# LINEN

NOVEMBER 2022

Information Memorandum

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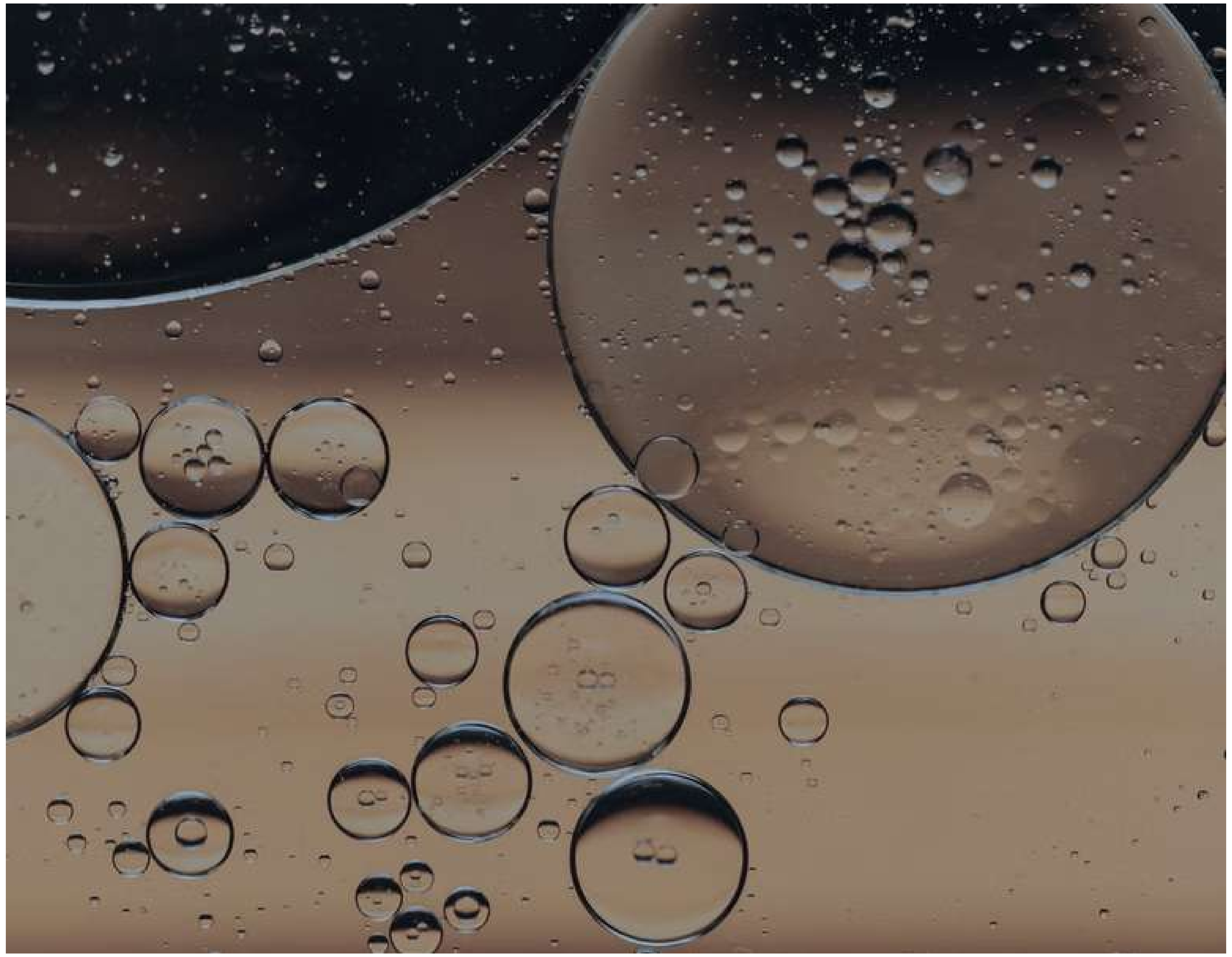
The target market assessment by the product manufacturer Signet Bank AS has led to the conclusion that: (i) the target market for the bonds is eligible counterparties, professional clients, and retail clients, each as defined in Directive 2014/65/EU (MIFID II); (ii) all channels for distribution of the Notes to eligible counterparties, professional clients and retail clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a Distributor) should take into consideration the manufacturer’s target market assessment, however, a Distributor subject to MIFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

# TABLE OF CONTENTS



# KEY HIGHLIGHTS

## Family-owned, globally conducted

Almost half of volume in meat production is considered waste. Through reprocessing, animal protein meal and animal fats are created. These products can be further used in animal feed, human food, organic fertilisers and cosmetics. LINEN has a deep knowledge and is specialising in trade of these ingredients with an experience of almost 30 years and clients in 46 markets. LINEN is a supplier to some of the worlds largest animal feed producers and LINEN is considered to be one of the largest exporters of these ingredients to developing countries.

**28.3**

Million EUR turnover in 2021

**28**

Years of management board experience in the field

Deep and long term relationships with suppliers and customers

**30**

Employees in Riga office

**3782**

Shipped containers in 2021

**100k**

Metric tons of feed ingredients sold

**46**

Countries

**38,5%**

CAGR annual growth rate over past 5 years.

# EXECUTIVE SUMMARY

**Company overview**

Very stable and well diversified feed ingredients trading business, since 2004

Full-cycle, door-to-door trading and delivery service

GMP+ certified - the highest standard for animal feed quality assurance

As of June, 2022 – associated member of European Fat Processors and Renderers Association

**Strong Financial position[1]**

Equity ratio more than 73% in FY21

EBITDA in FY21 over EUR 2.8 million

High liquidy business, Net Debt is very low compared to total revenues.

**Key to success**

Highly experienced management team

Deep and long lasting relationships with customers and suppliers, developed since 1994

Business is a part of food chain that is resilient to economic and financial crises.

161 suppliers from 28 countries and 4 continents.

175 clients in 46 countries and 3 continents.

**Carbon negative and versatile products**

Products that facilitate circular economy and reduce dependency on fossil fuels

Ingredients that can replace commodities that become more scarce due to geopolitical tensions and climate change

Wide application of goods from animal feed, human food to biofuels, fertilisers, and cosmetics

| SIA L.J. LINEN KEY FIGURES EUR'000[2] | 2019 | 2020 | 2021 | 6M 2022(A) |
|---|---|---|---|---|
| Net Revenue | 16 294 | 18 283 | 28 332 | 15 062 |
| EBITDA | 883 | 225 | 2 843 | 976 |
| Net profit/loss | 843 | 229 | 2 786 | 920 |
| Accounts receivable | 4 445 | 5 049 | 6 942 | 8 998 |
| EBITDA margin | 5.4% | 1.4% | 10.0% | 6.5% |
| Net Debt | 176 | (27) | 255 | 511 |
| Equity ratio | 48% | 44% | 74% | 66% |

Source : Financial statements 2019, 2020, 2021, audited by SIA "Sandra Dzerele un partneris"

Source[2]: KPMG performed red flag financial, tax and legal due diligence review on L.J. Linen SIA as of 15th of June 2022.

# DEVELOPMENT MILESTONES

1994–2004

## Origins

Founding members were engaged in representing Scandinavian trading companies in Eastern Europe and had set up animal origin waste collection company that had a successful exit.

## Foundation

LINEN was founded to establish trade of linen fabrics from the Baltic States to the Republic of South Africa, as well as, to continue trade of animal origin products in Europe.

2005

## First steps in Africa

LINEN hosts a visit of the ambassador of the Republic of South Africa and an Economic attache of RSA in Riga.

2008

## First steps in Asia

LINEN starts trade deals with China, Vietnam, Bangladesh, and Indonesia and exports goods from Scandinavia to South East Asia. Most of the clients are being serviced still today.

2015

## Quality

LINEN implements GMP+ (highest quality standard in European Union for product traceability and quality management) quality assurance standard.

## European Renderers Association

LINEN participates in European Fat Processors and Renderers Association (EFPRA) convention where it establishes contacts with most of the processors of animal origin by-products in the European Union, hence starting a period of very steep growth.

2016

## New products

LINEN starts imports of vegetable proteins from India to Europe and becomes a supplier of vegetable proteins to the world's largest fish feed producers in Norway (Marine Harvest, EWOS, Skretting).

## Research and development

Together with Lantmännen - one of the largest Swedish agribusiness - LINEN starts field trials for introduction of new vegetable proteins in dairy farming in Sweden.

2017

## Western Africa

LINEN starts trade with Nigeria and establishes long term partnership with one of the largest commodity trading companies in the world.

## Eastern Africa

LINEN participates in a trade mission and expo in Rwanda to establish ties with the Rwandan Ministry of Agriculture and develop trade ties with other East African countries.

2022

## Further expansion

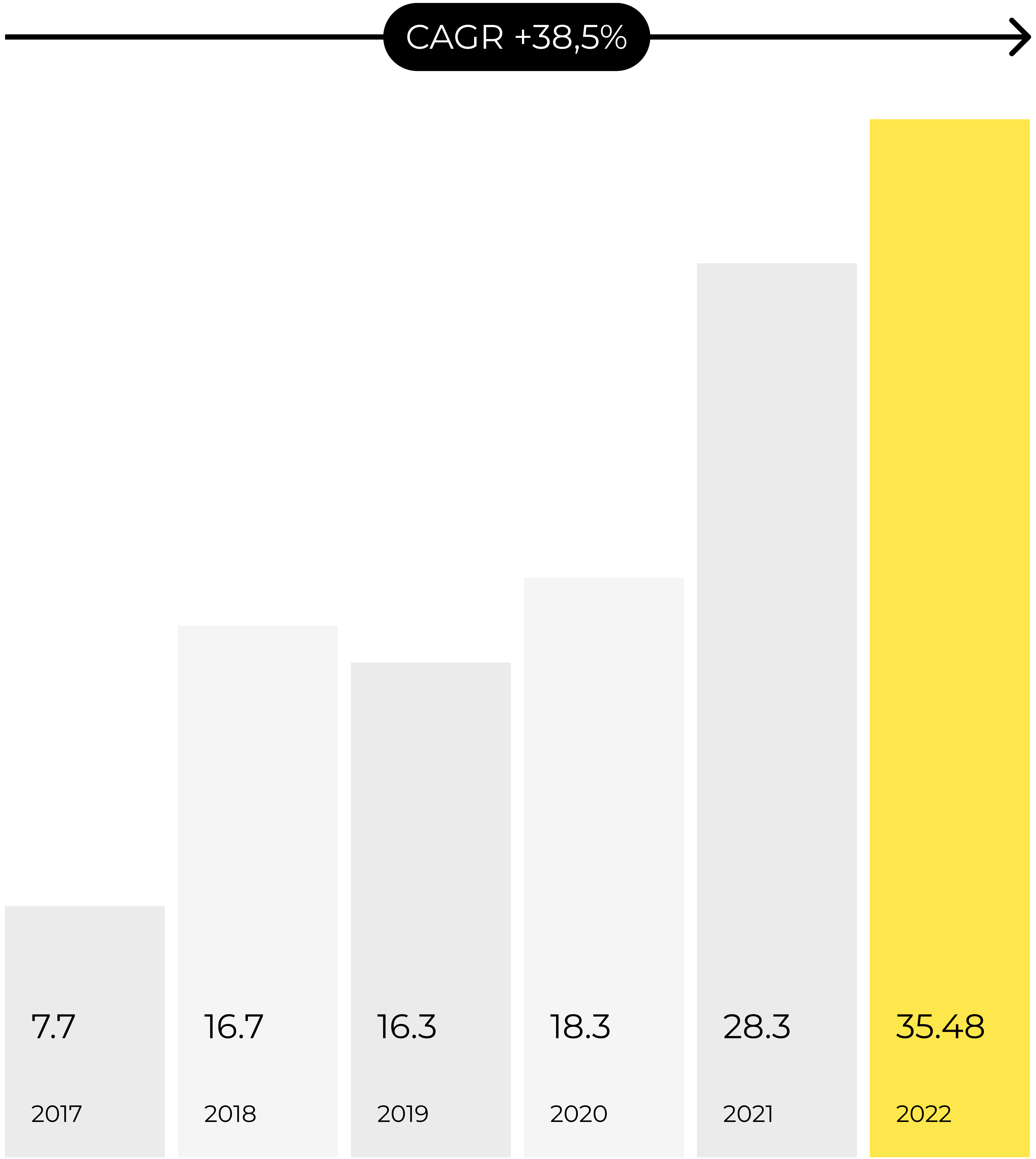
2018 – 2022 LINEN sets up offices in 7 countries in Central Africa, establishes representative offices in South East Asia.

2022

## Recognition

LINEN is approved as an associated member of EFPRA (An institution that was established to participate in legislation and coordination between the European Commission and European processors of animal origin by-products)

# LINEN REVENUE GROWTH DURING LAST 5Y



# TABLE OF CONTENTS

# GROUP STRUCTURE

Headquarters and management are located in Riga. The group is already undergoing a consolidation where Linen will become the sole shareholder of Arowana Exim PTE, to improve inter-company settlements and consolidate the group's financial reports. Operations in Africa will remain as a separate trading division.

