

Group Strategic Report, Report of the Director and
Consolidated Financial Statements for the Year Ended 31 December 2019
for
Brasslink Limited

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for the Year Ended 31 December 2019**

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Brasslink Limited

Company Information
for the Year Ended 31 December 2019

DIRECTOR: M C Smith

REGISTERED OFFICE: 3rd Floor Fairgate House
78 New Oxford Street
London
WC1A 1HB

REGISTERED NUMBER: 04805003 (England and Wales)

AUDITORS: S H LANDES LLP
Statutory Auditors
3rd Floor, Fairgate House
78 New Oxford Street
London
WC1A 1HB

Group Strategic Report
for the Year Ended 31 December 2019

REVIEW OF BUSINESS

The loss for the year, after taxation is \$3,053,673. No dividends will be distributed for the year ended 31 December 2019.

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

	\$'000000	\$'000000	%	2019	2018	Change
Turnover				10,555	16,019	(34)
Operating loss				(796)	(4,010)	(80)
Loss for the financial year				(3,054)	(13,787)	(78)
Shareholder's funds				(54,947)	(58,280)	(6)
Average number of employees				413	652	(37)

The Group shows an operating loss for 2019, decrease by 45% since last year. Group consolidation was changed in the year to include only subsidiaries under direct control by the parent company. This has resulted in comparatives not being comparable.

Nevertheless, the Group continues to work in the conditions of the continuing economic crisis, and we are seeing decline in the consumer demand, especially in the restaurant and entertainment market.

In order to increase sales, active work from marketing was carried out to attract new wholesale clients. In 2019, six new stores were opened and fourteen were closed. By the end of 2019, the Group had sixty one stores seventeen of them worked under the franchise program.

The Group's key principles are enhancing reputation of the brand by improving efficiency of production, quality of products and customer service. In order to better the quality, as well as improve operating results, the Group's management has identified a number of activities for 2019 such as:

- work on the assortment and input of those not in demand;
- revision of prices for a number of products;
- replacement of obsolete equipment;
- closing loss making outlets
- strengthening marketing activities
- further business development, opening both new own and franchising outlets.

COVID19

The imposed restrictions and lockdowns in different regions of Russia had a very strong impact on business indicators. In different cities, restrictions were imposed at different times, in particular in Moscow after March 28, sixteen cafeterias completely stopped their operations and did not serve guests inside the stores.

In April, there were five operating stores in Moscow, two in Voronezh, and one in St. Petersburg, these were only for delivery and takeaway services. In Kiev, the restrictions were not so significant and the stores were all opened, but the cafeterias sitting area was completely forbidden. Drinks were not allowed to be sold as well.

Restrictions were lifted gradually and the entire network was released for full-scale operation only by mid-July. The number of transactions dropped dramatically (by 35%) and recovered only in September up to pre-pandemic levels. In shopping centres, especially the Central children's Department store, and the centre of Moscow, this indicator remained significantly reduced compared to street retail competition (-16%), but it tends to recover.

In Voronezh, the maximum drop in customers was observed in suburban areas (about 23%). In Saint Petersburg, the impact of state-imposed restrictions was even greater, as the peak increase of morbidity was recorded in the summer months. The work of the bakeries is strictly regulated and only summer bakeries functioned until mid-August. In June, the drop in customers was 55%, in September -12%. There was an increase in customers in bakeries located near parks and gardens, in particular Tsarskoye Selo, which had a positive impact on its financial results.

Group Strategic Report
for the Year Ended 31 December 2019

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's risks are generally assessed by the management in cooperation with the financial management of the Group on a regular basis.

Main risks related to the current political and economic situation in the countries of the business, i.e. Russia and Ukraine are still being preserved. The instability of the legislative base leads to the lack of the possibility to plan economic activities, in connection with annual changes and amendments to the tax code of Ukraine and Russia. Because the Group is exposed to foreign currency risk, it affects purchasing prices. Also, Russia remains under the influence of sanctions, which greatly narrows the search for high-quality and cheap raw materials. However, the Group continues to develop with the belief that its mission is to create the highest quality product.

The Group is also facing fierce competition from the growing number of competitors producing the same range of products and targeting the same market. To face this risk the Group puts emphasis to the concepts of natural and healthy food production.

ON BEHALF OF THE BOARD:

M C Smith - Director

21 October 2020

Report of the Director
for the Year Ended 31 December 2019

The director presents his report with the financial statements of the company and the group for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

The principal activity of the group in the year under review was that of operating bakeries in Russian Federation and Ukraine.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2019.

