US Dollar and the Euro. The Group's Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

**STATEMENT OF DIRECTOR'S RESPONSIBILITIES**
The director is responsible for preparing the Report of the Director and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's and the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable him to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Brasslink Limited (Registered number: 04805003)**

**Report of the Director**
**for the Year Ended 31 December 2015**

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**
So far as the director is aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

**ON BEHALF OF THE BOARD:**

........................................................................
M C Smith - Director

Date: 27 \ 9 \ 16

**Report of the Independent Auditors to the Members of**
**Brasslink Limited**

We have audited the financial statements of Brasslink Limited for the year ended 31 December 2015 on pages seven to forty one. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of director and auditors**
As explained more fully in the Statement of Director's Responsibilities set out on page three, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Group Strategic Report and the Report of the Director to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**
In our opinion the financial statements:
- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Emphasis of matter - Going concern**
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a net loss of $5,904,087 (2014: $10,811,756) during the year ended 31 December 2015 and, at that date, the Group had net liabilities of $33,317,322.

These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Group Strategic Report and the Report of the Director for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Report of the Independent Auditors to the Members of Brasslink Limited**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Steven Landes

Steven Landes (Senior Statutory Auditor)
for and on behalf of S H Landes LLP
Statutory Auditors
3rd Floor, Fairgate House
78 New Oxford Street
London
WC1A 1HB

Date: 28/9/16

**Brasslink Limited (Registered number: 04805003)**

**Consolidated Statement of Profit or Loss**
**for the Year Ended 31 December 2015**

| | Notes | 31.12.15<br>$ | 31.12.14<br>$ |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | | 10,418,578 | 16,352,331 |
| Cost of sales | | (4,012,426) | (4,537,964) |
| **GROSS PROFIT** | | 6,406,152 | 11,814,367 |
| Other operating income | | 217,600 | 587,766 |
| Administrative expenses | | (10,189,640) | (21,237,369) |
| **OPERATING LOSS** | | (3,565,888) | (8,835,236) |
| Finance costs | 4 | (2,249,207) | (2,010,277) |
| Finance income | 4 | 1,017 | - |
| **LOSS BEFORE INCOME TAX** | 5 | (5,814,078) | (10,845,513) |
| Income tax | 6 | (90,009) | 33,757 |
| **LOSS FOR THE YEAR** | | (5,904,087) | (10,811,756) |
| Loss attributable to: | | | |
| Owners of the parent | | (5,904,087) | (10,811,756) |

The notes form part of these financial statements

Brasslink Limited (Registered number: 04805003)

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2015

| | 31.12.15 $ | 31.12.14 $ |
|---|---|---|
| **LOSS FOR THE YEAR** | (5,904,087) | (10,811,756) |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Items that will not be reclassified to profit or loss:** | | |
| Foreign currency translation difference | 2,819,425 | 6,516,247 |
| Fair value gain on loans payable | 668,150 | 203,388 |
| Income tax relating to items of other comprehensive income | - | - |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX** | 3,487,575 | 6,719,635 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | (2,416,512) | (4,092,121) |
| Total comprehensive income attributable to: | | |
| Owners of the parent | (2,416,512) | (4,092,121) |

The notes form part of these financial statements

**Brasslink Limited (Registered number: 04805003)**

**Consolidated Statement of Financial Position**
**31 December 2015**

| | Notes | 31.12.15 $ | 31.12.14 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | 9 | 186,370 | 210,783 |
| Property, plant and equipment | 10 | 1,546,289 | 2,097,241 |
| Investments | 11 | 44 | 626 |
| Trade and other receivables | 13 | 16,625 | 187,951 |
| Deferred tax | 20 | - | 1,395 |
| | | 1,749,328 | 2,497,996 |
| **CURRENT ASSETS** | | | |
| Inventories | 12 | 382,793 | 471,261 |
| Trade and other receivables | 13 | 1,826,477 | 1,444,116 |
| Cash and cash equivalents | 14 | 142,210 | 255,940 |
| | | 2,351,480 | 2,171,317 |
| **TOTAL ASSETS** | | 4,100,808 | 4,669,313 |
| **EQUITY** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Called up share capital | 15 | 1,996,809 | 1,996,809 |
| Other reserves | 16 | 9,858,831 | 7,039,406 |
| Additional paid in capital | 16 | 1,135,071 | 466,921 |
| Retained earnings | 16 | (46,308,033) | (40,403,946) |
| **TOTAL EQUITY** | | (33,317,322) | (30,900,810) |
| **LIABILITIES** | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Financial liabilities - borrowings | | | |
| Interest bearing loans and borrowings | 18 | 34,141,237 | 31,255,633 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 17 | 2,338,990 | 2,267,130 |
| Tax payable | | 937,903 | 2,047,360 |
| | | 3,276,893 | 4,314,490 |
| **TOTAL LIABILITIES** | | 37,418,130 | 35,570,123 |
| **TOTAL EQUITY AND LIABILITIES** | | 4,100,808 | 4,669,313 |

The financial statements were approved by the director on 27 | 9 \ 16 and were signed by:

M C Smith - Director

The notes form part of these financial statements

**Brasslink Limited (Registered number: 04805003)**

**Company Statement of Financial Position**
**31 December 2015**

| | Notes | 31.12.15<br>$ | 31.12.14<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | 9 | 184,920 | 208,035 |
| Property, plant and equipment | 10 | 448,620 | 475,706 |
| Investments | 11 | 5 | 5 |
| | | 633,545 | 683,746 |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | 13 | 63,013 | 86,204 |
| Cash and cash equivalents | 14 | 19,059 | 82,051 |
| | | 82,072 | 168,255 |
| **TOTAL ASSETS** | | 715,617 | 852,001 |
| **EQUITY** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Called up share capital | 15 | 1,996,809 | 1,996,809 |
| Additional paid in capital | 16 | 1,135,071 | 466,921 |
| Retained earnings | 16 | (36,637,641) | (32,608,741) |
| **TOTAL EQUITY** | | (33,505,761) | (30,145,011) |
| **LIABILITIES** | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Financial liabilities - borrowings | | | |
| Interest bearing loans and borrowings | 18 | 34,141,237 | 30,926,557 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 17 | 80,141 | 70,455 |
| **TOTAL LIABILITIES** | | 34,221,378 | 30,997,012 |
| **TOTAL EQUITY AND LIABILITIES** | | 715,617 | 852,001 |