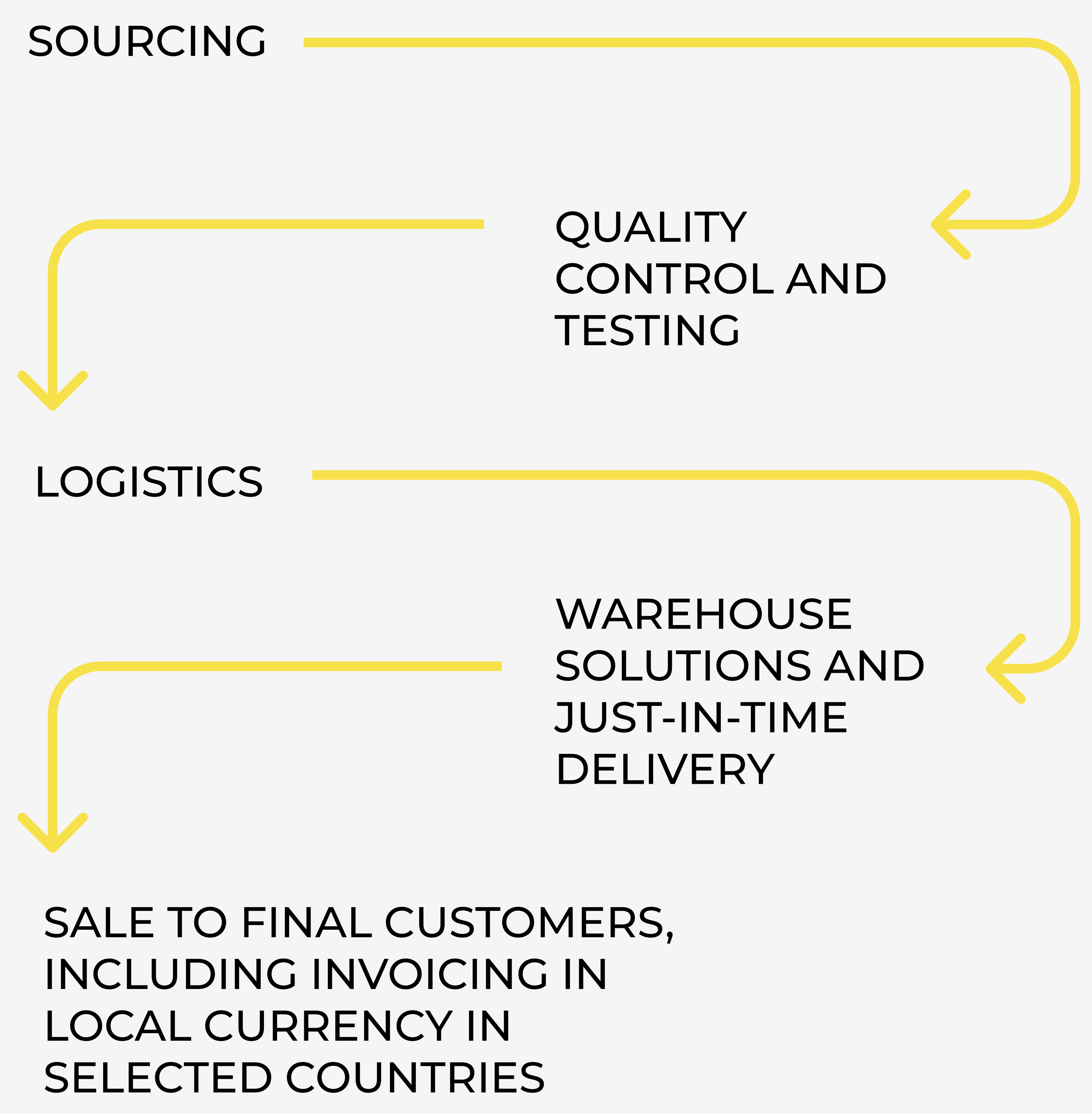
| | | | |
|---|---|---|---|
| UBO & SHAREHOLDER | MR. JĀNIS KUĻIKOVSKIS<br>Latvia | | |
| | 100% | 100% | 100% |
| COMPANY & FUNCTION | L.J. LINEN LTD<br>Latvia Bond issuer<br>Trading company<br>Management in Latvia | AROWANA EXIM PTE LTD<br>Singapore<br>Settlement company<br>Management in Latvia | LIONPRO PTE LTD<br>Singapore<br>Settlement company<br>Management in Latvia |
| ROLE OF THE COMPANY | Group headquarters<br>Sourcing of goods for the group<br>Business transactions in Europe | Settlement of Financial, Banking, and Business transactions with customers in Asia, and South America | Settlement of Financial, Banking, and Business transactions with customers in to Africa |
| REGION OF OPERATIONS | EUROPE | ASIA | AFRICA |

# TRADED PRODUCTS

| TRADED PRODUCTS | USED IN | | | | | |
|---|---|---|---|---|---|---|
| | Animal feed | Organic Fertilizer | Pet food | Aquafeed | Biodiesel | Cosmetics |
|  PROCESSED ANIMAL PROTEIN | | | | | | |
|  ANIMAL FATS | | | | | | |
|  SOYBEANS AND CORN | | | | | | |

# VALUE PROPOSITION

LINEN and its Group provides a seamless, full-cycle, door-to-door trading and delivery service as displayed on the right. LINEN is a bridge between producers of raw materials and producers animal feeds, biofuels, and human food.

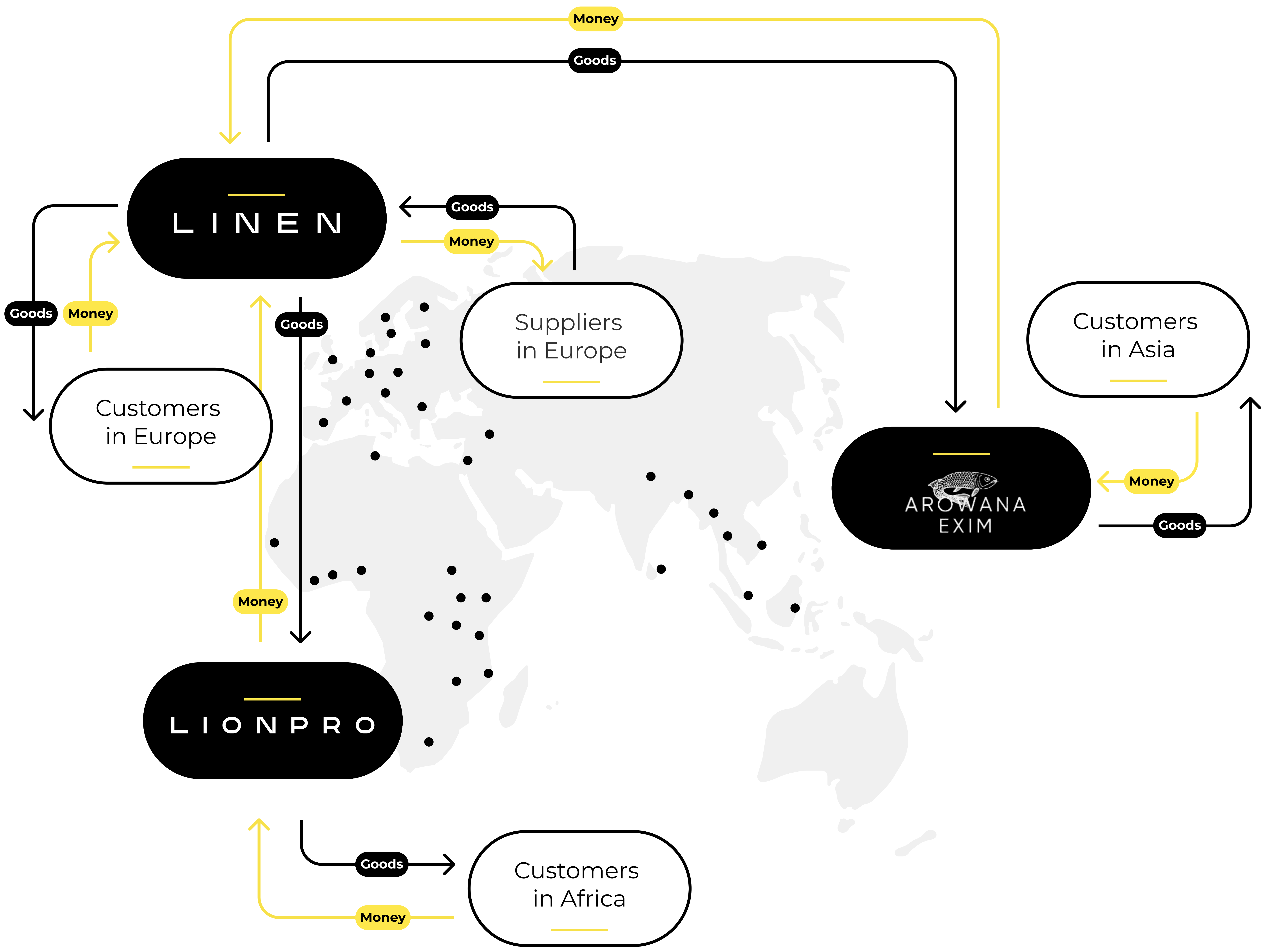


All operations in Europe are executed by LINEN. Sales to Asian customers are executed via AROWANA EXIM LTD. Sales to African customers are executed via Lionpro PTE and 7 SPV companies for distribution.

Groups operations provide an all in one service to the end customer - sourcing the goods, logistics & shipping, documentation for the customs.

# SALES PROCESS

For transactions outside the EU, Lionpro PTE LTD and Arowana EXIM PTE LTD are used as the main settlement companies in the group structure.



# SALES OVERVIEW

## Key trends

Sales growth was driven by development in Asia whereas Sales grew almost 3x in period FY19-FY21. Sales to Africa and Europe returned to pre-pandemic levels in FY21

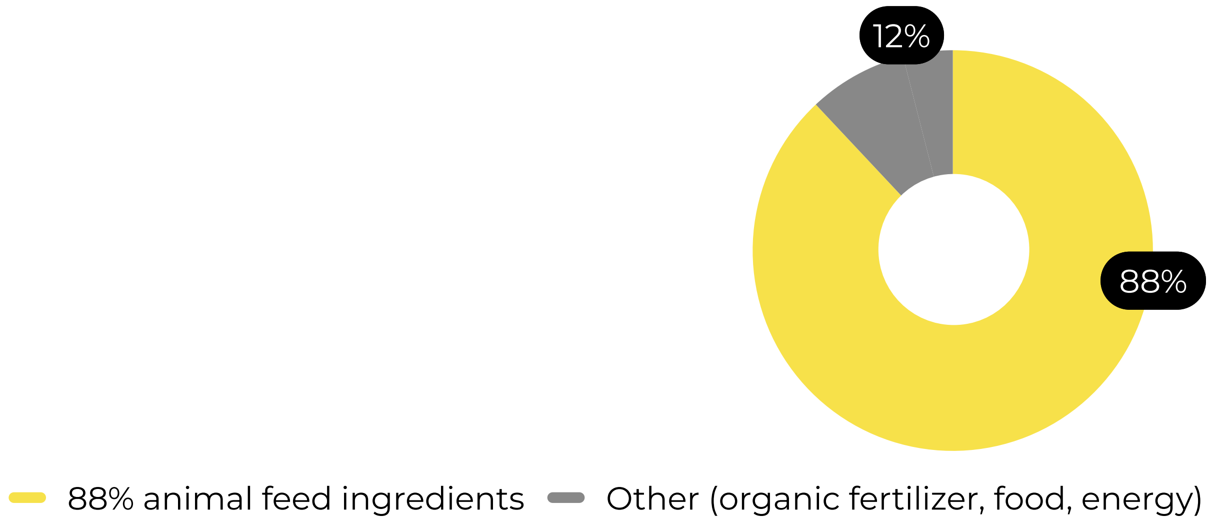
## Customers in Africa and Asia

Sales to Asian and African customers are serviced through Arowana Exim and Lionpro, to ensure processing of financial instruments and internal treasury functions.

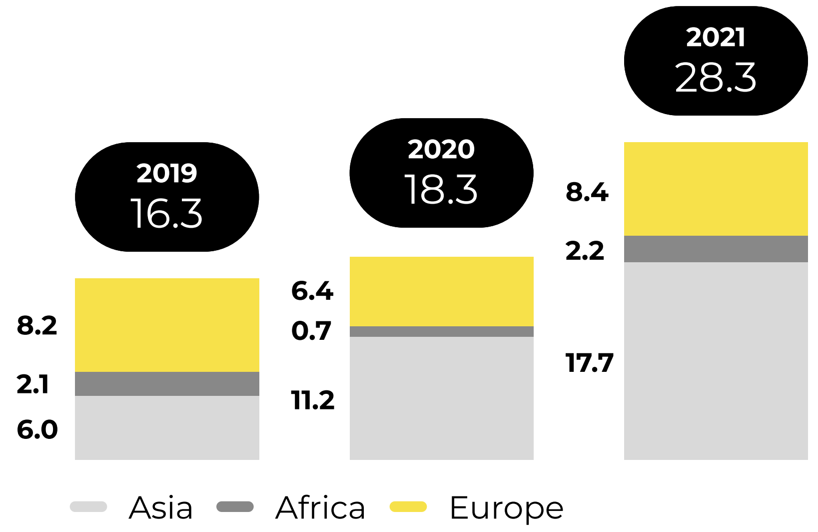
## Growth drivers

Key growth drivers - business development in Asia and Europe, strategic partnerships with suppliers and customers.