DIRECTOR

M C Smith held office during the whole of the period from 1 January 2019 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 Group Strategic Report, 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Report of the Director
for the Year Ended 31 December 2019

STATEMENT OF DIRECTOR'S RESPONSIBILITIES - continued

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.

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

21 October 2020

Report of the Independent Auditors to the Members of Brasslink Limited

Opinion

We have audited the financial statements of Brasslink Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and Notes to the Consolidated Statement of Cash Flows, Notes to the Financial Statements, including a summary of significant accounting policies. 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.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The director is responsible for the other information. The other information comprises the information in the Group Strategic Report and the Report of the Director, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Group Strategic Report and the Report of the Director have been prepared in accordance with applicable legal requirements.

Report of the Independent Auditors to the Members of Brasslink Limited

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or the Report of the Director.

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.

Responsibilities of director

As explained more fully in the Statement of Director's Responsibilities set out on pages four and five, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the director determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the Auditors that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

Use of our report

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.

Filip Lyapov (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

21 October 2020

Consolidated Statement of Profit or Loss
for the Year Ended 31 December 2019

	Notes	31.12.19 \$	31.12.18 \$
CONTINUING OPERATIONS			
Revenue		10,554,809	16,018,859
Cost of sales		<u>(3,577,400)</u>	<u>(5,116,330)</u>
GROSS PROFIT		6,977,409	10,902,529
Other operating income		1,297,825	1,098,226
Administrative expenses		<u>(9,070,786)</u>	<u>(16,010,298)</u>
OPERATING LOSS		(795,552)	(4,009,543)
Finance costs	5	(2,320,217)	(9,627,775)
Finance income	5	<u>89,756</u>	<u>6,625</u>
LOSS BEFORE INCOME TAX	6	(3,026,013)	(13,630,693)
Income tax	7	<u>(27,660)</u>	<u>(156,152)</u>
LOSS FOR THE YEAR		<u>(3,053,673)</u>	<u>(13,786,845)</u>
Loss attributable to:			
Owners of the parent		(3,053,673)	(13,609,814)
Non-controlling interests		<u>-</u>	<u>(177,031)</u>
		<u>(3,053,673)</u>	<u>(13,786,845)</u>

The notes form part of these financial statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the Year Ended 31 December 2019

	31.12.19 \$	31.12.18 \$
LOSS FOR THE YEAR	(3,053,673)	(13,786,845)
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss:		
Foreign currency translation difference	(3,920,732)	2,317,558
Fair value gain on loans payable	1,943,551	(860,599)
Capital contribution from equity holders	311,045	207,173
Loss disposed on group combination	7,544,696	(735,658)
Income tax relating to items that will not be reclassified to profit or loss	-	-
OTHER COMPREHENSIVE INCOME		
FOR THE YEAR, NET OF INCOME TAX	<u>5,878,560</u>	<u>928,474</u>
TOTAL COMPREHENSIVE INCOME		
FOR THE YEAR	<u><u>2,824,887</u></u>	<u><u>(12,858,371)</u></u>
Total comprehensive income attributable to:		
Owners of the parent	2,317,027	(12,350,511)
Non-controlling interests	<u>507,860</u>	<u>(507,860)</u>
	<u><u>2,824,887</u></u>	<u><u>(12,858,371)</u></u>

Consolidated Statement of Financial Position
31 December 2019

	Notes	31.12.19 \$	31.12.18 \$
ASSETS			
NON-CURRENT ASSETS			
Owned			
Intangible assets	9	562,655	127,847
Property, plant and equipment	10	10,075,802	4,624,713
Right-of-use			
Property, plant and equipment	10, 19	5,414,791	-
Investments	11	231,389	-
Trade and other receivables	13	205,769	63,508
Deferred tax	21	41,700	16,547
		<u>16,532,106</u>	<u>4,832,615</u>
CURRENT ASSETS			
Inventories	12	462,558	715,840
Trade and other receivables	13	1,199,527	1,890,359
Cash and cash equivalents	14	1,029,714	1,056,204
		<u>2,691,799</u>	<u>3,662,403</u>
TOTAL ASSETS		<u>19,223,905</u>	<u>8,495,018</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	15	1,996,809	1,996,809
Other reserves	16	8,594,671	12,515,403
Additional paid in capital	16	4,393,493	2,138,897
Retained earnings	16	(69,931,987)	(74,423,010)
		<u>(54,947,014)</u>	<u>(57,771,901)</u>
Non-controlling interests		-	(507,860)
TOTAL EQUITY		<u>(54,947,014)</u>	<u>(58,279,761)</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	18	59,411,803	56,587,464
CURRENT LIABILITIES			
Trade and other payables	17	13,238,381	9,289,466
Financial liabilities - borrowings			
Interest bearing loans and borrowings	18	1,202,932	-
Tax payable		317,803	897,849
		<u>14,759,116</u>	<u>10,187,315</u>
TOTAL LIABILITIES		<u>74,170,919</u>	<u>66,774,779</u>
TOTAL EQUITY AND LIABILITIES		<u>19,223,905</u>	<u>8,495,018</u>