The financial statements were approved by the director on 27|9\16 and were signed by:

M C Smith - Director

The notes form part of these financial statements

**Brasslink Limited (Registered number: 04805003)**

**Consolidated Statement of Changes in Equity**
**for the Year Ended 31 December 2015**

| | Called up share capital $ | Retained earnings $ | Other reserves $ | Additional paid in capital $ | Total equity $ |
|---|---|---|---|---|---|
| **Balance at 1 January 2014** | 1,996,809 | (29,592,190) | 523,159 | 263,533 | (26,808,689) |
| **Changes in equity** | | | | | |
| Total comprehensive income | - | (10,811,756) | 6,516,247 | 203,388 | (4,092,121) |
| **Balance at 31 December 2014** | 1,996,809 | (40,403,946) | 7,039,406 | 466,921 | (30,900,810) |
| **Changes in equity** | | | | | |
| Total comprehensive income | - | (5,904,087) | 2,819,425 | 668,150 | (2,416,512) |
| **Balance at 31 December 2015** | 1,996,809 | (46,308,033) | 9,858,831 | 1,135,071 | (33,317,322) |

The notes form part of these financial statements

**Brasslink Limited (Registered number: 04805003)**

**Company Statement of Changes in Equity**
**for the Year Ended 31 December 2015**

| | Called up share capital $ | Retained earnings $ | Additional paid in capital $ | Total equity $ |
|---|---|---|---|---|
| **Balance at 1 January 2014** | - | (29,791,485) | 263,533 | (29,527,952) |
| **Changes in equity** | | | | |
| Issue of share capital | 1,996,809 | - | - | 1,996,809 |
| Total comprehensive income | - | (2,817,256) | 203,388 | (2,613,868) |
| **Balance at 31 December 2014** | 1,996,809 | (32,608,741) | 466,921 | (30,145,011) |
| **Changes in equity** | | | | |
| Total comprehensive income | - | (4,028,900) | 668,150 | (3,360,750) |
| **Balance at 31 December 2015** | 1,996,809 | (36,637,641) | 1,135,071 | (33,505,761) |

The notes form part of these financial statements

**Brasslink Limited (Registered number: 04805003)**

**Consolidated Statement of Cash Flows**
**for the Year Ended 31 December 2015**

| | Notes | 31.12.15 $ | 31.12.14 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 1 | (712,996) | (1,034,972) |
| Tax paid | | (1,199,466) | (599,212) |
| Net cash from operating activities | | (1,912,462) | (1,634,184) |
| **Cash flows from investing activities** | | | |
| Purchase of intangible fixed assets | | (172) | (17,091) |
| Purchase of tangible fixed assets | | (111,134) | (327,191) |
| Purchase of fixed asset investments | | - | (181) |
| Sale of tangible fixed assets | | 126,618 | - |
| Net cash from investing activities | | 15,312 | (344,463) |
| **Cash flows from financing activities** | | | |
| New loans in year | | 1,783,420 | 1,914,353 |
| Net cash from financing activities | | 1,783,420 | 1,914,353 |
| **Decrease in cash and cash equivalents** | | (113,730) | (64,294) |
| **Cash and cash equivalents at beginning of year** | 2 | 255,940 | 320,234 |
| **Cash and cash equivalents at end of year** | 2 | 142,210 | 255,940 |

The notes form part of these financial statements

Brasslink Limited (Registered number: 04805003)

Notes to the Consolidated Statement of Cash Flows
for the Year Ended 31 December 2015

## 1. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Loss before income tax | (5,814,078) | (10,845,513) |
| Depreciation charges | 205,219 | 421,170 |
| (Profit)/loss on disposal of fixed assets | (9,895) | 225,201 |
| Foreign exchange | 2,705,863 | 7,599,845 |
| Bad debts write off | 71,289 | 1,094,313 |
| Finance costs | 2,249,207 | 2,010,277 |
| Finance income | (1,017) | - |
| | (593,412) | 505,293 |
| Decrease in inventories | 88,468 | 507,953 |
| (Increase)/decrease in trade and other receivables | (279,912) | 708,523 |
| Increase/(decrease) in trade and other payables | 71,860 | (2,756,741) |
| **Cash generated from operations** | (712,996) | (1,034,972) |

## 2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

**Year ended 31 December 2015**

| | 31.12.15 | 1.1.15 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 142,210 | 255,940 |

**Year ended 31 December 2014**

| | 31.12.14 | 1.1.14 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 255,940 | 320,234 |

## 1. GENERAL INFORMATION

Brasslink Limited ("the Company") is a private limited company incorporated and domiciled in the United Kingdom. The principal activity of the Company is that of a holding and financing company. Brasslink Limited is a holding company to a number of subsidiaries incorporated in Russia and Ukraine, that are involved in bakery business. These consolidated financial statements incorporate the results of Brasslink Limited and all of its subsidiary undertakings ("the Group") as at 31 December 2015.

## 2. ACCOUNTING POLICIES

**Basis of preparation**
These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets.

For all periods up to and including the year ended 31 December 2014, the Group prepared its financial statements in accordance with the United Kingdom generally accepted accounting principles (UK GAAP). These financial statements for the year ended 31 December 2015 are the first the Group has prepared in accordance with IFRS. Notes to the financial statements explain how the Group adopted IFRS.

The financial statements have been prepared on a going concern basis even though at the balance sheet date the group had net liabilities amounting to $33,317,322 (2014: $30,900,810) and incurred a net loss of $5,904,087 (2014: $10,811,756).

The director has concluded that the combination of these circumstances represent a material uncertainty that casts significant doubt upon the group's ability to continue as a going concern. Nevertheless after making enquiries, and considering the uncertainties described above, the director has a reasonable expectation that the group has adequate anticipated resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the accounts.