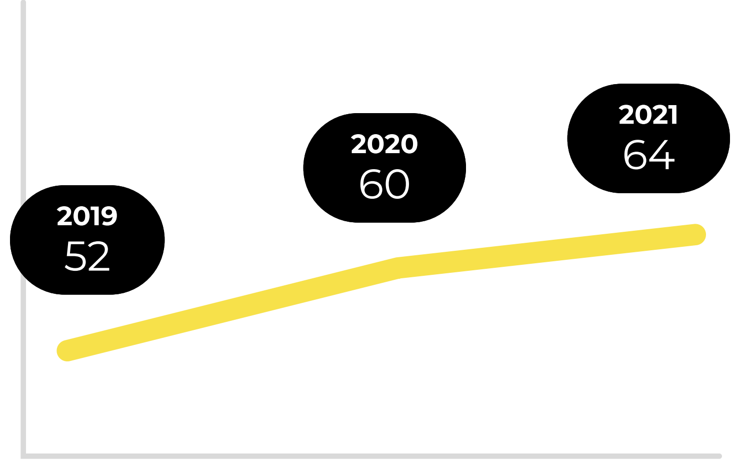
Sales breakdown by products, 2021



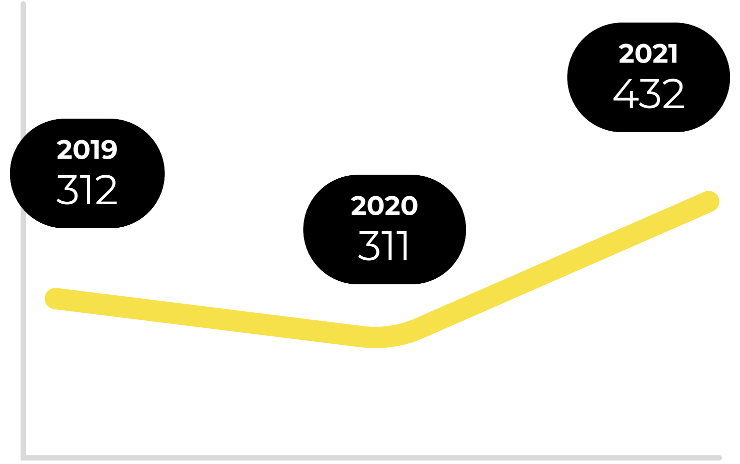

Sales by region 2019-2021, EURm*




Sales volume, thousands, tonnes




Pet and Animal food average price, EUR/tonne

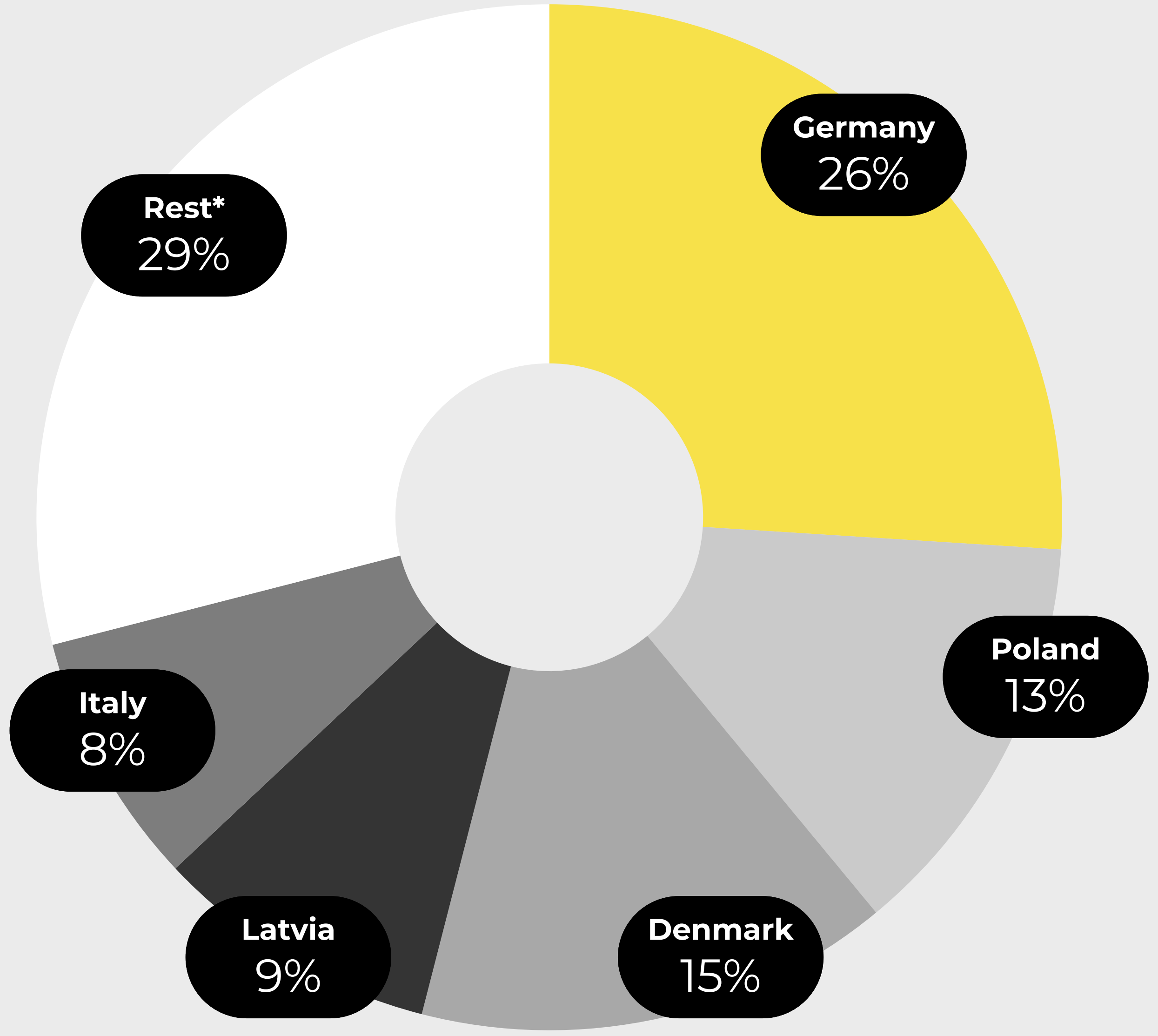



*Note: Sales to Asia, are reflected as sales to Arowana EXIM PTE LTD and sales to Africa are reflected as sales to Lionpro PTE LTD from SIA L.J. Linen.

# SUPPLIER OVERVIEW

## Diversified producer base

Top 5 suppliers contribute 34% from total of 21.9 EURm in FY21. Top supplier countries are Germany, Denmark and Poland.




*Includes suppliers from other European countries.

## Key suppliers

SARIA

DARLING INGREDIENTS

sonac

THE LAURIDSEN GROUP

Main supplies are sourced by LINEN from producers in Europe for customers in Europe, Asia, Africa.

## Key logistics partners

msc

Mitchell Cotts

YANG MING

MAERSK

CMA CGM

COSCO SHIPPING 中远海运集装箱运输有限公司 COSCO SHIPPING LINES CO., LTD.

Due to high volume of shipments, LINEN works directly with shipping lines and top tier warehousing providers.

# GLOBAL CHANGES ARE CREATING OPPORTUNITIES

## MARKET INFORMATION

Global meat production will increase by 44 million tonnes reaching 373 million tonnes, by 2030, according to OECD, resulting in increased livestock production and need for animal feed.*

Global animal proteins market is predicted to grow from USD12,56 billion in 2021 to USD15,21 billion in 2028**.

Diversified assortment of raw materials is becoming paramount to stabilise end-product prices.

## TARGETED MARKETS

### AFRICA AND MIDDLE EAST

The adoption of protein-based animal feed products in the Middle East and Africa is increasing significantly. Favourable government policies are adopted to create awareness among the farmers about the use of these products.

### ASIA PACIFIC

Processed animal protein market in Asia accounts for 34% (USD 4.3 billion) from the global market size**.

### EUROPE

Changes in regulations allow wider use of animal proteins in animal feeds, increasing possibilities for trade.

## GLOBAL TENSIONS

### CLIMATE CHANGE

Climate change is creating severe weather conditions in several areas that are growing vegetable ingredients of animal feed, thus stimulating demand for alternative sources of raw materials.

### GEOPOLITICAL TENSIONS

Geopolitical turmoil in Europe and potentially Asia is driving prices of traditional ingredients. Developing nations are motivated to use several suppliers and alternative sources of animal and human foods.

### PRICE SENSITIVITY

Animal proteins and fats are fluctuating less in price because of the nature of these products. This fact and the high nutritional value is a very helpful selling point of LINEN offices around the globe and especially in developing countries.

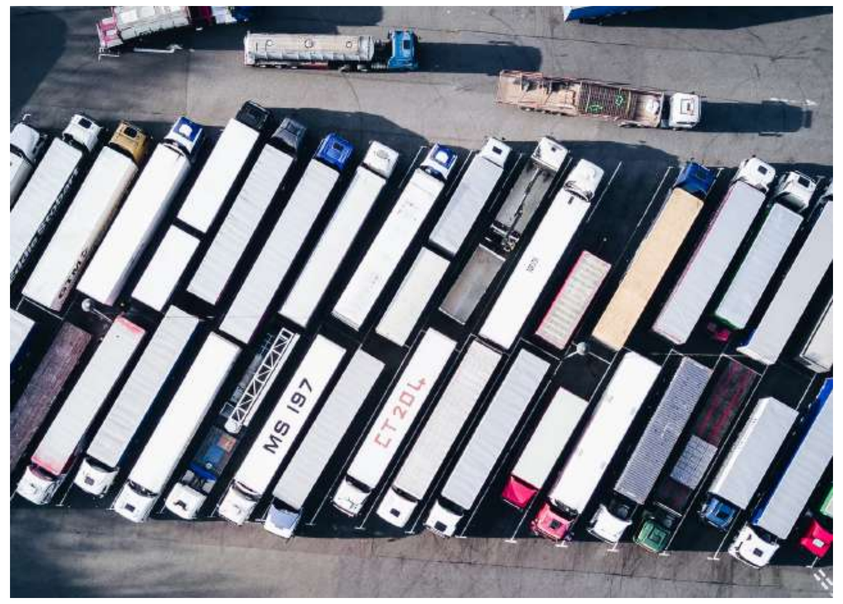
*Source: OECD-FAO AGRICULTURAL OUTLOOK 2021-2030

**Source: Fortune Business Insights

# PILLARS OF FUTURE GROWTH

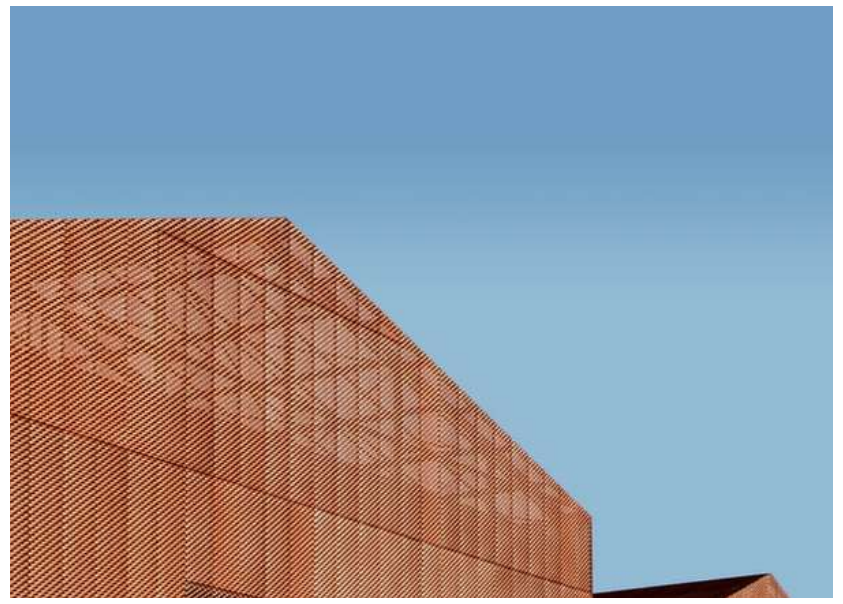
With almost 30 years of experience LINEN has positioned itself favourably to be ahead of the market and has developed competitive advantages over time.

### Unique Service



LINEN is closely monitoring global markets and is offering a unique and complete combination of services. From sourcing raw materials, to developing supply chains with favourable financing options.

### On-time deliveries

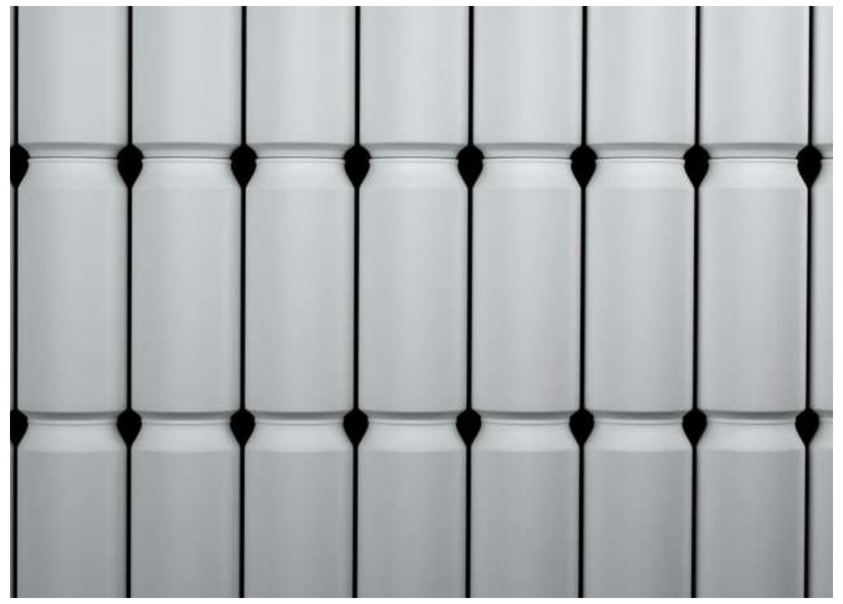


LINEN has created client specific reporting to provide real time tracking of consignments and helping inventory planning to its clients.

### Quality Control

The company is implementing highest international standards for quality assurance and product traceability. Every ton or product can be traced back to its very origin. Standards include GMP+, GAFTA, HACCP - highest global and European standards for animal feeds.

### New Products



By being in the industry for very long time, LINEN is constantly following newest trends in product development and new raw materials. Currently, LINEN is using the changes in energy markets and exploring new animal and vegetable sources for production of biofuels and biogas.

### Supplier and customer network expansion

By providing more ingredients to existing client base and increasing number of clients, LINEN is creating greater dependancy or the buyers and stronger leverage with suppliers.

# SUSTAINABILITY

17

Million tonnes of animal waste by-products are processed annually

6

Million tonnes of useful materials recovered

186

Thousand tonnes of edible fats are produced

# SUSTAINABILITY

Rendering is a true recycling of waste and it produces three main end products: wastewater that is cleaned, processed animal protein and animal fat. By process of recycling, dependancy on vegetable proteins and oils is decreased and it has a direct influence on CO2 emissions due to less deforestation. Cost efficiency is a favourable side-effect.