The financial statements were approved by the director and authorised for issue on 21 October 2020 and were signed by:

Brasslink Limited (Registered number: 04805003)

Consolidated Statement of Financial Position - continued
31 December 2019

M C Smith - Director

The notes form part of these financial statements

Company Statement of Financial Position
31 December 2019

	Notes	31.12.19 \$	31.12.18 \$
ASSETS			
NON-CURRENT ASSETS			
Owned			
Intangible assets	9	92,460	115,575
Property, plant and equipment	10	-	2,261
Right-of-use			
Investments	11	1,470,223	1,203,768
		<u>1,562,683</u>	<u>1,321,604</u>
CURRENT ASSETS			
Trade and other receivables	13	5,583	4,833
Cash and cash equivalents	14	540,045	658,952
		<u>545,628</u>	<u>663,785</u>
TOTAL ASSETS		<u>2,108,311</u>	<u>1,985,389</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	15	1,996,809	1,996,809
Retained earnings	16	(55,557,582)	(53,150,638)
TOTAL EQUITY		<u>(53,560,773)</u>	<u>(51,153,829)</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	18	54,866,809	52,453,682
CURRENT LIABILITIES			
Trade and other payables	17	802,275	685,536
TOTAL LIABILITIES		<u>55,669,084</u>	<u>53,139,218</u>
TOTAL EQUITY AND LIABILITIES		<u>2,108,311</u>	<u>1,985,389</u>

The financial statements were approved by the director and authorised for issue on 21 October 2020 and were signed by:

M C Smith - Director

Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2019

	Called up share capital \$	Retained earnings \$	Other reserves \$
Balance at 1 January 2018	1,996,809	(60,077,538)	10,197,845
Deficit for the year	-	(13,609,814)	-
Other comprehensive income	-	(735,658)	2,317,558
Total comprehensive income	-	(14,345,472)	2,317,558
Balance at 31 December 2018	1,996,809	(74,423,010)	12,515,403
Deficit for the year	-	(3,053,673)	-
Other comprehensive income	-	7,544,696	(3,920,732)
Total comprehensive income	-	4,491,023	(3,920,732)
Balance at 31 December 2019	1,996,809	(69,931,987)	8,594,671

	Additional paid in capital \$	Total \$	Non-controlling interests \$	Total equity \$
Balance at 1 January 2018	2,792,323	(45,090,561)	-	(45,090,561)
Deficit for the year	-	(13,609,814)	(177,031)	(13,786,845)
Other comprehensive income	(653,426)	928,474	(330,829)	597,645
Total comprehensive income	(653,426)	(12,681,340)	(507,860)	(13,189,200)
Balance at 31 December 2018	2,138,897	(57,771,901)	(507,860)	(58,279,761)
Deficit for the year	-	(3,053,673)	-	(3,053,673)
Other comprehensive income	2,254,596	5,878,560	507,860	6,386,420
Total comprehensive income	2,254,596	2,824,887	507,860	3,332,747
Balance at 31 December 2019	4,393,493	(54,947,014)	-	(54,947,014)

Company Statement of Changes in Equity
for the Year Ended 31 December 2019

	Called up share capital \$	Retained earnings \$	Additional paid in capital \$	Total equity \$
Balance at 1 January 2018	1,996,809	(43,699,588)	1,281,378	(40,421,401)
Changes in equity				
Total comprehensive loss	-	(9,451,050)	(1,281,378)	(10,732,428)
Balance at 31 December 2018	1,996,809	(53,150,638)	-	(51,153,829)
Changes in equity				
Total comprehensive loss	-	(2,406,944)	-	(2,406,944)
Balance at 31 December 2019	1,996,809	(55,557,582)	-	(53,560,773)