**Basis of consolidation**
The consolidated financial statements incorporate the results of Brasslink Limited and all of its subsidiary undertakings as at 31 December 2015 using the acquisition method of accounting. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Associates are accounted for using the equity method. Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20%-50%. The group holds participating interests, as described by the Companies Act 2006, in several companies. However, since the remainder of the shares in these companies are held by the ultimate controlling party, the director considers that the group does not exercise significant influence over these companies. Therefore the investments in these companies are not equity accounted but are stated at cost less any provision for impairment.

**First- time adoption of IFRS**
These financial statements, for the year ended 31 December 2015, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2014, the Group prepared its financial statements in accordance with United Kingdom generally accepted accounting principle (UK GAAP).
Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2015, together with the comparative period data as at and for the year ended 31 December 2014, as described in the summary of significant accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2014, the Group's date of transition to IFRS. Notes to the financial statements explain the principal adjustments made by the Group in restating its UK GAAP financial statements, including the statement of financial position as at 1 January 2014 and the financial statements as at and for the year ended 31 December 2014.



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2. **ACCOUNTING POLICIES - continued**

**Revenue recognition**
Revenue is recorded net of VAT and recognised on the date when the risks and rewards of ownership are transferred to the customers. Revenue is measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably the revenue is recognised at the fair value of the goods or services given up. All revenue relates to sales by the company subsidiaries in Russia and Ukraine.

**Intangible fixed assets**
Intangible fixed assets are stated at cost less amortisation.

Intangible assets comprise of franchise fees entitling the franchisee (Brasslink Limited) to an Exclusive Non Compete Zone (Kyiv and Moscow) to "Volkonskiy" to use the system to operate a business.

Amortisation is provided at the following rate in order to write off intangible assets over their estimated useful life.

| | |
|---|---|
| Franchise fees | - 10 years |

**Property, plant and equipment**
Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.
Depreciation is recognised in profit or loss on a straight line or reducing balance basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.
The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

| | | |
|---|---|---|
| Freehold property | - | 4% straight line |
| Plant and Machinery | - | 20% reducing balance |
| Fixture and Fittings | - | 20% reducing balance |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.



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## 2. ACCOUNTING POLICIES - continued

**Financial instruments**

i. Financial assets : loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses unless the effect of discounting would be immaterial. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired as well as through the amortisation process.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

ii. Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank accounts, deposits receivable on demand and deposits with maturity dates of three months or less from the date of inception. Bank overdrafts that are repayable on demand and which form an integral part of the company's cash management are also included as a component of cash and cash equivalents where offset conditions are met.

iii. Financial liabilities: interest bearing loans and borrowings

All loans and borrowings are valued initially at fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly differs from the transaction price), net of transaction costs incurred. In subsequent periods, interest bearing loans and borrowings are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the loans and borrowings.

Interest expense is recognised on a time-proportion basis using the effective interest method.

Interest -free long term debt granted to and by the related parties is initially recognised in accordance with the recognition of the financial instruments policy. The difference between nominal amount of consideration given and the fair value of loans granted and borrowed at other than market terms is recognised in the period the loan is granted and borrowed as initial recognition of loans from related parties at fair value. The resulting gain is accounted as additional paid in capital. Loans with fixed maturities are subsequently measured at amortised cost using the effective interest rate method. Those that do not have fixed maturities are carried at cost. Gains and losses are recognised in the consolidated statement of comprehensive income when the loans and borrowings are derecognised or impaired as well as through the amortisation process.

**Inventories**

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.
Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.



continued...

2. **ACCOUNTING POLICIES - continued**

**Taxation**
Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the statement of financial position date.

The charge for taxation takes into account taxation deferred as a result of timing differences between the treatment of certain items for taxation and accounting purposes. In general, deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. However, deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The deferred tax of the Group relates to foreign tax payable or receivable outside of UK.

**Foreign currencies**
The consolidated financial statements are expressed in US Dollars, which is the Group's functional currency.
The individual financial statements of each Group company are reported in the currency of the primary economic environment in which it operate. The closing rate method was used for translating the financial statements of the company's overseas subsidiaries, translation differences are posted to reserves.

Monetary assets and liabilities in foreign currencies are translated into US Dollars at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into US Dollars at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

**Critical accounting estimates and judgements**
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and operating costs during the reporting period. The most significant estimate is stated below.

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties.

**Investments**
Investments are valued at cost less provision for impairment.



continued...

## 2. ACCOUNTING POLICIES - continued

**New standards and interpretations**
The following standards, interpretations and amendments to published standards are not yet effective and have not been early adopted by the company:
- IFRS 9 in respect of Financial Instruments which will be effective for the accounting periods beginning on or after 1 January 2018.
- IFRS 14 in respect of Regulatory Deferral Accounts which will be effective for accounting periods beginning on or after 1 January 2016.
- IFRS 15 in respect of Revenue from Contracts with Customers which will be effective for accounting periods beginning on or after 1 January 2017.
- Amendments to IFRS 10, IFRS 12 and IAS 28 in respect of the application of the consolidation exemption to investment entities which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IFRS 10 and IAS 28 in respect of the treatment of a Sale or Contribution of Assets between an Investor and its Associate or Joint Venture which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IFRS 11 in respect of Accounting for Acquisitions of Interest in Joint Operations which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 1 in respect of determining what information to disclose in annual financial statements which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38 in respect of Clarification of Acceptable Methods of Depreciation and Amortisation which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 41 in respect of Bearer Plants which will be effective for accounting periods beginning on or after 1 January 2016. - Amendments to IAS 27 to allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates which will be effective for accounting periods beginning 1 January 2016.
- Annual improvements to IFRS's which will be effective for accounting periods beginning on or after 1 January 2016 as follows:

" IFRS 5 - Changes in methods of disposal
" IFRS 7 - Servicing contracts
" IFRS 7 - Applicability of the amendments to IFRS 7 to condensed interim financial statements
" IAS 19 - Discount rate: Regional market issue
" IAS 34 - Disclosure of information "elsewhere in the interim financial report"

None of the above standards, interpretations and amendments to published standards are expected to have a significant impact on the Company's financial statements when they are applied in future periods.