- Less food waste, more re-usable materials
- Less deforestation
- Fewer greenhouse gas emissions
- Lower carbon emissions
- Food waste diverted from landfills
- Clean water reclaimed and returned to rivers

# COMPETITIVE LANDSCAPE

## ATTRACTIVE MARKETS

LINEN is focusing on developing markets that are growing fast and overtime have proven to convert into very attractive targets for feed ingredient producers.

## VALUE CREATOR

European and International feed ingredient producers and suppliers are praising complete service that LINEN provides. Deeper vertical integration favours LINEN over its competitors.

## COMPETITION

Main competitors in the field are typically focusing either on very narrow range of markets or narrow range of services that they provide. LINEN is having wider reach as well as better risk diversification.

| | DESCRIPTION | MARKET PRESENCE* EUROPE | MARKET PRESENCE* ASIA | MARKET PRESENCE* NORTH AMERICA | MARKET PRESENCE* SOUTH AMERICA | MARKET PRESENCE* AFRICA |
|---|---|---|---|---|---|---|
| SCOULAR | Manufacturer and international trader with presence in North America and Asia with plans to expand in Europe. Produces everything starting from grains till pet food. | | ✓ | ✓ | | |
| CAGEMAX | International trader with presence in North America, Asia and Europe. Sells processed animal protein to Europe and Asia from suppliers in USA. | ✓ | | | | |
| K·PRO | International trader with presence in North America, Asia and Europe. Sells processed animal protein to Europe and Asia from suppliers in USA. | ✓ | ✓ | ✓ | | |
| LINEN & group | International processed animal protein trading company, with presence in Europe, Asia and Africa. South America coming soon. | ✓ | ✓ | | ✓ | ✓ |

*Information from publicly available sources as at 30 June, 2022

# TABLE OF CONTENTS

# LINEN AND GROUP BOARD & MANAGEMENT TEAM

## Jānis Kuļikovskis

Founder & board member

Experienced entrepreneur with a demonstrated history of establishing businesses in waste management, International trade, e-commerce and Fintech industry. Skilled in Negotiation, Market Research, Emerging markets, Management, and Business Development. Strong entrepreneurship professional with an academic background in Law, Finance and Economics. Founder at L.J.LINEN, Member of the Supervisory Board & Shareholder at Cits Medijs, previously CEO at Reneta LTD.

EMBA from SSERIGA, studies at HKUST, LLM from University of Latvia, BS from SSERIGA.

linkedin.com/in/janis-kulikovskis-9310b61

## Līvija Kuļikovska

Founder & board member

Uniquely qualified individual with broad experience in business development, international trade and supply chain management. Shareholder at Cits Medijs, founder of Reneta LTD. MSc in Food Technology and Processing

Linkedin.com/in/livija-kulikovska-1a5836183/

## Zane Kuļikovska

CEO & board member

10+ years experienced sales professional with exceptional management skills - making major corporate decisions, managing the overall operations and resources of the company, acting as the main point of communication between suppliers across Europe, clients in Asia and Africa.

Partner at  Lionpro Group, previously Deputy Manager at Radisson Hotel Old Town Riga(Astor Riga), Creative director at Aterno Ltd. BNI Kettler Global Trade chapter Vice president in development and growth MBA in Strategic Management from SSERIGA, LLM from Riga Graduate school of Law,  LLM from University of Latvia.

linkedin.com/in/zane-kuļikovska-13588053

## Jānis Lasmanis

COO

5+ years of experience in sales process establishment, team leadership and coaching, enablement, negotiating, and managing complex sales processes. Explored and opened new markets with experience on the ground in LatAm, SEA, Africa, Europe. Previously Head of New Partnerships & Partnerships Executive at Mintos, Attachee at Ministry of Foreign Affairs of Latvia.

MBA in International Business,Trade & Commerce from Université Paris-Est Créteil (UPEC)

linkedin.com/in/janis-lasmanis

## Ivanda Leja

CFO

Experienced professional in finance management and control with a demonstrated history of working in the outsourced finance services (BIG 4) and retail industry. Skilled in budgeting and finance controlling, business & strategy planning, internal audit as well as accounting. Group Chief Financial officer at Linen & Lionpro Group, previously CFO & Board member at Veho Oy Ab, Tax & Accounting Manager at Rimi Baltic Group, Senior Consultant at Ernest & Young Baltic MBA in Business Administration from BA School of Business and Finance

linkedin.com/in/ivanda-leja-4304b130

## Tomass Riekstiņš

Head of Logistics

Resourceful, competent and experienced logistics team manager with broad international experience. With a clear focus on the big picture combined with a "can-do" attitude and the drive to get things done. As part of the organisation's core management team responsible for the development of new business ventures in the Western African region.

Previously Senior project manager at BLS Baltic Logistics Solutions, Key Account manager at Sportacentrs.

Lycée Français de Riga

linkedin.com/in/tomass-riekstiņš-8b885860

## Lauris Grāvelis

Business development lead

Ambitious, self-sufficient and performance-oriented manager. A "people person" who is comfortable contacting partners, enjoys teamwork and grasps information quickly. Specialties: strategy, growth hacking, operations, team scaling, product development.

Previously Head of Supply at Printify, Marketing & Sales Manager at Sonarworks, Business Development manager at Berta.me.

MSc, Economics and Business Administration, Financial Economics from Erasmus University Rotterdam, BSc, Economics and Business Administration from SSERIGA

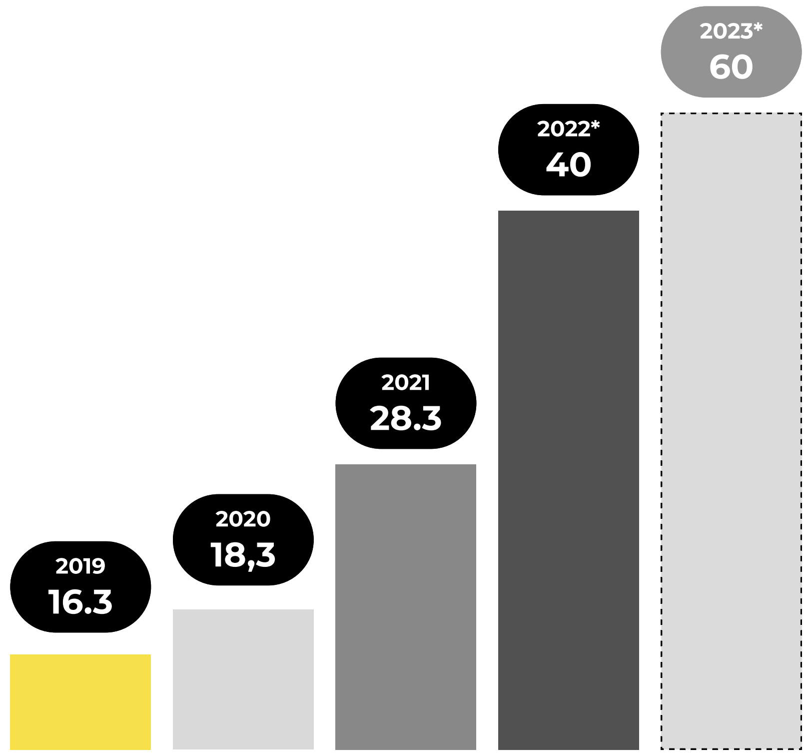
linkedin.com/in/laurisg

# TABLE OF CONTENTS

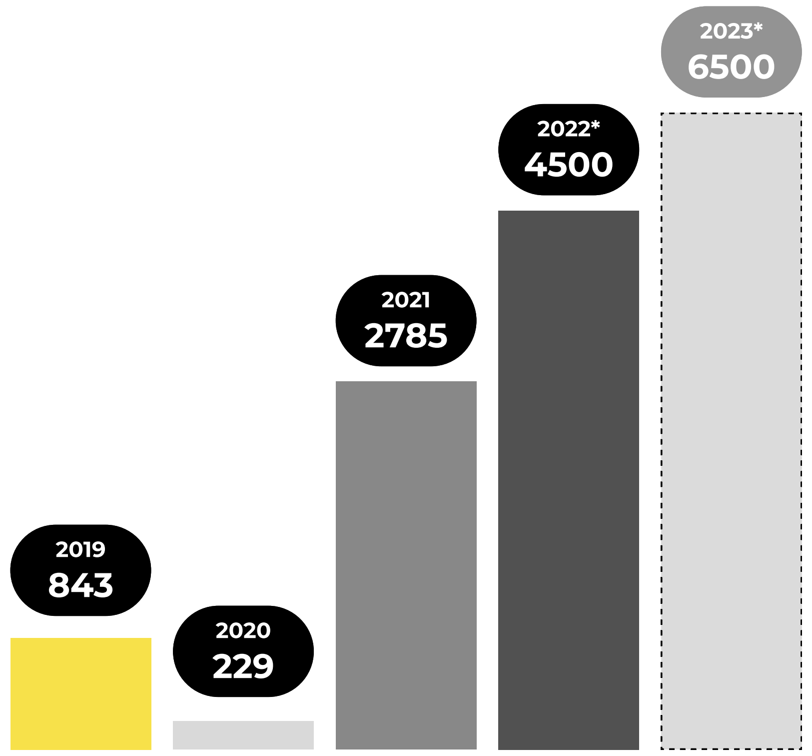
# KEY FINANCIALS

LINEN has been operating with its own capital and has very strong financial parameters.