Consolidated Statement of Cash Flows
for the Year Ended 31 December 2019

		31.12.19 \$	31.12.18 \$
Cash flows from operating activities			
Cash generated from operations	1	2,658,068	(2,942,875)
Tax paid		<u>(488,995)</u>	<u>(1,103,589)</u>
Net cash from operating activities		<u>2,169,073</u>	<u>(4,046,464)</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(451,923)	(11,630)
Purchase of tangible fixed assets		(12,223,344)	(2,424,538)
Cash lost on business combination		<u>(185,569)</u>	<u>9,952</u>
Net cash from investing activities		<u>(12,860,836)</u>	<u>(2,426,216)</u>
Cash flows from financing activities			
New loans in year		1,121,084	681,366
Cash contribution from equity holders		<u>9,544,189</u>	<u>6,062,722</u>
Net cash from financing activities		<u>10,665,273</u>	<u>6,744,088</u>
(Decrease)/increase in cash and cash equivalents		<u>(26,490)</u>	<u>271,408</u>
Cash and cash equivalents at beginning of year	2	1,056,204	784,796
Cash and cash equivalents at end of year	2	<u>1,029,714</u>	<u>1,056,204</u>

**Notes to the Consolidated Statement of Cash Flows
for the Year Ended 31 December 2019**

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

	31.12.19	31.12.18
	\$	\$
Loss before income tax	(3,026,013)	(13,630,693)
Depreciation charges	303,536	700,904
Loss on disposal of fixed assets	-	31,064
Foreign exchange	(2,490,453)	1,886,529
Bad debts write off	119,291	27,191
Leases charges	(1,449,006)	-
Finance costs	2,320,217	9,627,775
Finance income	(89,756)	(6,625)
	(4,312,184)	(1,363,855)
(Increase)/decrease in inventories	(54,597)	115,442
Decrease in trade and other receivables	5,221,391	27,145
Increase/(decrease) in trade and other payables	1,803,458	(1,721,607)
Cash generated from operations	2,658,068	(2,942,875)

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 2019

	31.12.19	1.1.19
	\$	\$
Cash and cash equivalents	<u>1,029,714</u>	<u>1,056,204</u>

Year ended 31 December 2018

	31.12.18	1.1.18
	\$	\$
Cash and cash equivalents	<u>1,056,204</u>	<u>784,796</u>

Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2019

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 2019.

2. STATUTORY INFORMATION

Brasslink Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the General Information page.

3. 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 fair value measurement of certain items as disclosed in the accounting policies below.

In publishing the parent company financial statements here together with the group financial statements, the company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes.

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 \$54,947,014 (2018: \$58,279,761) and incurred a net loss of \$3,053,673 (2018: \$13,786,845).

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 from its long term borrowings to continue in operational existence for the foreseeable future. A letter of continuing financial support from the ultimate beneficiary was also obtained. For these reasons, they continue to adopt the going concern basis in preparing the accounts.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

3. ACCOUNTING POLICIES - continued

Basis of consolidation

The consolidated financial statements incorporate the results of Brasslink Limited and all of its subsidiary undertakings as at 31 December 2019 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.

The cost of an acquisition is measured as the fair value of the assets plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the cost of acquisition over the fair value of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as Goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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%.

Non-controlling interest is the interest in subsidiaries not held by the Group. Non-controlling interest at the balance sheet date represents the non-controlling interest members' portion of the identifiable asset and liabilities of the subsidiary at the acquisition date, and the non-controlling interest members' portion of movements in equity since the date of the combination. Non-controlling interest is presented within the members' equity.

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 use "Volkonskiy" brand unrestrictedly 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
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Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

3. ACCOUNTING POLICIES - continued

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.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

3. 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.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

3. 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 and the income statement and cash flow statement are translated at the average exchange rate for the period. The resulting exchange differences are recognised in the translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the balance sheet date.

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.

Leases

The company applied IFRS 16 Leases for the first time.

The company transitioned to IFRS 16 in accordance with modified retrospective method with the date of initial application of 1 January 2019. An entity applies the elected transition method consistently to all leases for which it is a lessee IFRS 16. The prior year figures were not adjusted. The company also has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases). In addition, the company has decided not to apply the new guidance to leases whose term will end within 12 month of the date of initial application. In such cases, the leases has been accounted for as a short-term leases and the lease payments associated with them will be recognised as an expense from short-term leases.

The lease liability is measured at the present value of the remaining lease payments, discounting using the incremental borrowing rate at the date of initial application, which reflects the yield of the two-ten-year bond of Russia.