## 3. EMPLOYEES AND DIRECTORS

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Wages and salaries | 3,536,208 | 5,513,412 |
| Social security costs | 845,321 | 1,459,711 |
| | 4,381,529 | 6,973,123 |

The average monthly number of employees during the year was as follows:

| | 31.12.15 | 31.12.14 |
|---|---|---|
| Bakers | 306 | 330 |
| Staff | 134 | 166 |
| Management | 20 | 22 |
| | 460 | 518 |



continued...

3. **EMPLOYEES AND DIRECTORS - continued**

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Director's remuneration | - | - |

4. **NET FINANCE COSTS**

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Finance income: | | |
| Deposit account interest | 1,017 | - |
| Finance costs: | | |
| Loan interest | 2,249,207 | 2,010,277 |
| Net finance costs | 2,248,190 | 2,010,277 |

5. **LOSS BEFORE INCOME TAX**

The loss before income tax is stated after charging/(crediting):

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Cost of inventories recognised as expense | 4,012,426 | 4,537,964 |
| Depreciation - owned assets | 181,093 | 398,055 |
| (Profit)/loss on disposal of fixed assets | (9,895) | 225,201 |
| Patents and licences amortisation | 24,126 | 23,115 |
| Auditors' remuneration | 8,751 | 7,766 |
| Auditors' remuneration for non audit work | 51,807 | 54,362 |
| Foreign exchange differences | 2,359,147 | 6,009,716 |

6. **INCOME TAX**

**Analysis of tax expense/(income)**

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Current tax: | | |
| Foreign tax | 90,009 | (33,757) |
| Total tax expense/(income) in consolidated statement of profit or loss | 90,009 | (33,757) |



continued...

6. **INCOME TAX - continued**

**Factors affecting the tax expense**
The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Loss on ordinary activities before income tax | (5,814,078) | (10,845,513) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.250% (2014 - 21.500%) | (1,177,351) | (2,331,785) |
| Effects of: | | |
| Losses carried forward | 1,137,635 | 2,241,663 |
| Effect of profit taxed in foreign jurisdictions | 90,009 | (33,757) |
| Expenses not deductible | 3,497 | 4,540 |
| Depreciation in excess of capital allowances | 36,219 | 85,582 |
| Tax expense/(income) | 90,009 | (33,757) |

7. **LOSS OF PARENT COMPANY**

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was $(4,028,900) (2014 - $(2,817,256)).

8. **UNRECOGNISED DEFERRED TAX ASSETS**

Deferred tax assets have not been recognised in respect of the cumulative group losses of $47,076,436.



continued...

## 9. INTANGIBLE ASSETS

**Group**

| | Patents and licences $ |
|---|---|
| **COST** | |
| At 1 January 2015 | 246,736 |
| Additions | 172 |
| Exchange differences | (459) |
| At 31 December 2015 | 246,449 |
| **AMORTISATION** | |
| At 1 January 2015 | 35,953 |
| Amortisation for year | 24,126 |
| At 31 December 2015 | 60,079 |
| **NET BOOK VALUE** | |
| At 31 December 2015 | 186,370 |
| At 31 December 2014 | 210,783 |

**Company**

| | Patents and licences $ |
|---|---|
| **COST** | |
| At 1 January 2015 and 31 December 2015 | 231,150 |
| **AMORTISATION** | |
| At 1 January 2015 | 23,115 |
| Amortisation for year | 23,115 |
| At 31 December 2015 | 46,230 |
| **NET BOOK VALUE** | |
| At 31 December 2015 | 184,920 |
| At 31 December 2014 | 208,035 |



continued...

10. **PROPERTY, PLANT AND EQUIPMENT**

**Group**

| | Freehold property $ | Plant and machinery $ | Fixtures and fittings $ | Totals $ |
|---|---|---|---|---|
| **COST OR VALUATION** | | | | |
| At 1 January 2015 | 2,111,160 | 2,796,149 | 68,490 | 4,975,799 |
| Additions | - | 111,134 | - | 111,134 |
| Disposals | - | (806,129) | - | (806,129) |
| Revaluations | (373,310) | - | - | (373,310) |
| Exchange differences | - | (69,926) | - | (69,926) |
| At 31 December 2015 | 1,737,850 | 2,031,228 | 68,490 | 3,837,568 |
| **DEPRECIATION** | | | | |
| At 1 January 2015 | 557,421 | 2,274,606 | 46,531 | 2,878,558 |
| Charge for year | 86,892 | 88,711 | 5,490 | 181,093 |
| Eliminated on disposal | - | (689,406) | - | (689,406) |
| Exchange differences | (123,093) | 44,127 | - | (78,966) |
| At 31 December 2015 | 521,220 | 1,718,038 | 52,021 | 2,291,279 |
| **NET BOOK VALUE** | | | | |
| At 31 December 2015 | 1,216,630 | 313,190 | 16,469 | 1,546,289 |
| At 31 December 2014 | 1,553,739 | 521,543 | 21,959 | 2,097,241 |

Cost or valuation at 31 December 2015 is represented by:

| | Freehold property $ | Plant and machinery $ | Fixtures and fittings $ | Totals $ |
|---|---|---|---|---|
| Cost | 1,737,850 | 2,031,228 | 68,490 | 3,837,568 |



continued...