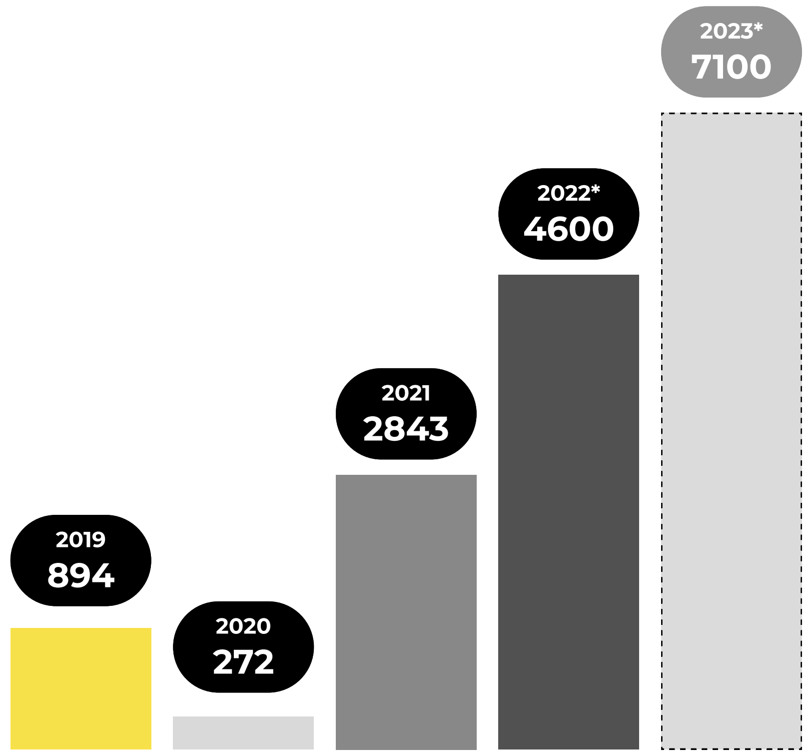
Revenue, Millions EUR



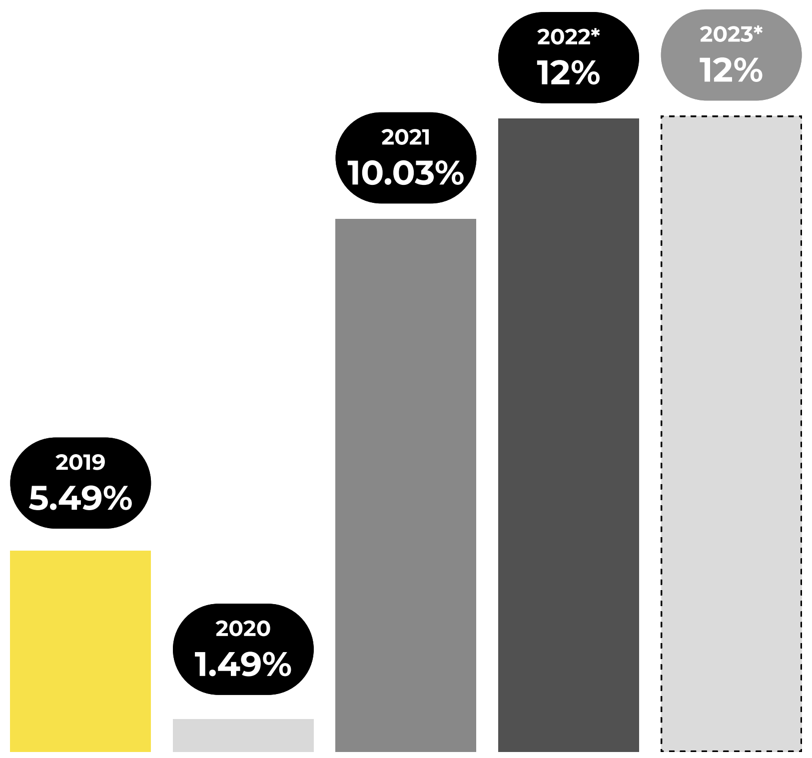

Net profit, K EUR



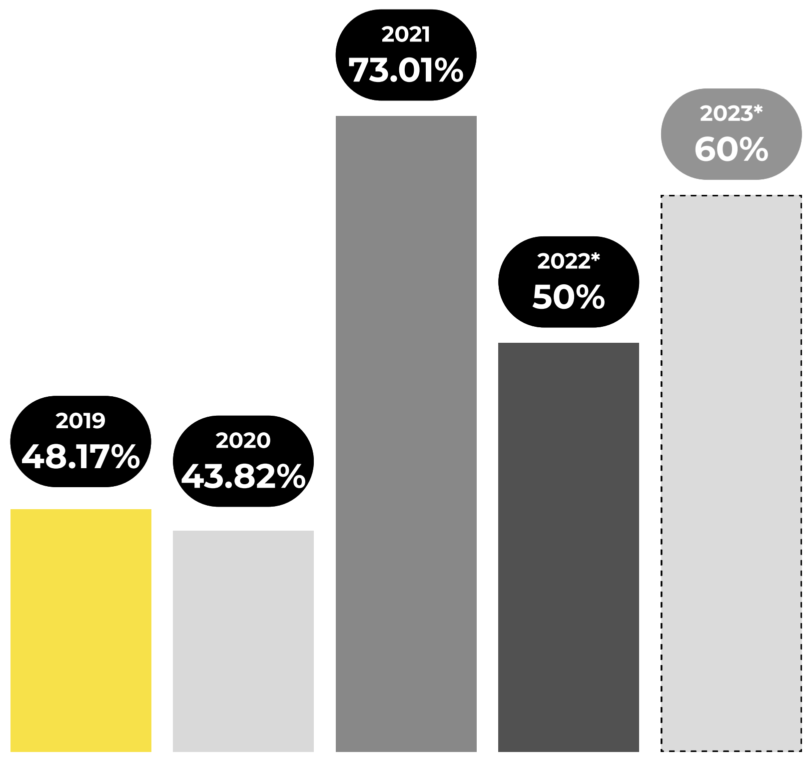

EBITDA, K EUR



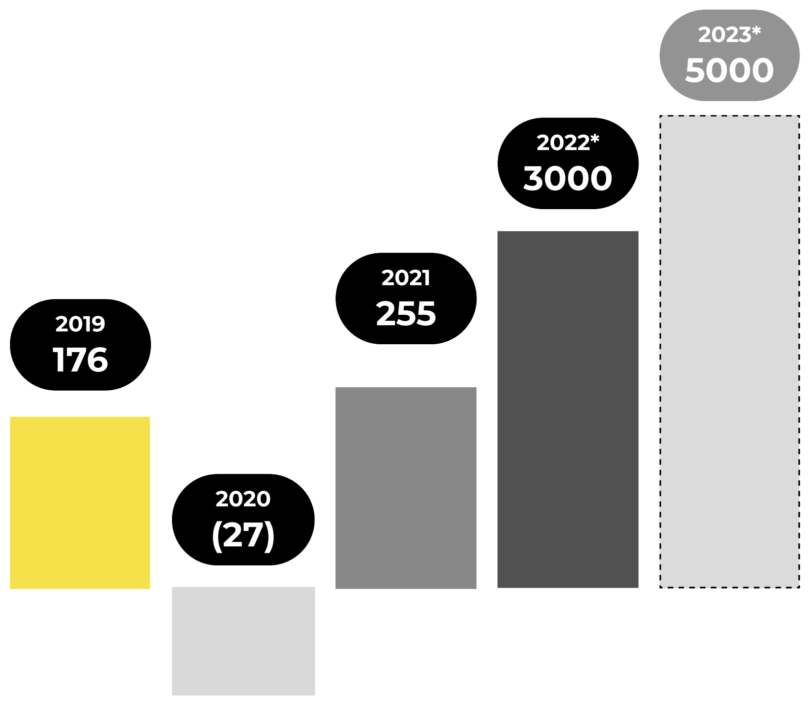

EBITDA margin




Equity ratio




NET debt, M EUR




*Projected results

# SALES TRANSACTION PAYMENT TERMS

## CURRENCIES USED

Sales in Europe are concluded in EUR, Asia - in USD, and Africa - in USD or local currency.

All expenses in Europe are in EUR, sea freight costs - in USD, while customs clearance and inland costs in Africa and Asia are in local currencies.

## INTERCOMPANY SETTLEMENTS

Intercompany invoicing between LINEN and settlement companies Lionpro PTE LTD and Arowana EXIM PTE LTD are with telegraphic transfer within 120 days from the invoice issue date.

Intercompany settlements with entities in Africa may also have a Letter of Credit to reduce local currency exposure.

## SECURED TRANSACTIONS

Absolute majority of transactions are with Letter of Credit or similar secured transaction method involving prime international banks.

### EU customers 29,7%



- New customers – Advance payment
- Long-term customers – 21-30 days from invoice issue date.

### Asian customers 62,5%



- Advance payment
- Letter of Credit
- Other factoring-like instruments
- Cash against documents

### African customers 7,8%

- Advance payment
- Letter of Credit
- For multinationals – payment in 30 days from invoice issue date

# INCOME STATEMENT

| | AUDITED 2019 \| EUR | AUDITED 2020 \| EUR | AUDITED 2021 \| EUR | FORECAST 2022 \| EUR | BUDGET 2023 \| EUR |
|---|---|---|---|---|---|
| **PROFIT AND LOSS STATEMENT** | | | | | |
| **NET TURNOVER** | 16 278 547 | 18 281 666 | 28 332 324 | 35 475 651 | 53 213 477 |
| Europe | 8 222 495 | 6 353 965 | 8 367 252 | 13 043 514 | 19 565 271 |
| Asia | 5 975 267 | 11 215 649 | 17 721 072 | 17 281 523 | 25 922 285 |
| Africa & other | 2 080 785 | 712 052 | 2 243 999 | 5 150 613 | 7 725 921 |
| Cost of goods sold | 14 763 963 | 17 006 584 | 24 732 477 | 30 995 287 | 46 492 931 |
| **GROSS PROFIT** | **1 514 584** 9,30% | **1 275 082** 6,97% | **3 599 847** 12,71% | **4 480 363** 12,63% | **6 720 545** 12,63% |
| Selling expenses | 425 625 | 495 117 | 659 423 | 1 462 895 | 2 395 775 |
| Administrative expense | 2 264 88 | 266 226 | 407 273 | 789 267 | 947 119 |
| Other operating income | 21 580 | 15 421 | 338 911 | 757 596 | 909 115 |
| Other operating expenses | 14 922 | 284 638 | 60 308 | 389 251 | 467 101 |
| Interest expenses | 12 076 | 2553 | 10 197 | 109 804 | 600 000 |
| Interest income and similar income | 1331 | 1125 | 240 | 86 | – |
| **OPERATING PROFIT** | **858 384** 5,27% | **243 094** 1,33% | **2 801 797** 9,89% | **2 486 828** 7,02% | **3 219 663** 6,05% |
| Corporate Income tax | 15 213 | 13 768 | 16 228 | 50 483 | 60 579 |
| **PROFIT FOR THE PERIOD** | **843 171** 5,18% | **229 326** 1,25% | **2 785 569** 9,83% | **2 285 225** 6,47% | **2 509 505** 4,72% |

Source[1] : Financial statements 2019, 2020, 2021, audited by SIA “Sandra Dzerele un partneris”

Source[2]: KPMG performed red flag financial, tax and legal due diligence review on L.J. Linen SIA as of 15th of June 2022.

# BALANCE SHEET: ASSETS

| | AUDITED<br>Dec 31, 2019 \| EUR | AUDITED<br>Dec 31, 2020 \| EUR | AUDITED<br>Dec 31, 2021 \| EUR | UNAUDITED<br>Jun 30, 2022 \| EUR |
|---|---|---|---|---|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| **Intangible assets** | | | | |
| Total tangible fixed assets | 0 | 0 | 2 860 | 24 181 |
| **Property, plant and equipment** | | | | |
| Property, plant and equipment | 85 227 | 81 895 | 78 498 | 78 914 |
| Advance payments for fixed assets | 0 | 0 | 20 000 | 20 000 |
| **Total property, plant and equipment** | 85 227 | 81 895 | 98 498 | 98 914 |
| LONG-TERM ASSETS | | | | |
| Other long-term receivables | 8 327 | 3 295 | 3 295 | 389 |
| TOTAL NON-CURRENT ASSETS | 93 554 | 85 190 | 104 653 | 123 484 |
| CURRENT ASSETS | | | | |
| **Inventories** | | | | |
| Finished goods and goods for sale | 49 132 | 493 279 | 95 093 | 167 173 |
| Advance payments for goods | – | 0 | 62 216 | 39 734 |
| **Total inventories** | 49 132 | 493 279 | 157 309 | 206 907 |
| **Receivables** | | | | |
| Trade receivables | 4 278 806 | 4 929 665 | 6 800 366 | 8 806 022 |
| Other receivables | 165 869 | 96 205 | 190 579 | 176 614 |
| Prepaid expenses | 7 513 | 8 046 | 9 723 | 15 313 |
| Accrued income | 0 | 0 | 21 561 | 0 |
| **Total receivables** | **4 452 188** | **5 055 477** | **7 000 668** | **8 997 949** |
| **Cash and cash equivalents** | **177 554** | **136 141** | **15 245** | **8 085** |
| TOTAL CURRENT ASSETS | **4 678 874** | **5 684 897** | **7 173 222** | **9 212 941** |
| TOTAL ASSETS | **4 772 428** | **5 770 087** | **7 277 875** | **9 336 425** |

## TRADE RECEIVABLES

| | AUDITED<br>12.31.2021 \| EUR | UNAUDITED<br>6.30.2022 \| EUR |
|---|---|---|
| Trade Receivables | 1 545 466 | 2 257 574 |
| IC Trade receivables | 3 148 497 | 2 625 194 |
| Goods in transit | 2 106 403 | 3 922 254 |
| | **6 800 366** | **8 806 022** |

Source[1] : Financial statements 2019, 2020, 2021, audited by SIA "Sandra Dzerele un partneris

Source[2]: KPMG performed red flag financial, tax and legal due diligence review on L.J. Linen SIA as of 15h of June 2022.

# BALANCE SHEET: EQUITY AND LIABILITIES

| | AUDITED Dec 31, 2019 \| EUR | AUDITED Dec 31, 2020 \| EUR | AUDITED Dec 31, 2021 \| EUR | UNAUDITED Jun 30, 2022 \| EUR |
|---|---|---|---|---|
| EQUITY AND LIABILITIES | | | | |
| CAPITAL AND RESERVES | | | | |
| Share capital | 2 842 | 2 842 | 2 842 | 2 842 |
| Reserves | 4 | – | – | – |
| **Accumulated profit** | | | | |
| a) brought forward | 1 452 882 | 2 296 057 | 2 525 381 | 5 250 950 |
| b) for the year | 843 171 | 229 326 | 2 785 569 | 920 340 |
| **Total equity** | **2 298 899** | **2 528 225** | **5 313 792** | **6 174 132** |
| NON-CURRENT LIABILITIES | | | | |
| Loan from from financial institutions | 19 893 | 2 920 | – | – |
| CURRENT LIABILITIES | | | | |
| Short term liabilities from financial institutions | 182 057 | 18 255 | 269 876 | 519 551 |
| Trade payables | 1 986 262 | 2 922 413 | 1 604 819 | 2 485 678 |
| Taxes and social insurance contributions | 33 967 | 30 806 | 873 | 0 |
| Other current liabilities | 24 277 | 22 194 | 29 616 | 498 |
| Unpaid dividends | 153 241 | 89 326 | 0 | 0 |
| Accrued liabilities | 73 832 | 155 948 | 58 899 | 156 566 |
| **Total current liabilities** | **2 453 636** | **3 238 942** | **1 964 083** | **3 162 293** |
| **TOTAL EQUITY AND LIABILITIES** | **4 772 428** | **5 770 087** | **7 277 875** | **9 336 425** |

Source[1] : Financial statements 2019, 2020, 2021, audited by SIA "Sandra Dzerele un partneris

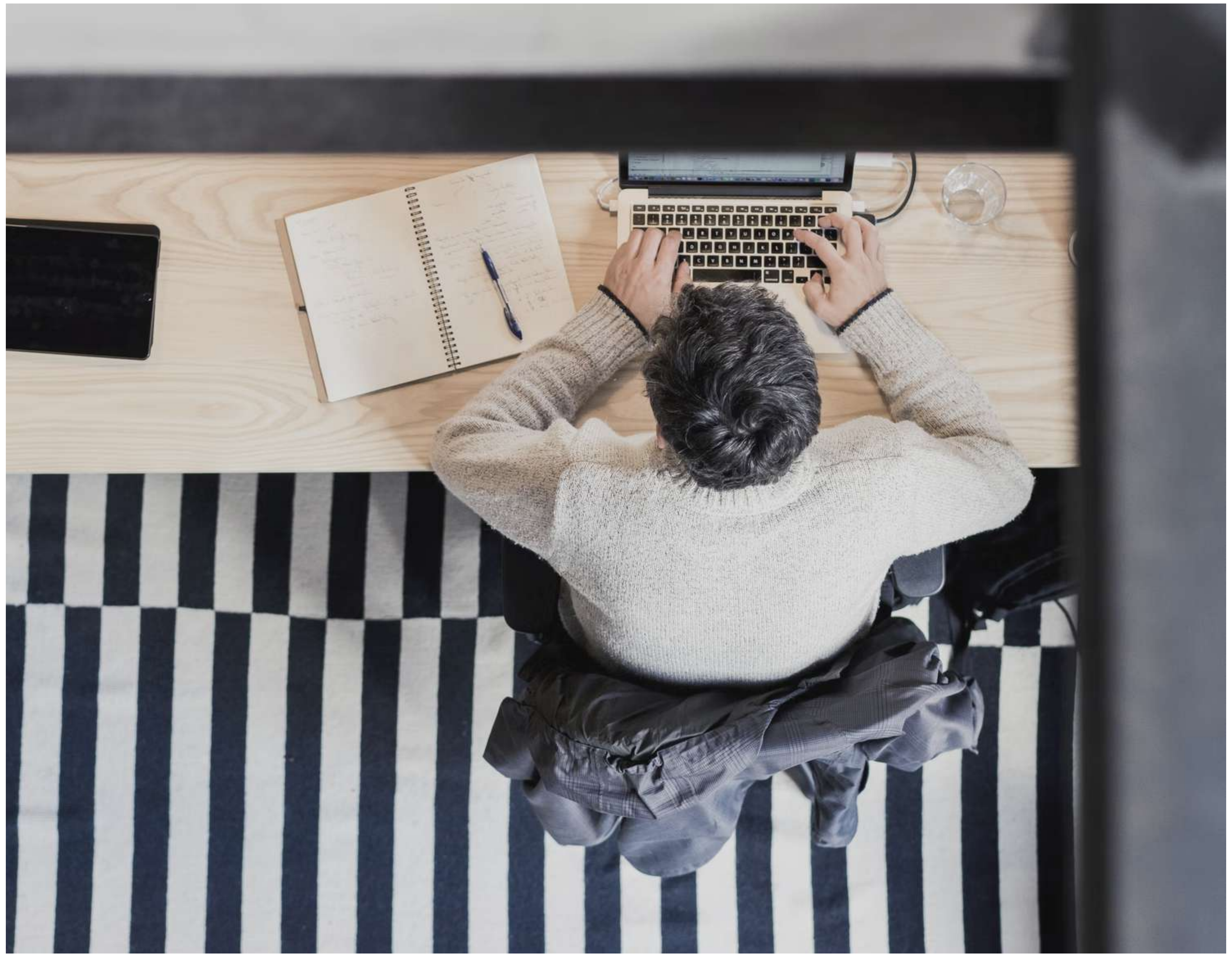
Source[2]: KPMG performed red flag financial, tax and legal due diligence review on L.J. Linen SIA as of 15h of June 2022.