The right-of-use asset is measured at an amount equal to the lease liability at the date of initial application.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

3. ACCOUNTING POLICIES - continued

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.

Useful life of property and equipment

Management assesses the remaining useful lives of items of property and equipment at least at each financial year-end. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognized in profit or loss.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Investments

Investments are valued at cost less provision for impairment.

New standards and interpretations

The following standards, interpretations and amendments to published standards have become effective during the period:

IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019)

IFRIC 23 Uncertainty over Income Tax Positions (effective 1 January 2019)

Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective 1 January 2019)

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective 1 January 2019)

The following standards, interpretations and amendments to published standards are not yet effective and have not been early adopted by the company:

IFRS 17 - Insurance Contracts

IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IFRS 3 - Definition of a business

Amendments to IAS 1 and IAS 8 - Definition of material

Conceptual Framework - Amendments to References to the Conceptual Framework in IFRS Standards

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.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019****4. EMPLOYEES AND DIRECTORS**

	31.12.19	31.12.18
	\$	\$
Wages and salaries	3,590,934	6,011,844
Social security costs	815,135	1,517,917
	<u>4,406,069</u>	<u>7,529,761</u>

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

	31.12.19	31.12.18
Bakers and specialists	317	526
Administrative staff	61	62
Management	35	64
	<u>413</u>	<u>652</u>

Management remuneration during the year was as follows:

	2019	2018
\$		
Total	<u>182,997</u>	<u>285,945</u>

	31.12.19	31.12.18
	\$	\$
Director's remuneration	<u>-</u>	<u>-</u>

Directors fees are included in the overall package of professional services fees.

5. NET FINANCE COSTS

	31.12.19	31.12.18
	\$	\$
Finance income:		
Deposit account interest	-	6,625
Loan interest	89,756	-
	<u>89,756</u>	<u>6,625</u>
Finance costs:		
Loan interest	1,757,502	9,627,775
Leasing	562,715	-
	<u>2,320,217</u>	<u>9,627,775</u>
Net finance costs	<u>2,230,461</u>	<u>9,621,150</u>

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019****6. LOSS BEFORE INCOME TAX**

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

	31.12.19	31.12.18
	\$	\$
Cost of inventories recognised as expense	3,577,400	5,116,330
Leases	1,400,522	-
Depreciation - owned assets	279,347	675,502
Loss on disposal of fixed assets	-	31,064
Patents and licences amortisation	24,189	25,402
Auditors' remuneration	8,996	5,380
Auditors' remuneration for non audit work	6,235	-
Foreign exchange differences	<u>(764,731)</u>	<u>589,349</u>

7. INCOME TAX**Analysis of tax expense**

	31.12.19	31.12.18
	\$	\$
Current tax:		
Foreign tax	<u>27,660</u>	<u>156,152</u>
Total tax expense in consolidated statement of profit or loss	<u>27,660</u>	<u>156,152</u>

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:

	31.12.19	31.12.18
	\$	\$
Loss before income tax	<u>(3,026,013)</u>	<u>(13,630,693)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2018 - 20%)	(574,942)	(2,726,139)
Effects of:		
Losses carried forward	544,930	2,774,909
Effect of profit taxed in foreign jurisdictions	-	(32,799)
Depreciation in excess of capital allowances	<u>57,672</u>	<u>140,181</u>
Tax expense	<u>27,660</u>	<u>156,152</u>

8. 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 \$(2,406,944) (2018 - \$(9,451,050)).

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

9. INTANGIBLE ASSETS

Group

	Patents and licences \$
COST	
At 1 January 2019	259,486
Additions	451,923
Disposals	(12,740)
Exchange differences	17,824
At 31 December 2019	<u>716,493</u>
AMORTISATION	
At 1 January 2019	131,639
Amortisation for year	24,189
Eliminated on disposal	(1,670)
Exchange differences	(320)
At 31 December 2019	<u>153,838</u>
NET BOOK VALUE	
At 31 December 2019	<u>562,655</u>
At 31 December 2018	<u>127,847</u>

Company

	Patents and licences \$
COST	
At 1 January 2019 and 31 December 2019	<u>231,150</u>
AMORTISATION	
At 1 January 2019	115,575
Amortisation for year	<u>23,115</u>
At 31 December 2019	<u>138,690</u>
NET BOOK VALUE	
At 31 December 2019	<u>92,460</u>
At 31 December 2018	<u>115,575</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

10. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold property \$	Short leasehold \$	Plant and machinery \$	Fixtures and fittings \$	Totals \$
COST					
At 1 January 2019	2,260,391	-	4,611,653	68,490	6,940,534
Additions	6,732,300	5,414,791	103,119	-	12,250,210
Disposals	-	-	(2,746,656)	-	(2,746,656)
Exchange differences	591,067	-	255,066	-	846,133
At 31 December 2019	9,583,758	5,414,791	2,223,182	68,490	17,290,221
DEPRECIATION					
At 1 January 2019	71,815	-	2,175,516	68,490	2,315,821
Charge for year	123,437	-	155,910	-	279,347
Eliminated on disposal	-	-	(1,025,411)	-	(1,025,411)
Exchange differences	18,853	-	211,018	-	229,871
At 31 December 2019	214,105	-	1,517,033	68,490	1,799,628
NET BOOK VALUE					
At 31 December 2019	9,369,653	5,414,791	706,149	-	15,490,593
At 31 December 2018	2,188,576	-	2,436,137	-	4,624,713

11. INVESTMENTS

Group

	Shares in group undertakings \$
COST	
Additions	231,389
At 31 December 2019	231,389
NET BOOK VALUE	
At 31 December 2019	231,389

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019**

11. INVESTMENTS - continued

Company

Shares in
group
undertakings
\$

COST

At 1 January 2019

1,203,768

Additions

266,455

At 31 December 2019

1,470,223

NET BOOK VALUE

At 31 December 2019

1,470,223

At 31 December 2018

1,203,768

12. INVENTORIES

Group

	31.12.19	31.12.18
	\$	\$
Raw materials	435,182	690,901
Finished goods	27,376	24,939
	<u>462,558</u>	<u>715,840</u>

13. TRADE AND OTHER RECEIVABLES

Group

Company

	31.12.19	31.12.18	31.12.19	31.12.18
	\$	\$	\$	\$
Current:				
Trade debtors	430,145	345,567	5,583	4,833
Other debtors	265,117	1,007,945	-	-
Prepayments	504,265	536,847	-	-
	<u>1,199,527</u>	<u>1,890,359</u>	<u>5,583</u>	<u>4,833</u>
Non-current:				
Other debtors	<u>205,769</u>	<u>63,508</u>	<u>-</u>	<u>-</u>
Aggregate amounts	<u>1,405,296</u>	<u>1,953,867</u>	<u>5,583</u>	<u>4,833</u>

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019**

14. CASH AND CASH EQUIVALENTS

in USD	2019		2018	
	Group	Company	Group	Company
Cash and cash equivalents in RUB	394,237	2,938	1,001,430	627,473
Cash and cash equivalents in GBP	-	-	72	72
Cash and cash equivalents in USD	-	-	10,523	10,523
Cash and cash equivalents in EUR	527,107	537,107	20,703	20,703
Cash and cash equivalents in UAH	98,370	-	23,295	-
Cash and cash equivalents in CHF	-	-	181	181
	<u>1,029,714</u>	<u>540,045</u>	<u>1,056,204</u>	<u>658,952</u>

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 21.

15. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:				
Number:	Class:	Nominal value:	31.12.19	31.12.18
			\$	\$
1,000,000	Ordinary	£1.00	<u>1,996,809</u>	<u>1,996,809</u>

16. RESERVES

Group	Retained earnings	Other reserves	Additional paid in capital	Totals
	\$	\$	\$	\$
At 1 January 2019	(74,423,010)	12,515,403	2,138,897	(59,768,710)
Deficit for the year	(3,053,673)			(3,053,673)
Foreign currency translation	-	(3,920,732)	1,943,551	(1,977,181)
Profit and loss acquired on group combination	-	-	311,045	311,045
Loss of subsidiaries not directly controlled	7,544,696	-	-	7,544,696
At 31 December 2019	<u>(69,931,987)</u>	<u>8,594,671</u>	<u>4,393,493</u>	<u>(56,943,823)</u>
Company				Retained earnings
				\$
At 1 January 2019				(53,150,638)
Deficit for the year				<u>(2,406,944)</u>
At 31 December 2019				<u>(55,557,582)</u>