## 10. PROPERTY, PLANT AND EQUIPMENT - continued

**Company**

| | Freehold property $ | Plant and machinery $ | Totals $ |
|---|---|---|---|
| **COST** | | | |
| At 1 January 2015 | | | |
| and 31 December 2015 | 481,448 | 15,072 | 496,520 |
| **DEPRECIATION** | | | |
| At 1 January 2015 | 20,060 | 754 | 20,814 |
| Charge for year | 24,072 | 3,014 | 27,086 |
| At 31 December 2015 | 44,132 | 3,768 | 47,900 |
| **NET BOOK VALUE** | | | |
| At 31 December 2015 | 437,316 | 11,304 | 448,620 |
| At 31 December 2014 | 461,388 | 14,318 | 475,706 |

## 11. INVESTMENTS

**Group**

| | Interest in other participating interests $ |
|---|---|
| **COST** | |
| At 1 January 2015 | 626 |
| Exchange differences | (582) |
| At 31 December 2015 | 44 |
| **NET BOOK VALUE** | |
| At 31 December 2015 | 44 |
| At 31 December 2014 | 626 |

**Company**

| | Shares in group undertakings $ |
|---|---|
| **COST** | |
| At 1 January 2015 | |
| and 31 December 2015 | 5 |
| **NET BOOK VALUE** | |
| At 31 December 2015 | 5 |
| At 31 December 2014 | 5 |



continued...

## 11. INVESTMENTS - continued

**Company**

The group or the company's investments at the Statement of Financial Position date in the share capital of companies include the following:

**Subsidiaries**

**LLC Gloria Plus**
Country of incorporation: Russian Federation
Nature of business: Bakery

| Class of shares: | % holding |
|---|---|
| Ordinary | 99.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | (3,960,390) | (4,773,622) |
| Loss for the year | (787,829) | (5,286,765) |

**Konditerskaya Volkonskogo LLC**
Country of incorporation: Russian Federation
Nature of business: Ownership of baking equipment and trade mark

| Class of shares: | % holding |
|---|---|
| ordinary | 100.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | (567,906) | (779,941) |
| Profit/(loss) for the year | 32,218 | (23,536) |

**Konditerskaya Volkonskogo LLC**
Country of incorporation: Ukraine
Nature of business: Bakery

| Class of shares: | % holding |
|---|---|
| Ordinary | 100.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | (2,123,966) | (1,923,984) |
| Loss for the year | (958,372) | (1,347,301) |



continued...

11. **INVESTMENTS - continued**

**Company**

**LLC Volkonsky Trading House**
Country of incorporation: Russian Federation
Nature of business: Bakery

| | % |
|---|---|
| Class of shares: | holding |
| Ordinary Shares | 100.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | (2,294,387) | (820,879) |
| Profit/(loss) for the year | 367,215 | (1,623,763) |

**Chocolate Atelier**
Country of incorporation: Russian Federation
Nature of business: Production of chocolates, cocoa and sweets

| | % |
|---|---|
| Class of shares: | holding |
| Ordinary Shares | 100.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | (21,058) | (37,997) |
| Profit/(loss) for the year | 3,039 | (19,780) |

**LLC Kamennoostrovskiy**
Country of incorporation: Russian Federation
Nature of business: Rental company

| | % |
|---|---|
| Class of shares: | holding |
| Ordinary | 99.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | (18,844) | 54,001 |
| Loss for the year | (60,326) | (40,314) |

**Chocolate House LLC**
Country of incorporation: Russian Federation
Nature of business: Chocolate production company

| | % |
|---|---|
| Class of shares: | holding |
| Ordinary | 99.00 |

| | 31.12.15 |
|---|---|
| | $ |
| Aggregate capital and reserves | (286,274) |
| Loss for the year | (316,518) |



continued...

11. **INVESTMENTS - continued**

**Company**

**Volkonskiy SZ LLC**
Country of incorporation: Russian Federation
Nature of business: Bakery

| Class of shares: | % holding |
|---|---|
| Ordinary | 25.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | 136 | (1,658,490) |
| Profit/(loss) for the year | 3,018 | (38,536) |

**V-Cafe LLC**
Country of incorporation: Russian Federation
Nature of business: Coffee shop

| Class of shares: | % holding |
|---|---|
| Ordinary | 25.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | 136 | (494,326) |
| Profit/(loss) for the year | 13,834 | (34,555) |

**Alfa Torg LLC**
Country of incorporation: Russian Federation
Nature of business: Coffee shop

| Class of shares: | % holding |
|---|---|
| Ordinary | 25.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | (131,173) | (2,295,573) |
| Profit/(loss) for the year | 1,965,843 | (217,730) |

**Bread shop LLC**
Country of incorporation: Russian Federation
Nature of business: bakery

| Class of shares: | % holding |
|---|---|
| Ordinary | 25.00 |

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Aggregate capital and reserves | (554,526) | (565,405) |
| Loss for the year | (147,923) | (299,199) |



continued...

## 12. INVENTORIES

| | Group | |
|---|---|---|
| | 31.12.15 | 31.12.14 |
| | $ | $ |
| Raw materials | 345,636 | 435,491 |
| Finished goods | 37,157 | 35,770 |
| | 382,793 | 471,261 |

## 13. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.15 | 31.12.14 | 31.12.15 | 31.12.14 |
| | $ | $ | $ | $ |
| Current: | | | | |
| Trade debtors | 746,263 | 811,636 | 31,320 | 60,775 |
| Other debtors | 797,826 | 320,576 | 14,280 | - |
| Prepayments | 282,388 | 311,904 | 17,413 | 25,429 |
| | 1,826,477 | 1,444,116 | 63,013 | 86,204 |
| Non-current: | | | | |
| Other debtors | 16,625 | 187,951 | - | - |
| Aggregate amounts | 1,843,102 | 1,632,067 | 63,013 | 86,204 |

## 14. CASH AND CASH EQUIVALENTS

| in USD | 2015 | | 2014 | |
|---|---|---|---|---|
| | Group | Compan y | Group | Compan y |
| Cash and cash equivalents in RUB | 113,962 | 186 | 160,929 | 104 |
| Cash and cash equivalents in GBP | 792 | 792 | 326 | 326 |
| Cash and cash equivalents in USD | 4,586 | 4,586 | 118 | 118 |
| Cash and cash equivalents in EUR | 13,113 | 13,113 | 81,119 | 81,119 |
| Cash and cash equivalents in UAH | 9,375 | - | 13,064 | - |
| Cash and cash equivalents in CHF | 382 | 382 | 384 | 384 |
| | 142,210 | 19,059 | 255,940 | 82,051 |

Cash equivalents represent callable deposits with maturities of three months or less from the acquisition date.
The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19.



continued...