# FUNDING STRATEGY

| | | | |
|---|---|---|---|
| Credit line → | Europe → | LINEN | LINEN has credit line available in total of EUR 1.5 million with purpose to fund operations in Europe. With bond issue, the credit line will be reduced to EUR 1 million. |
| Bonds → | Asia → | AROWANA EXIM | LINEN acknowledges further growth potential in Asia, which is intended to be the use of proceeds. |
| Equity → | Africa → | LIONPRO | Operations in Africa are funded by shareholders' capital |

Before 2021 all operations were funded by equity.

# TABLE OF CONTENTS



# BONDS TERM-SHEET PT.1

| | |
|---|---|
| **Issuer** | SIA L.J. Linen |
| **Issue size** | Eur 2 million |
| **Maturity** | 2 years |
| **Type of bond** | Secured bonds |
| **Collateral** | 2nd order pledge on the assets of Issuer<br>2nd order pledge on the shares of Issuer |
| **Guarantee** | Corporate guarantees from Arowana Exim PTE LTD and Lionpro PTE LTD |
| **Annual coupon rate, coupon frequency** | 10% +3M EURIBOR, quarterly |
| **Call option** | @102% after Year 1<br>@100.5% 3 months before maturity |
| **Put option** | In case of Change of Control @101% |
| **Type of Placement** | Private bond placement |
| **Listing** | Nasdaq Riga First North within 12 months from the Issue Date |
| **Use of proceeds** | Working capital financing |

# BONDS TERM-SHEET PT.2

| | |
|---|---|
| **Indicative financial covenants** | Minimum Adjusted Equity[1] / Assets ratio of 40%,<br>Net Debt / EBITDA[2] ratio: max 2.0x<br>To maintain consolidated interest coverage (EBITDA / Interest) ratio of at least 3x<br>Eligible Accounts Receivables[3] /Net debt at least 1,5x. |
| **General covenants** | Permitted Distribution of up to 50% (fifty percent) of the Issuer's audited annual net profit provided that all Financial Covenants are met immediately after such distribution.<br><br>No change of business<br><br>Not to commence Issuer's liquidation and not to reduce equity capital<br><br>Any transactions with Related parties shall be at market prices<br><br>Only transactions within the current perimeter of L.J Linen Group are allowed (or the parameter as envisoned by the restructuring / reorganisation plan).<br><br>Subordination of loans from shareholders (if any)<br><br>Not to sell, present, change, rent, invest, or otherwise transfer into utilisation the right to use the trademarks of the Issuer |

[1] Adjusted Equity = Shareholder's equity + subordinated debt

[2] Recurring (normalised) EBITDA

[3] The Issuer's Accounts Receivables, according to the most Financial Report, where:
1. The underlying ultimate obligor (directly or indirectly) is not registered or whose underlying business risk is not concentrated in the continent of Africa (with the exception of such countries that have an investment grade credit rating assigned by the global leading credit ratings agencies Standard & Poor's, Moody's or Fitch);
2. The underlying accounts receivables are secured by a letter of credit or other trade finance instrument of equivalent security.

# BONDS TERM-SHEET PT.3

| | |
|---|---|
| **Reporting covenants** | From the Issue Date, to prepare and publish unaudited quarterly reports within 2 months after the reporting period<br><br>From the Issue Date to prepare and publish audited annual reports within 4 months after the reporting period (reports should<br><br>contain a detailed breakdown of accounts receivables and annual reports of the Guarantors; some of this information can be provided only to the Bank),<br><br>Proof of compliance with the financial covenants to be included in every quarterly report,<br><br>Publish financial reports via Issuer’s website (after Issue Date) and Nasdaq Baltic (after listing),<br><br>Results should be audited by a reputable international auditor |
| **Events of default** | Non-payment<br><br>Breach of covenants (Equity cure for breach of financial covenants)<br><br>Cross-default<br><br>Insolvency |

# 1 RISK FACTORS

BELOW IS A DESCRIPTION OF THE RISK FACTORS THAT ARE MATERIAL FOR THE ASSESSMENT OF THE MARKET RISK ASSOCIATED WITH THE BONDS AND RISK FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE BONDS. SHOULD ONE OR MORE OF THE RISKS DESCRIBED BELOW MATERIALISE, THIS MAY HAVE A MATERIAL ADVERSE EFFECT ON THE CASH FLOWS, RESULTS OF OPERATIONS, AND FINANCIAL CONDITION OF THE ISSUER. MOREOVER, IF ANY OF THESE RISKS MATERIALISE, THE MARKET VALUE OF THE BONDS AND THE LIKELIHOOD THAT THE ISSUER WILL BE IN A POSITION TO FULFIL ITS PAYMENT OBLIGATIONS UNDER THE BONDS MAY DECREASE, IN WHICH CASE THE POTENTIAL INVESTORS COULD LOSE ALL OR PART OF THEIR INVESTMENTS.

BEFORE DECIDING TO PURCHASE THE BONDS, POTENTIAL INVESTORS SHOULD CAREFULLY REVIEW AND CONSIDER THE FOLLOWING RISK FACTORS, IN ADDITION TO ALL OTHER INFORMATION PRESENTED IN THE TERMS OF THE BONDS ISSUE, AND CONSULT WITH THEIR OWN PROFESSIONAL ADVISORS IF NECESSARY. MOREOVER, POTENTIAL INVESTORS SHOULD BEAR IN MIND THAT SEVERAL OF THE DESCRIBED RISK FACTORS CAN OCCUR SIMULTANEOUSLY AND TOGETHER WITH OTHER CIRCUMSTANCES COULD HAVE A POTENTIALLY STRONGER IMPACT ON THE ISSUER. THIS IS NOT AN EXCLUSIVE LIST OF RISK FACTORS, AND ADDITIONAL RISKS, OF WHICH THE ISSUER IS NOT PRESENTLY AWARE, COULD ALSO HAVE A MATERIAL ADVERSE EFFECT ON THE ISSUER.

**Important note**
The risks indicated in this section, if some or all of them materialize, may reduce the Issuer's ability to fulfil its obligations or cause its insolvency or restructuring in the worst-case scenario.
This section may not feature all of the potential risks, which may affect the Issuer.

# 1 RISK FACTORS

**Risks related to the economic and geopolitical environment**

The Issuer sells animal origin products across the Europe, Africa and Asia and transports the products across a variety of national jurisdictions and geographical areas. This entails a risk of business interruptions that may result from political circumstances, trade disputes or inadequacies in the legal systems and law enforcement mechanisms in certain countries in which the Issuer and the Guarantors operate. The political circumstances or inadequacies of the legal systems and law enforcement mechanisms in certain countries in which the Issuer and Related Entities operates may have a material negative impact on the Issuer's reputation, revenue, cash flows and financial condition.

**Risks associated with Russia's military aggression**

On 24th February 2022 Russia launched a full-scale military invasion of Ukraine leading to geopolitical and economic instability in Europe, which as at the date of this bond issue is still on-going and has resulted in casualties on both sides, heavily damaged infrastructure in Ukraine (logistics and production), and displacement of several million Ukrainian people.

Many countries have imposed wide-ranging sanctions on Russia targeting individuals, banks, businesses, monetary exchanges, bank transfers, exports, and imports. Imposed sanctions have impact on global financial markets resulting in a significant increase in gas and oil prices, price decrease among major stock market indices, especially, Russia's MOEX as well as significant drop in Rubble exchange rate against the US dollar and the Euro.

Although, as of the date of the Terms of the Notes Issue, the restrictive measures imposed against Russia and Belarus have had no direct material impact on the Issuer's and Guarantors' performance, introduction of new sanctions packages, general deterioration of the economic situation and other aspects related to geopolitical events may affect their business results.

While SIA L.J. Linen does not supply its raw materials from / to or have any direct sales to Ukraine, Russia or Belarus, the on-going conflict is already having an observable impact across the globe through energy price increases as the European Union is focused on considerably decreasing its dependence on Russian gas and oil at the expense of price hikes due to limited immediate alternatives.

Furthermore, new sanctions might lead to increased operating expenses across various sectors and result in raw material and energy cost increases globally, decreased global economic growth, as well as further deterioration between NATO and the Russian Federation may lead to further risk of the war escalating, which could have negative impact on the Issuer's business results and financial performance.

# 1 RISK FACTORS

**Risk of global food market disruption**

As Russia and Ukraine account for a major share in the global food and fuel markets (53% of the global sunflower oil and 27% of global wheat trade in 2020 according to the UN), the war in Ukraine could have a global impact, especially on countries which rely heavily on the exports from Ukraine, and Russia.
According to the UN, up to 25 African countries import more than 33% of their wheat from Russia and Ukraine, with 15 of them importing more than 50%. Considering that trade between African countries is relatively small and there are limitations in storage capacity and logistics infrastructure, there is a concern that food crises might emerge in some regions, which would only be exacerbated with price increases in fertilizers and other agriculture inputs for the next harvest season. Although currently fertilizer prices have been stable as of June 2022, the risk still remains, if geopolitical instability would escalate.
While the Management of the Issuer expects that the decrease in cereal exports to African countries would actually continue to be a further beneficial factor to the Issuer for the planned growth in the market, as its traded ingredients can replace vegetable protein sources in animal feed production, there is a limitation, however, and still ingredients of vegetable origin must be used. Decreased availability of cereals may reduce total production in certain markets where the issuer or Guarantors operate, thus reducing total demand for all goods, including those traded by the Issuer and the Guarantors.

**The global pandemic risk**

The global economy has experienced a period of elevated uncertainty since the outbreak of Covid-19, in March 2020. The global outbreak of Covid-19 pandemic, and the extraordinary health measures and restrictions on both a local and global basis imposed by authorities across the world has to some extent, and could potentially cause, disruptions in the Issuer's and the Guarantors' operations in the future. As a result of the Covid-19 situation, national authorities adopted several laws and regulations with immediate effect and which provide a legal basis for the government to implement measures in order to limit contagion and the consequences of the pandemic. The pandemic situation has been continuously changing, and new laws and regulations that could directly, or indirectly, affect the Issuer's and the Guarantors' operations may enter into force. Additionally, the spread of pandemic among the workforce can cause operation disruptions, thus, negatively affecting the Issuer's and Guarantor's financial performance. Thus, the effects of the Covid-19 (or a new pandemic) situation could negatively affect the Issuer's revenue and operations going forward, and the severity of the situation in the future and the exact impacts are uncertain.

**Regulatory risk**

The Issuer and the Guarantors are subject to international veterinary and food safety laws and regulations, as well as EU laws and regulations that regulate the industry, consumer rights protection, personal data processing, prevention of money laundering and terrorism and proliferation financing or govern the industry in which the Issuer and the Guarantors operate. Any uncertainty as to the regulatory trends or changes in policies in relation to the industry may delay or prevent the achievement of the strategic plans or increase the cost of implementing such plans. The sale of the Issuer's products and the provision of services are subject to a high level of regulation and oversight applicable to the Issuer's industry.
The Issuer and the Guarantors comply with all legislative requirements and other regulations as of the date of the Terms of the Notes Issue. Legislation and regulations may change however, and the management cannot guarantee, in such cases, it would be able to comply immediately, without material measures to be in line with the requirements of any revised legislation or other regulations. Adapting the operations to any of the changes described above may incur costs for the Issuer and the Guarantors that are difficult to anticipate, which in turn may have a material adverse effect on their business, financial condition and results of operations.

**Risk of changes in customs regulations**

The majority of the Issuer's and Guarantors products are produced in European Economic Zone and delivered to the Third countries. With respect to the export of goods to jurisdictions that are not members of the European Union, the Issuer must comply with the respective national and European foreign trade and customs regulations and, inter alia, pay statutory custom duties when the products enter the territory of other jurisdictions outside of the EU.
As a result of local protectionism, the change in Applicable Laws and interpretation of regulations by various state agencies in the respective countries may cause reduction in demand, delay in payments, and penalties, and in the worst-case scenario financial default of the buyers due to excessive costs associated with changes. The event of changes in customs regulations may have an adverse effect on the Issuer's and the Guarantors' business and financial condition.