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019**

17. TRADE AND OTHER PAYABLES

	Group		Company	
	31.12.19	31.12.18	31.12.19	31.12.18
	\$	\$	\$	\$
Current:				
Trade creditors	1,096,775	1,279,112	-	-
Other creditors	11,863,201	550,688	-	-
Loan from beneficial owner	-	7,129,073	748,477	633,242
Accrued expenses	278,405	330,593	53,798	52,294
	<u>13,238,381</u>	<u>9,289,466</u>	<u>802,275</u>	<u>685,536</u>

18. FINANCIAL LIABILITIES - BORROWINGS

	Group		Company	
	31.12.19	31.12.18	31.12.19	31.12.18
	\$	\$	\$	\$
Current:				
Leases (see note 19)	<u>1,202,932</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current:				
Other loans - 1-2 years	54,883,303	56,587,464	54,866,809	52,453,682
Leases (see note 19)	<u>4,528,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>59,411,803</u>	<u>56,587,464</u>	<u>54,866,809</u>	<u>52,453,682</u>

Terms and debt repayment schedule

Group

	1 year or less	1-2 years	2-5 years	Totals
	\$	\$	\$	\$
Other loans	-	-	54,883,303	54,883,303
Leases	<u>1,202,932</u>	<u>4,528,500</u>	<u>-</u>	<u>5,731,432</u>
	<u>1,202,932</u>	<u>4,528,500</u>	<u>54,883,303</u>	<u>60,614,735</u>

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019****18. FINANCIAL LIABILITIES - BORROWINGS - continued**

Terms and debt repayment schedule.

Terms and conditions of outstanding loans for the group were as follows:

		Interest rate	Year	2019 Face value	2019 Carrying amount	2018 Face value	2018 Carrying amount
Unsecured loans	USD	3%	2022	42,754,569	42,754,569	41,819,773	41,819,773
Unsecured loans	EUR	4.5%	2021	9,555,176	9,555,176	9,409,340	9,409,340
Unsecured loans	RUB	4.5%	2025	1,424,305	1,424,305	1,224,569	1,224,569
Unsecured loans	EUR	3%	2024	1,132,759	1,132,759	-	-
Unsecured loans	RUB	3%	2021	16,494	16,494	4,133,782	4,136,782
Total				<u>4,883,303</u>	<u>4,883,303</u>	<u>6,587,464</u>	<u>6,590,464</u>

Terms and conditions of outstanding loans for the company were as follows:

		Interest rate	Year	2019 Face value	2019 Carrying amount	2018 Face value	2018 Carrying amount
Unsecured loans	USD	3%	2022	42,754,569	42,754,569	41,819,773	41,819,773
Unsecured loans	EUR	4.5%	2021	9,555,176	9,555,176	9,409,340	9,409,340
Unsecured loans	RUB	4.5%	2025	1,424,305	1,424,305	1,224,569	1,224,569
Unsecured loans	EUR	3%	2024	1,132,759	1,132,759	-	-
Total				<u>4,866,809</u>	<u>4,866,809</u>	<u>2,453,682</u>	<u>2,453,682</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

19. LEASING

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

Adoption of IFRS 16 requires that lessees recognise nearly all leases on the balance that will reflect a right of use asset and a lease liability based on the discounted future payments required under the lease. This is in contrast to the existing leasing standard where only finance leases are recorded on the balance sheet and operating leases are recorded in the profit and loss account with no balance sheet impact.

The Group's only material lease commitments related to rent payable on the office and coffee shops buildings. Management reviewed the companies rental agreements to calculate the required adjustments. Optional lease periods were excluded from the lease term when calculating the present value of the discounted future payments on the lease as management could not conclude with reasonable certainty that the lease would not be terminated at the next break point as any changes in business circumstances between now and then would dictate whether the properties remain suitable for the business. A discount rate between 7.86% and 8.74% was applied based on incremental borrowing rate.

Financial impact of initial application of IFRS 16

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current period.

	Year ended 31.12.2019
Impact on profit before income tax for the period	
Increase in depreciation	1,400,522
Increase in finance cost	562,716
Decrease in rental cost	(1,683,155)
Effect on exchange differences	3,709
Decrease in profit for the period	<u>283,792</u>

Impact on assets, liabilities and equity as at 31 December 2019

Right-of-use assets	6,873,205
Right-of-use assets accumulated depreciation	<u>1,458,414</u>
Net impact on total assets	<u>5,414,791</u>
Lease liabilities - short term	1,202,932
Lease liabilities - long term	<u>4,528,500</u>
Net impact on total liabilities	<u>5,731,432</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

20. 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	
		2019	2018
\$	\$		
Cash and cash equivalents		1,029,714	1,056,204
Trade and other receivables		1,199,527	1,890,359

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.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

			Up to 1 year	1-3 years	More than 3 years	Total
	\$	\$	\$	\$		
2019						
Trade and other payables			14,759,116	-	-	14,759,116
Unsecured long term borrowings			-	-	54,883,303	54,883,303
2018						
Trade and other payables			10,187,315	-	-	10,187,315
Unsecured long term borrowings			-	-	56,587,464	56,587,464

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

			Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
	\$	\$	\$	\$		
Financial liabilities at amortised cost			54,883,303	54,883,303	56,587,464	56,587,464

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 Hryvnia (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.