Brasslink Limited (Registered number: 04805003)

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2015

## 15. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

| Number: | Class: | Nominal value: | 31.12.15 $ | 31.12.14 $ |
|---|---|---|---|---|
| 1,000,000 | Ordinary | £1.00 | 1,996,809 | 1,996,809 |

## 16. RESERVES

**Group**

| | Retained earnings $ | Other reserves $ | Fair value reserve $ | Totals $ |
|---|---|---|---|---|
| At 1 January 2015 | (40,403,946) | 7,039,406 | 466,921 | (32,897,619) |
| Deficit for the year | (5,904,087) | | | (5,904,087) |
| Foreign currency translation | - | 2,819,425 | 668,150 | 3,487,575 |
| At 31 December 2015 | (46,308,033) | 9,858,831 | 1,135,071 | (35,314,131) |

**Company**

| | Retained earnings $ | Fair value reserve $ | Totals $ |
|---|---|---|---|
| At 1 January 2015 | (32,608,741) | 466,921 | (32,141,820) |
| Deficit for the year | (4,028,900) | | (4,028,900) |
| Foreign currency translation | - | 668,150 | 668,150 |
| At 31 December 2015 | (36,637,641) | 1,135,071 | (35,502,570) |

## 17. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.15 $ | 31.12.14 $ | 31.12.15 $ | 31.12.14 $ |
| Current: | | | | |
| Trade creditors | 582,822 | 1,213,711 | - | - |
| Other creditors | 1,512,574 | 889,720 | 15,830 | 8,327 |
| Accrued expenses | 243,594 | 163,699 | 64,311 | 62,128 |
| | 2,338,990 | 2,267,130 | 80,141 | 70,455 |



continued...

## 18. FINANCIAL LIABILITIES - BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.15 | 31.12.14 | 31.12.15 | 31.12.14 |
| | $ | $ | $ | $ |
| Non-current: | | | | |
| Other loans - 1-2 years | 34,141,237 | 31,255,633 | 34,141,237 | 30,926,557 |



continued...

## 19. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise of cash and cash equivalents, trade and other receivables, borrowings, trade accounts payable and accruals. The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, cash and cash equivalents and equity, comprising capital and retained earnings.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk.
No active financial risk management is undertaken by the management.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

| | Carrying amount | |
|---|---|---|
| | **2015** | **2014** |
| | $ | $ |
| Cash and cash equivalents | 142,210 | 255,940 |
| Trade and other receivables | 1,826,477 | 1,444,116 |

The Group has a policy of depositing surplus cash balances with reputable Russian banks. The purpose of such policy is to secure interest on deposits and at the same time maintain targeted liquidity level. The Group limits its exposure to credit risk by only placing deposits with banks (financial institutions), whose creditworthiness has been certified by Russian and European banks rating agencies.

The management believes that the Group would be able to generate sufficient cash from its bakery business and planned proceeds from coffee shop operations. The Group believes it would be able to receive full repayment of trade and other receivables within the next six months.

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet current operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.



continued...

| | Up to 1 year | 1-3 years | More than 3 years | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Trade and other payables | 3,276,893 | - | - | 3,276,893 |
| Unsecured long term borrowings | - | - | 34,141,237 | 34,141,237 |

The fair value of financial assets and financial liabilities is as below:

| | Carrying amount 2015 | Fair value 2015 | Carrying amount 2014 | Fair value 2014 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Financial liabilities at amortised cost | 43,649,248 | 34,141,237 | 41,043,438 | 31,255,633 |

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities is calculated by discounting the future contractual cashflows at the current market interest rate that is available to the Company for similar financial instruments.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of Group entities, which is the Russian Rouble (RUB) and Ukrainian Hrivnas (UAH). The currencies in which these transactions primarily are denominated are US dollars (USD).
Interest on borrowings is denominated in the currency of the borrowing. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Effect of principal exchange rate fluctuations on the Group's consolidated statement of comprehensive income for the year ended 31 December 2015 is as follows:

| In US dollars: | Exchange rate fluctuations % | Estimation of gain/(loss) |
|---|---|---|
| USD/RUB | 10% | 147,390 |
| USD/RUB | -10% | (147,390) |
| USD/EURO | 10% | 330,472 |
| USD/EURO | -10% | (330,472) |
| USD/UAH | 10% | 35,748 |
| USD/UAH | -10% | (35,748) |

The following significant exchange rates applied during the year:

| In US dollars: | Average rate 2015 | Average rate 2014 | Spot rate 2015 | Spot rate 2014 |
|---|---|---|---|---|
| EURO | 0.9017 | 0.7536 | 0.9169 | 0.8227 |
| RUB | 61.1945 | 38.4909 | 73.2250 | 56.4517 |
| UAH | 21.8447 | 11.7832 | 24.0007 | 15.7685 |



continued...

**Interest rate risk**

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group's policy is only to borrow at a fixed rate of interest.

At the reporting date the Group's interest-bearing financial instruments was $34,141,237 (2014: $31,255,633).

**Fair values versus carrying amounts**

The base for determination of a fair value is disclosed in Note 2. The management believes that the fair value of financial assets and liabilities of the Group is approximately equal to their respective carrying amounts except for loans and borrowings (see Note 18).

**Capital Management**

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. Total comprehensive loss for the year ended 31 December 2015 was principally generated by the businesses in countries with declining economic climate, and further depreciation of the local currencies. The management, however, concentrates on efficient production and cash management, constant monitoring of Group's revenues and long-term investment plans to be mainly financed by the Group's operating cash flows. With these measures the Group aims for steady profit growth.

**Master netting or similar agreement**

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.
The total amount of financial instruments does not meet the offsetting criteria.

## 20. DEFERRED TAX

**Group**

| | 31.12.15 | 31.12.14 |
|---|---|---|
| | $ | $ |
| Balance at 1 January | 1,395 | 3,098 |
| Utilised in the year | (1,395) | (1,703) |
| Balance at 31 December | - | 1,395 |



continued...