## Risk related to the Issuer's business and industry

**Agricultural commodity price risk**

The Issuer acts as an intermediary in international trade between animal origin product and grain producers and consumers (producers of poultry, livestock, animal feeds, pet food and aquafeed, organic fertilizers, and local wholesalers). As the products that the Issuer sells (mostly animal proteins) are a substitute of soybean products, a decline in market price of soybeans, can lead to potential decline in the demand for the products traded by the Issuer.
Furthermore, the availability of the raw materials is directly related to global demand for meat and meat products. If the global demand for meat declines, the Issuer may face the risk of insufficient supply of raw material and increased cost of products that may make the product offered by the Issuer relatively less attractive to the customer.
Considering the Issuer's operating cost base concentration (majority of costs is due to raw materials and transportation costs) and since the Issuer usually operates with short-term supply contracts (up to three months) and does not utilize any form of price hedging, market volatility has a direct impact on its operating margins and cash flows.
While such an approach is more flexible for a product trading company, allowing for higher operating margins and management indicated that the market volatility in prices can be transferred in full to the end-clients, the prices are volatile and can be hard to predict more than a few months ahead.

**Revenue concentration risk**

The Issuer has experienced significant revenue growth as its revenues increased from EUR 16.3 million in FY 2019 to EUR 18.3 million in FY 2020 (+12.2%) and EUR 28.3 million in FY 2021 (+55.0% compared to FY 2020); however, the revenue base of the Issuer is heavily concentrated, as more than 90% of the sales account for three top customers, including Arowana and LionPro, which are the Issuer's related companies serving clients in Asia and Africa. Related parties Arowana and LionPro were established in Singapore as port gateways to the markets in Asia and Africa, respectively, and as such are not the end clients of the Issuer as goods are sold further to third parties in the indicated markets.
The end client base of Arowana and LionPro is significantly more diversified, including more than 175 end - clients.
To mitigate the risk of related party concentration both Arowana and LionPro are included as the Guarantors of the Bonds, and the Issuer has undertaken to consolidate the Issuer and Arowana under one group within 6 months from the Issue Date.

# RISK FACTORS

**Foreign exchange risk**

The Issuer purchases the goods from its suppliers predominately in Euro, while most of its sales are denominated in US dollars. During FY 2021, 69% from the Issuer's total revenue generated was received in USD currency as a result from sales to Arowana and LionPro in Singapore (end-customers are from Asian and from African countries). Issuer and the Guarantors are not currently using any foreign exchange hedging instruments for USD/EUR pair (or other currencies), since approximately 20-40% of the costs are in US dollars, thus, reducing the currency risk.
Furthermore, while all of Arowana sales contracts are denominated in USD, LionPro also sells to local customers in Africa in local currencies. While the company tries to minimise the local currency risk, by converting the sums to hard currencies as soon as possible, it does face risks exposed to local currency fluctuations that can negatively affect its financial position as a Guarantor and creditor to the Issuer.
Thus, the Issuer and the Guarantors do face FX risk, predominantly resulting from fluctuations in USD/EUR exchange rate, and a decrease in the value of USD could negatively affect their financial performance.

**Risk associated with Related Entities transactions and long trade receivables days**

Historically, the management has used working capital as a means to finance local operations of Related Entities instead of equity injection. This has resulted in operational overdue receivables from related parties.
As at 28 February 2022 SIA L.J. Linen reported EUR 7.1 million trade receivable, of which EUR 5.9 million (83.6%) were from related parties of which more than 90 days totalled EUR 1.8 million, including EUR 1.5 million due from LionPro and EUR 0.3 million due from Arowana. By end of June 2022 overdue receivable from Arowana has been already repaid. And outstanding overdue invoices from LionPro constituted EUR 1.4 million. An internal settlement plan to recover outstanding overdue receivables is agreed. As per the plan the repayment would be executed until end of June 2023 by average monthly settlement EUR 100 – 150 thousand. These are transactions between related parties and typically they are related to slower circulation of goods in Africa. Still the risk is lower, because the debtors of the Issuer and the Guarantors hold liquid assets – short term debtors, inventory, or cash in hand.
Financial assets of the Issuer, Guarnators and related parties are directly controlled by the employees of the Issuer.

## RISK FACTORS

**Transfer pricing policy risks**

In the Period between FY 2019 and FY 2021 under consideration the Issuer had transactions mainly with the following two Related Entities: Arowana and LionPro.
Since new transfer pricing policy was introduced in Latvia, the Issuer contracted KPMG Latvia to prepare Transfer Pricing documentation in line with the main principles mentioned in Latvian tax laws. The principle using is comparative principle, whereby profitability of the Issuer is compared with similar entities in the same industry in European Union. Said Transfer Pricing calculations are renewed annually and submitted to Latvian Tax Authority, latest by end of the year following accounting year.

1. Transactions with Arowana

During the period SIA L.J. Linen provided mostly animal feed ingredient and organic fertilizers to Arowana in amount of EUR 6.0 million in FY 2019, of which EUR 4.0 million was Animal feed ingredient, EUR 11.2 million in FY 2020, of which 7.8 million was Animal feed ingredient, EUR 17.7 million in FY21, of which 6.9 million was Animal feed ingredient, and EUR 1.6 million in FY22 up to 28 February 2022, of which EUR 1.3 million was Animal feed ingredient. All the products were sold using relevant group transfer pricing principles and later sold to an end client.

1. Transactions with LionPro

During the period the Issuer provided mostly animal feed products to LionPro in the amount of EUR 2.1 million in FY 2019, of which 1.8 million was Animal feed ingredient, EUR 712 thousand in FY 2020, of which EUR 547 thousand was Animal feed ingredient, EUR 2.2 million in FY 2021, of which EUR 1.4 million was Animal feed ingredient, and EUR 268 thousand in FY 2022 up to 28 February 2022, of which EUR 115 thousand was Meat and Bone meal. All the products were sold using relevant group transfer pricing principles and later sold to an end client.
The Issuer's cash flows are under full control of the Issuer's shareholder. Thus, there is a risk that the shareholder might regulate the revenue and profit across the entities controlled by the shareholder through pricing adjustments and other measures.

**Group structure risk**

The Issuer and Guarantors are currently not consolidated under one group. In jurisdictions outside Latvia where the Issuer and the Guarantors operate, the companies are held directly by the UBO and majority shareholder of the Issuer - Jānis Kuļikovskis.
Historically, the decision on selection of the particular group structure was due to practical reasons of simplifying the registration process in certain jurisdictions.
Since the Issuer and Related Entities are involved in a unified supply chain it is crucial to ensure controllable, auditable and adjustable logistics and distribution of the commodities process under unified corporate governance structure. To reduce this risk in the future, the Issuer with the help of advisors has developed a group reorganisation plan that has already been initiated, as a result of which Issuer and all Related Entities shall be consolidated under one holding company (see Annex 2 to the Terms of the Bonds Issue), significantly improving the transparency of the group structure.

**Risk of cooperation with suppliers**

One of the pillars of the success of the Issuer lies in its strong relationship with suppliers. Moreover the field of animal feed ingredient product trading is considered as reserved business environment and is built on business partners' mutual trust obtained within the continuous business cooperation and strong reputation. Therefore, for the new-comers to this business segment, it is almost or impossible to cooperate and purchase raw materials from the suppliers.
Saria and Darling Ingredients are two of the largest producers of animal proteins and fats in the world. Saria currently cooperates with the Issuer on exclusivity basis to distribute their products in Africa, which provide the Issuer with additional advantage in the market.
The conclusion of the exclusive distribution rights agreements might be a subject of assessment from the competition law perspective. Namely exclusive vertical distribution arrangements can be viewed as a potential dispute in the light of European commercial law in some of the regions. Therefore, the Issuer would always evaluate risks and rewards from legal constellation of cooperation with certain suppliers.
The Issuer relies on third parties to produce and transport its products over large geographical distances. Any disruption to the supply chain caused by issues with the Issuer's suppliers can have an adverse effect on the delivery schedule, revenues, financial condition and competitive position.
Delays in the production of the Issuer's products or shipments, or any interruptions of delivery of the products due to the unavailability of materials, personnel, factory capacity or transportation, work stoppages, delays in customs inspections, political instability, security requirements or other factors beyond the Issuer's control, and costs and delays associated with transitioning between suppliers, could adversely impact its ability to meet consumer demand and may result in fewer sales. Any of these risks could have a material adverse effect on the Issuer's and Guarantors' business, results of operations and financial condition.

**Financial leverage risk**

The financial leverage of the Issuer will increase as a result of the Notes issue, which could result in negative consequences for the business and operations. Such consequences would include, but are not limited to, requiring the Issuer to dedicate a substantial portion of its cash flow to payments on the debt, increasing vulnerability to a downturn in business or general economic conditions, placing the Issuer at a competitive disadvantage relative to competitors with lower leverage, limiting flexibility in reacting to competition or changes in the business or industry.
Any of these or other consequences or events could have a material adverse effect on the Issuer's ability to satisfy its obligations on Financial Indebtedness.

# RISK FACTORS

**Subordination Risk**

As of the Issue Date, the Issuer has a Bank Loan from Signet Bank that includes a guarantee from Latvia’s state owned development finance institution ALTUM and is secured with Bank Loan Collaterals. The maturity of the Bank Loan is 1 September 2023 with the option to be extended for one more year, and the maximum limit of the Bank Loan is EUR 1’500’000. As of the Issue Date, the Issuer has used EUR 1’500’000 million of the Bank Loan facility.
As of the Issue Date the Issuer has received all necessary approvals from senior lenders to issue the Bonds and register the Collaterals.
While the Bonds rank pari passu with other senior secured obligations of the Issuer, the Collaterals securing the Issuer’s obligations under the Bonds will be lower ranking, junior to the security interests in the same assets provided by the Collateral Providers to Signet Bank. In case of enforcement the Bondholders would receive payment of their claims in respect of the Bonds only to the extent that the enforcement proceeds of the sale of the Collaterals are sufficient to pay in full all claims of Signet Bank secured by the same Collateral, which increases the risk that the Bondholders that there might be insufficient proceeds to cover the Bondholders’ claims in full.

**No limitation on issuing additional debt**

The Issuer is not prohibited from issuing further debt. If the Issuer incurs significant additional debt of an equivalent seniority with the Notes, it will increase the number of claims that would be equally entitled to receive the proceeds, including those related to the Issuer’s possible insolvency.

**Intellectual property rights protection strategy**

As of the date of the Terms of the Bonds Issue the Issuer has not developed any long-term and sustainable intellectual property rights protection strategy, by applying relevant intellectual property rights protection mechanisms, such as registration of trademarks in the appropriate categories, provision of evidences and etc. Also, for the cases of branded product, the Issuer has not protected its ownership or uniqueness of the used product recipes, but its brand names are protected.
The Issuer cannot guarantee that third parties will not infringe upon its intellectual property rights, for instance by using its trade names and that its intellectual property rights may not be challenged by third parties in the future, including by competitors. To limit potential risks of infringement the Issuer monitors the market and has developed intellectual property rights protection strategy.

# RISK FACTORS

**Employee risk and management contracts**

As of the Issue Date, the Issuer employs 34 full-time employees. The Issuer’s employees are a significant part of the business success. Therefore, it is of high importance for the Issuer to have a professional and highly skilled team of employees with low employee turnover rate. To retain and motivate its personnel, the Issuer has a performance bonus scheme in place.
The Issuer’s management is employed based on the employment contracts, which are protected by the Labour Law and does not provide the scope derived from Commercial Law against management of the company. The agreements do contain protection of commercial secrets and non-competition during employment, but does not include any non-compete and non-solicitation provisions, after termination of labor contracts. Thus the Issuer is not protected against competitive activities (including solicitation of its clients) by any of the Issuer’s employee after termination of employment contracts.
To limit risks and increase motivation of the employees, the company has prepared and by the end of 2022 will introduce employee option plan, whereby employees with existing labour contract will be entitled to a share of dividend. In the event of change of ownership, employees will have the right of drag-along.

**Lack of the personal data protection measures and internal documentation**

The Issuer has not yet fulfilled all obligations defined by Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).
The Issuer still identifies all personal data categories being processed in daily operations and under the existing economic activity.
The Issuer processes the personal data of the cooperation partners’ representatives and transfers personal data of own employees to third countries outside the European Union. It is clear that the Issuer has not covered complete scope of the obligations imposed by the General Data Protection Regulation.

**IT Systems risk**

The Issuer’s ability to manage critical business operations depends on the ability of its IT systems, including the IT infrastructure, and processes to work effectively and securely without interruptions. There is a risk, these systems will be disrupted by, for example, software failures, computer viruses, hacking, ransomware, sabotage and physical damage, and the high pace of change in the overall IT environment introduces increases risk of data breaches. For the performance of all the internal communication and the possibility to conduct all forms of work, and for the maintenance of all external communication and customer relations, the everyday functionality of the IT system is of vital importance. Therefore, any malfunction within these areas constitutes a risk that would severely impair the performance of the Issuer and the Guarantors and the services offered to customers. There is also the underlying risk such a failure, or major disruption or difficulties in maintaining, upgrading and integrating these systems, may lead to a degraded reputation for the Issuer and the Guarantors among their customers. Any intrusion into their IT systems, for example, from increasingly sophisticated attacks by cybercrime groups, could disrupt their business, resulting in the disclosure of confidential information and/or create significant financial and/or legal exposure and the risk of damage to their reputation and/or brand. The degree to which IT failure and the materialization of any IT risk may affect the Issuer and the Guarantors is uncertain and presents a significant risk to their operations.

**Risk of natural disasters and other business disruption**

The Issuer's and the Guarantors' operations are vulnerable to damage or interruption from various natural disasters and business disruptions, such as fire, flood, power losses, telecommunication failures, terrorist attacks, acts of war, human error, and other events. A significant natural disaster could have a material adverse impact on their ability to conduct its business, and insurance coverage may be insufficient to compensate losses that may occur. Although the Issuer has implemented business continuity plans, any of these occurrences may have a material adverse effect on the Issuer's and Guarantors' business, financial condition, results of operations and cash flows.