Assets and liabilities by denominated currency for the year ended 31 December 2019 is as follows:

	USD	RUB	EUR	UAH	Other	Total
Trade and other receivables	5,583	930,583	-	263,361	-	1,199,527
Cash and cash equivalents	-	394,238	550,555	98,370	-	1,043,163
Loans and borrowings	-42,754,569	-5,969,299	-10,687,935	-	-	-59,411,803
Trade and other payables	-	-14,301,054	-	-404,264	-53,798	-14,759,116
			-10,137,38			
Totals	-42,748,986	-18,945,531	0	-42,533	-53,798	-71,928,229

Effect of principal exchange rate fluctuations on the Group's consolidated statement of comprehensive income for the year ended 31 December 2019 is as follows:

In US dollars:	Exchange rate fluctuations %	Estimation of gain/(loss)
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**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019**

USD/RUB	10%	1,894,553
USD/RUB	-10%	(1,894,553)
USD/EURO	10%	1,013,738
USD/EURO	-10%	(1,013,738)
USD/UAH	10%	4,253
USD/UAH	-10%	(4,253)

The following significant exchange rates applied during the year:

In US dollars:	Average rate 2019	Average rate 2018	Spot rate 2019	Spot rate 2018
EURO	0.8931	0.8462	0.8909	0.8741
RUB	64.6906	62.7700	62.0452	69.4400
UAH	25.8456	27.2005	23.6862	27.6883

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 \$54,883,303 (2018: \$56,587,464) in the average effective interest rate of 3.60%.

Effect of interest rate fluctuations on the Group's consolidated statement of comprehensive income for the year ended 31 December 2019 is as follows:

	Average rate %	Adjustments 10% %	Amount \$
10% interest rate increasing	3.60	0.36	197,580
10% interest rate decreasing	3.60	-0.36	-197,580

Fair values versus carrying amounts

The base for determination of a fair value is disclosed in Note 3. 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 19).

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 2019 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

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019**

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.

21. DEFERRED TAX

Deferred tax assets have not been recognised in respect of the cumulative group losses of \$69,931,987 (2018: \$74,423,010). Deferred tax asset has not been recognised as no profit is expected in the near future.

22. 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.

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.

In terms of currency regulations, the new currency law was adopted in 2018 and came into force on 7 February 2019. It purports to enable the National Bank of Ukraine to promote more liberal currency regulation and soften a number of currency restrictions.

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.

**Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019****23. RELATED PARTY DISCLOSURES**

At the balance sheet date, the following amounts are included within non-current borrowings after more than one year.

			2019	2018
	\$	\$		
Garese & Associates			9,555,176	9,409,340
Nexia Limited			2,557,064	1,224,569
Hlebnaya Lavka			16,494	-
Pennerley Holding Limited			-	3,508,829

The company was charged interest of \$363,539 (2018: \$383,407) by Garese & Associates, a company under common control. The company was charged interest of \$61,821 (2018: \$53,165) by Nexia Limited, a company under common control. The company was charged interest of \$nil (2018: \$157,757) by Pennerley Holding Limited, a company under common control.

At the end of the year, group owed to Mr A Garese \$11,433,514 (2018: \$7,129,073), included in other creditors, interest charged on these loans were \$320,511 (2018: \$267,863).

In addition, in the year, trade debtors and other receivables with a number of companies held under common control amounted to \$228,848, and trade creditors and other payables to \$87,065.

24. 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.

25. SIGNIFICANT SUBSIDIARIES

Subsidiary	Country of incorporation	Ownership/voting	
		2019	2018
OOO Gloria Plus	Russian Federation	99%	99%
OOO Trade House Volkonskiy	Russian Federation	99%	99%
OOO Konditerskaya Volkonskogo	Ukraine	100%	100%
OOO Garese and Partners	Russian Federation	99%	99%

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.