## 21. CONTINGENT LIABILITIES

### Taxation contingencies

The taxation system in the Russian Federation and Ukraine continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation and Ukraine that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian and Ukrainian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. Facing current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting the Law of Ukraine 'On Amending the Tax Code of Ukraine and Certain Laws of Ukraine', which is effective from 1 January 2015, except for certain provisions which will take effect at a later date.

Management believes that the Group has been in compliance with all requirements of effective tax legislation and currently is assessing the possible impact of the introduced amendments.

### Ukrainian economic environment

The Group conducts some of its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, unstable political situation and continuing war conflict in the Eastern parts of Ukraine, high inflation, and significant imbalances in the public finance and foreign trade.

The National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies, cross border settlements (including repayment of dividends), and also mandated obligatory conversion of foreign currency proceeds into UAH.

The known and estimable effects of the above events on the financial position and performance of the Group in the reporting period have been taken into account in preparing these consolidated financial statements.

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimise any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group's financial position and performance in a manner not currently determinable.



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## 22. RELATED PARTY DISCLOSURES

As permitted by Financial Reporting Standard No. 8, transactions between the company and its wholly owned subsidiaries have not been separately disclosed.

At the balance sheet date, the following amounts are included within creditors payable after more than one year.

| | 2015 $ | 2014 $ |
|---|---|---|
| Garese & Associates | 3,933,481 | 3,248,175 |
| Nexia Limited | 1,179,253 | - |

The company was charged interest of $137,079 (2014: $88,952) by Garese & Associates, a company under common control. The company was charged interest of $13,509 by Nexia Limited, a company under common control.

In the year the company provided loans to associated companies of $90,590 to Dessert LLC; $22,724 to Volkonsky SZ and $15,200 to V-Café. Provision was created for all these loans.

Following turnovers and balances were noted and are included in these consolidated financial statements with companies under common control, incorporated in Russian Federation:

| 2015 | Stock | Sales | Other Income | Trade Creditors | Trade Debtors | Sort term loans | Other Debtors |
|---|---|---|---|---|---|---|---|
| Bakaleya Vkusov | 6,764 | 246,748 | 12,794 | 51,825 | - | 347,545 | - |
| V-Express | 4,995 | 295,478 | 9,149 | - | 8,630 | 40,897 | 375 |
| Khled & Rose | 4,000 | 316,387 | - | 4,774 | 52,851 | - | - |
| Khlebnaya lavka | 13,615 | 499,366 | 5,451 | 1,449 | 488,372 | 60,819 | 66,986 |
| Dessert LLC | 2,668 | 2,885 | - | 822 | - | 1,366 | - |
| V-Cafe | - | 4,724 | - | - | 4,605 | 61,140 | - |
| Volkonskiy SZ | - | 3,190 | - | - | 9,681 | 50,502 | - |
| Alfa Torg | 58 | - | - | - | - | - | 85,167 |
| Mastera Volkonskiy | 3,219 | - | - | - | - | - | 14,419 |
| Garez & Partners | - | - | - | - | - | - | - |

| 2015 | Other Creditors | Loan Interest | Rent | Bad Debts | Fixed assets |
|---|---|---|---|---|---|
| Bakaleya Vkusov | 165 | 283 | - | 21,507 | - |
| V-Express | | - | - | 152,975 | 643 |
| Khled & Rose | 151,325 | - | - | - | 4,636 |
| Khlebnaya lavka | | - | 8,310 | - | 2,761 |
| Dessert LLC | | - | - | 51,230 | - |
| V-Cafe | | - | - | -1,803 | - |
| Volkonskiy SZ | | - | - | -90,114 | - |
| Alfa Torg | | - | - | -7,433 | - |
| Mastera Volkonskiy | | - | - | -13,496 | - |
| Garez & Partners | 5,214 | - | - | - | - |



continued...

| 2014 | Stock | Sales | Other Income | Trade Creditors | Trade Debtors | Short term loans | Other Debtors | Loans Given |
|---|---|---|---|---|---|---|---|---|
| Bakaleya Vkusov | 7,689 | 376,389 | 25,596 | 71,542 | 675 | 1,545 | - | - |
| V-Express | 2,327 | 446,868 | - | 37 | 5,952 | 161,882 | 38,690 | - |
| Khled & Rose | 3,530 | 553,253 | - | - | 59,913 | 213,563 | 233 | - |
| Khlebnaya lavka | 2,867 | 815,856 | 15,588 | 1,360 | 711,003 | - | 96,153 | - |
| Dessert | 1,054 | - | - | 1,701 | - | - | - | - |
| V-Café | - | 5,498 | - | - | 6,527 | - | - | - |
| Volkonskiy SZ | - | 5,194 | - | - | 18,051 | 859 | - | - |
| Alfa Torg | - | - | - | 32,828 | 154,781 | 101,913 | - | 142,373 |
| Mastera Volkonskiy | - | - | - | - | 900 | - | - | 19,707 |

## 23. ULTIMATE CONTROLLING PARTY

Nuxley Limited, a company incorporated in the British Virgin Islands and Eversight Limited, a company registered in British Virgin Islands were both immediate parent companies of Brasslink Limited holding 50% interest in the issued share capital of the company.

In the opinion of the director the ultimate controlling party is Mr A Garese by virtue of his beneficial interest in the company's entire issued share capital.

## 24. SIGNIFICANT SUBSIDIARIES

| Subsidiary | Country of incorporation | Ownership/voting 2015 | 2014 |
|---|---|---|---|
| OOO Gloria Plus | Russian Federation | 99% | 99% |
| OOO Trade House Volkonskiy | Russian Federation | 100% | 100% |
| OOO Konditerskaya Volkonskogo | Russian Federation | 100% | 100% |
| OOO Konditerskaya Volkonskogo | Ukraine | 100% | 100% |
| OOO Chocolate House | Russian Federation | 99% | 99% |
| OOO Chocolate Aterlier | Russian Federation | 100% | 100% |
| OOO Kamennoostrovskiy | Russian Federation | 99% | 99% |

**Brasslink Limited (Registered number: 04805003)**

**Reconciliation of Equity**
**1 January 2014**
**(Date of Transition to IFRSs)**

| | UK GAAP $ | Effect of transition to IFRSs $ | IFRSs $ |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | 225,666 | - | 225,666 |
| Property, plant and equipment | 3,753,423 | - | 3,753,423 |
| Investments | 396 | - | 396 |
| Trade and other receivables | 200,531 | - | 200,531 |
| Deferred tax | 3,098 | - | 3,098 |
| | 4,183,114 | - | 4,183,114 |
| **CURRENT ASSETS** | | | |
| Inventories | 979,214 | - | 979,214 |
| Trade and other receivables | 3,234,064 | - | 3,234,064 |
| Cash and cash equivalents | 320,234 | - | 320,234 |
| | 4,533,512 | - | 4,533,512 |
| **TOTAL ASSETS** | 8,716,626 | - | 8,716,626 |
| **SHAREHOLDERS' EQUITY** | | | |
| Called up share capital | 1,996,809 | - | 1,996,809 |
| Translation reserve | 523,159 | - | 523,159 |
| Additional paid in capital | - | 263,533 | 263,533 |
| Retained earnings | (40,265,438) | 10,673,248 | (29,592,190) |
| | (37,745,470) | 10,936,781 | (26,808,689) |
| **TOTAL EQUITY** | (37,745,470) | 10,936,781 | (26,808,689) |
| **LIABILITIES** | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Financial liabilities - borrowings | | | |
| Interest bearing loans and borrowings | 38,756,500 | (10,936,781) | 27,819,719 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 5,023,871 | - | 5,023,871 |
| Tax payable | 2,681,725 | - | 2,681,725 |
| | 7,705,596 | - | 7,705,596 |
| **TOTAL LIABILITIES** | 46,462,096 | (10,936,781) | 35,525,315 |
| **TOTAL EQUITY AND LIABILITIES** | 8,716,626 | - | 8,716,626 |

The notes form part of these financial statements



continued...

**Brasslink Limited (Registered number: 04805003)**

**Reconciliation of Equity - continued**
**31 December 2014**

| | UK GAAP $ | Effect of transition to IFRSs $ | IFRSs $ |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | 210,783 | - | 210,783 |
| Property, plant and equipment | 2,097,241 | - | 2,097,241 |
| Investments | 626 | - | 626 |
| Trade and other receivables | 187,951 | - | 187,951 |
| Deferred tax | 1,395 | - | 1,395 |
| | 2,497,996 | - | 2,497,996 |
| **CURRENT ASSETS** | | | |
| Inventories | 471,261 | - | 471,261 |
| Trade and other receivables | 1,444,116 | - | 1,444,116 |
| Cash and cash equivalents | 255,940 | - | 255,940 |
| | 2,171,317 | - | 2,171,317 |
| **TOTAL ASSETS** | 4,669,313 | - | 4,669,313 |
| **EQUITY** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Called up share capital | 1,996,809 | - | 1,996,809 |
| Other reserves | 7,039,406 | - | 7,039,406 |
| Additional paid in capital | - | 466,921 | 466,921 |
| Retained earnings | (50,053,906) | 9,649,960 | (40,403,946) |
| | (41,017,691) | 10,116,881 | (30,900,810) |
| **TOTAL EQUITY** | (41,017,691) | 10,116,881 | (30,900,810) |
| **LIABILITIES** | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Financial liabilities - borrowings | | | |
| Interest bearing loans and borrowings | 41,372,514 | (10,116,881) | 31,255,633 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 2,267,130 | - | 2,267,130 |
| Tax payable | 2,047,360 | - | 2,047,360 |
| | 4,314,490 | - | 4,314,490 |
| **TOTAL LIABILITIES** | 45,687,004 | (10,116,881) | 35,570,123 |
| **TOTAL EQUITY AND LIABILITIES** | 4,669,313 | - | 4,669,313 |

The notes form part of these financial statements



continued...

## Reconciliation of Equity - continued
## 31 December 2014

**Notes to the reconciliation of equity**
The Company elected to restate their financial liabilities in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Accordingly, the financial liabilities comprising of loans from related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. The loans were received from the related parties at significantly lower rate of interest. This has resulted in an initial gain on the recognition of loans at fair value which has been accounted for additional paid in capital.

The impact arising from the change is summarised below:

| Long term loans from related parties: | As at 1 January 2014 | As at 31 December 2014 |
|---|---|---|
| | $ | $ |
| Initial gain on loan recognition - additional paid in capital | (263,533) | (466,921) |
| Retained earnings - finance costs | (10,936,781) | (9,649,960) |
| **Adjustments to loan from related parties** | **(10,936,781)** | **(10,116,881)** |

The notes form part of these financial statements

## Reconciliation of Loss for the Year Ended 31 December 2014

| | UK GAAP $ | Effect of transition to IFRSs $ | IFRSs $ |
|---|---|---|---|
| Revenue | 16,352,331 | - | 16,352,331 |
| Cost of sales | (4,537,964) | - | (4,537,964) |
| **GROSS PROFIT** | 11,814,367 | - | 11,814,367 |
| Other operating income | 587,766 | - | 587,766 |
| Administrative expenses | (21,200,610) | (36,759) | (21,237,369) |
| Finance costs | (1,023,748) | (986,529) | (2,010,277) |
| **LOSS BEFORE TAX** | (9,822,225) | (1,023,288) | (10,845,513) |
| Income tax | 33,757 | - | 33,757 |
| **LOSS FOR THE YEAR** | (9,788,468) | (1,023,288) | (10,811,756) |
| Loss attributable to: | | | |
| Owners of the parent | (9,788,468) | (1,023,288) | (10,811,756) |

**Notes to the reconciliation of profit or loss**

The impact of the notes above on the Company Statement of Comprehensive Income for the year ended 31 December 2014 is summarised below:

| | Loans Payable $ |
|---|---|
| Finance costs | (2,010,277) |
| **Debit to the Company Statement of Profit or Loss** | **(2,010,277)** |