**Taxation risk**

The Issuer currently operates in European Union and exports goods to Asia and Africa all with different tax regimes. Changes to local tax regimes or challenges to the current tax structures of the Issuer's business could have a material adverse effect on the business operations, financial conditions, or results of operations and cash flows of the Issuer. Additionally, certain tax positions taken by the Issuer require the judgement of management and, thus, could turn out to be inefficient or challenged by tax authorities due to the possible erroneous interpretation of tax legislation.

## RISKS RELATED TO THE BONDS

**Bonds repayment risk**

As of the Issue Date, the Issuer has a Bank Loan from Signet Bank that includes a guarantee from Latvia's State development financing institution ALTUM and is secured with Bank Loan Collaterals. The maturity of the Bank Loan is 1 September 2023 with the option to be extended for one more year, and the maximum limit of the Bank Loan is EUR 1'500'000. As of the Issue Date, the Issuer has used EUR 1'500'000 million of the Bank Loan facility; however, after the Issue of the Bonds, Bank Loan will be reduced to EUR 1'000'000 (one million euro) to limit the overall financial leverage of the Issuer. The Issuer has received all necessary approvals from senior lenders to issue the Bonds and register the Collaterals.

While the Bonds rank pari passu with other senior secured obligations of the Issuer, the Collaterals securing the Issuer's obligations under the Bonds will be lower ranking, junior to the security interests in the same assets provided by the Collateral Providers to Signet Bank.

The Issuer may not have the ability to repay or refinance these obligations. If the maturity date or date occurs at a time when other arrangements prohibit the Issuer from repaying the Bonds, it could try to obtain waivers of such prohibitions from the lenders and the Bondholders under those arrangements, or the Issuer could attempt to refinance the borrowings that contain the restrictions. If the Issuer fails to obtain the waivers or refinance these borrowings, it would be unable to repay the Bonds.

In case of enforcement of the Collaterals, the Bondholders would receive payment of their claims in respect of the Bonds only to the extent that the enforcement proceeds of the sale of the Collaterals are sufficient to pay in full all claims of Signet Bank secured by the same Collateral and associated enforcement costs, which increases the risk that there might be insufficient proceeds to cover the Bondholders' claims in full (or at all).

**Liquidity risk**

Neither the Issuer nor any other individual guarantees the minimum liquidity of the Bonds. Thus, the Bondholders should consider the fact they may not be able to sell or may face difficulties in selling their Bonds on the secondary market at their fair market value or at all.

**Delisting risk**

After registration of the Bonds the Issuer plans to request admission to trading of the Bonds on the Multilateral Trading Facility (MTF) First North operated by Nasdaq Riga. There is a risk Nasdaq Riga will not accept the Bonds to be admitted to trading on First North or order the Bonds are delisted from First North before maturity after admission to trading has taken place due to changes in legal acts, including Nasdaq Riga regulations, or recommendations by the FCMC.

**Price risk**

The development of market prices of the Bonds depends on various factors, such as changes of interest rates, central bank policies, overall economic development, or demand for the Bonds.

Neither the Issuer, nor any other person undertakes to maintain a certain price level of the Bonds. The Potential Investors are thus exposed to the risk of unfavourable price development of their Bonds if they sell the Bonds prior to final maturity. If a Potential Investor decides to hold the Bonds until maturity, the Bonds will be redeemed at their Nominal Value.

# RISKS RELATED TO THE BONDS

**Early redemption risk**

According to the Terms of the Bonds Issue, the Bonds may be redeemed prematurely at the initiative of the Issuer. If the early redemption right is exercised by the Issuer, the rate of return from the investment into the Bonds may be lower than initially expected, as the Potential Investor might not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on such Bonds being redeemed. The Issuer's redemption right may also adversely impact the Potential Investor's ability to sell such Bonds.

**Tax risk**

Tax rates and tax payment procedures applicable at the time of purchasing the Bonds by tax residents, non-residents of Latvia, and residents of other countries may change. The Issuer will not compensate the increase in taxes to Potential Investors, therefore Potential Investors may receive smaller payments related to Bonds.

**Resolutions of Investors risk**

The majority resolution of the Investors is binding on all Investors. Thus, a Bondholder is subject to the risk of being outvoted by a majority resolution of the other Bondholders. As such, certain rights of such Bondholder against the Issuer may be amended or reduced, or even cancelled, without its consent.

**Risk that some Bondholders might have more preferential terms than others**

While the Issuer will try to maintain the proportional reduction principle to the extent possible in final allocation of the Bonds, in case the total number of Bonds subscribed for is higher than the number of Bonds available, the Issuer has a right to refuse all or part of the subscribed Bonds to any Potential Investor due to perceived risks that might not be directly measurable and subjective, thus, the proportionality principle might not be observed.
Additionally, the Issuer has the right to sell the Bonds at a price lower than their Nominal value to selected Bondholders and / or enter into agreements that may add additional rights to selected Bondholders if the Issuer perceives them as especially important for this Bonds issue due to the size of their investment or added experience. This may result in a situation where some Bondholders might gain preferential terms for investment into the Bonds than the rest of the Bondholders.

# RISKS RELATED TO COLLATERAL AND GUARANTEES

**Risks associated with the Collateral Agent Agreement**

The Bondholders are represented by the Collateral Agent in all matters relating to the Collateral. There is a risk the Collateral Agent, or anyone appointed by it, does not properly fulfil its obligations in terms of perfecting, maintaining, enforcing or taking other necessary actions in relation to the Collateral. Subject to the terms of the Collateral Agent Agreement, the Collateral Agent is entitled to enter into agreements with a third-party or take any other actions necessary for the purpose of maintaining, releasing or enforcing the Collateral or for the purpose of settling, among others, the Bondholders rights to the Collateral.

**Risks associated with the value of the Collateral**

The value of the Collateral is not fixed and is subject to changes in several factors, primarily the demand and supply conditions for processed animal protein and animal fats, which at times can be unpredictable and are out of the Issuer's control. Thus, the value of the Collateral might decline if unfavourable market conditions in the processed animal protein and animal fats segment would result in a decline in prices of processed animal protein and animal fats. Additionally, if a sudden necessity to sell the Collateral were to arise, the Issuer might be forced to sell the Collateral at a discount to its market value and derive less value than expected from it.
Moreover, the Collateral structure could change over time due to changes in the Issuer's inventory and overall asset structure. Additionally, the Collateral is subject to damage defects, and the risk of theft. The processed animal protein and animal fats can get damaged which could affect the resale value, if such a necessity were to arise. Any of these risks related to the Collateral can negatively affect the value of the Collateral and the Issuer's ability to meet its obligations under the Bonds.
Furthermore, the beneficial owners (Pledgors), in accordance with the Bank Loan referred to in Clause 1.3.10. of these Terms of the Bonds Issue, have pledged all their Issuer (Debtor) shares to the AS Expobank (Pledgee; whose direct legal successor is Signet Bank). Thus, in case the Issuer fails to fulfil its obligations in regards to previously mentioned Bank Loan then the Pledgee will have all the rights to exercise the commercial pledge and to take over the pledged shares in to his possession and to sell them. The risks lays in fact that Signet bank is senior creditor and therefore all the proceeds from selling the Issuer's shares will go primarily to covering the Issuer's debt towards the Pledgee and only after that to the Bondholders.

Considering the Collateral Agent does not supervise the quality of the Collateral during the duration of the Issuer's obligations and the Collateral Agent has no liability to the Bondholders in this regard, there is a risk the Collateral may be taken over, but the realisation of the Collateral may be insufficient to fully satisfy the Bondholders' claims.

## RISKS RELATED TO COLLATERAL AND GUARANTEES

**The Collateral and the Guarantees will be subject to certain limitation on enforcement and may be limited by the applicable law or subject to certain defences that may limit its validity and enforceability**

The Collateral and the Guarantees provide the Collateral Agent, acting for the benefit of the Bondholders, with a claim against the relevant Collateral Provider and the Guarantor. However, the Collateral and the Guarantees will be limited to the maximum amount that can be guaranteed by the relevant Collateral Provider without rendering the relevant Collateral and Guarantee voidable or otherwise ineffective under the applicable law, and enforcement of each Collateral and Guarantee would be subject to certain generally available defences.

Enforcement of any of the Collateral and the Guarantees against any Collateral Provider will be subject to certain defences available to Collateral Providers in the relevant jurisdiction. Although laws differ among jurisdictions, laws and defences generally include those that relate to corporate purpose or benefit, fraudulent conveyance or transfer, voidable preference, insolvency or bankruptcy challenges, financial assistance, preservation of share capital, thin capitalization, capital maintenance or similar laws, regulations or defences affecting the rights of creditors generally. If one or more of these laws and defences are applicable, a Collateral Provider may have no liability or decreased liability under its Collateral and Guarantee depending on the amounts of its other obligations and applicable law.

There is a possibility the entire Guarantee or Collateral may be set aside, in which case the entire liability may be extinguished. If a court decided a Guarantee or Collateral was a preference, fraudulent transfer or conveyance and voids such Guarantee or Collateral, or holds it unenforceable for any other reason, the Bondholders may cease to have any claim in respect of the relevant Guarantor or Collateral Provider and would be a creditor solely of the Issuer and, if applicable, of any other Guarantor or Collateral Provider under the relevant Guarantee or Collateral which has not been declared void or held unenforceable.

The Bonds will be guaranteed by the Guarantors, which are organised or incorporated under the laws of the Republic of Latvia and the Republic of Singapore. In the event of a bankruptcy, insolvency or similar event of a Guarantor, bankruptcy, insolvency or similar proceedings could be initiated against that Guarantor in the Republic of Latvia and in Singapore.

**The enforcement of the Guarantee and the Collateral will be subject to the procedures and limitations set out in the Collateral Agent Agreement and these Terms of the Bonds Issue**

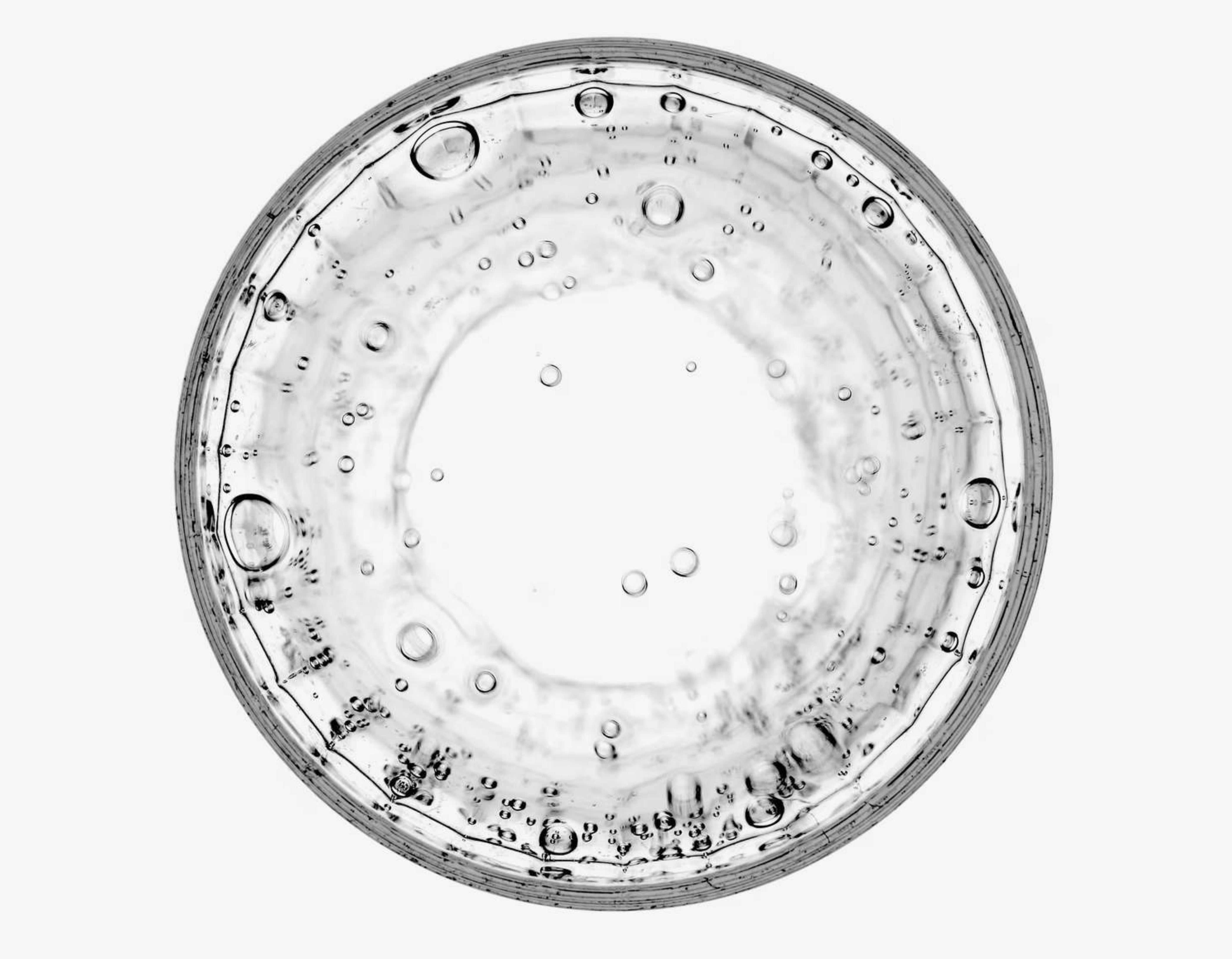
Even when the Collateral is enforceable, the enforcement is subject to the procedures and limitations agreed in the Collateral Agent Agreement and these Terms of the Bonds Issue. There can be no assurance as to the ability of the Bondholders to instruct the Collateral Agent to initiate any enforcement procedures. Furthermore, any enforcement of security may be delayed due to the provisions of the Collateral Agent Agreement and these Terms of the Bonds Issue.

**The rights of the Bondholders depend on the Collateral Agent's actions and financial standing**

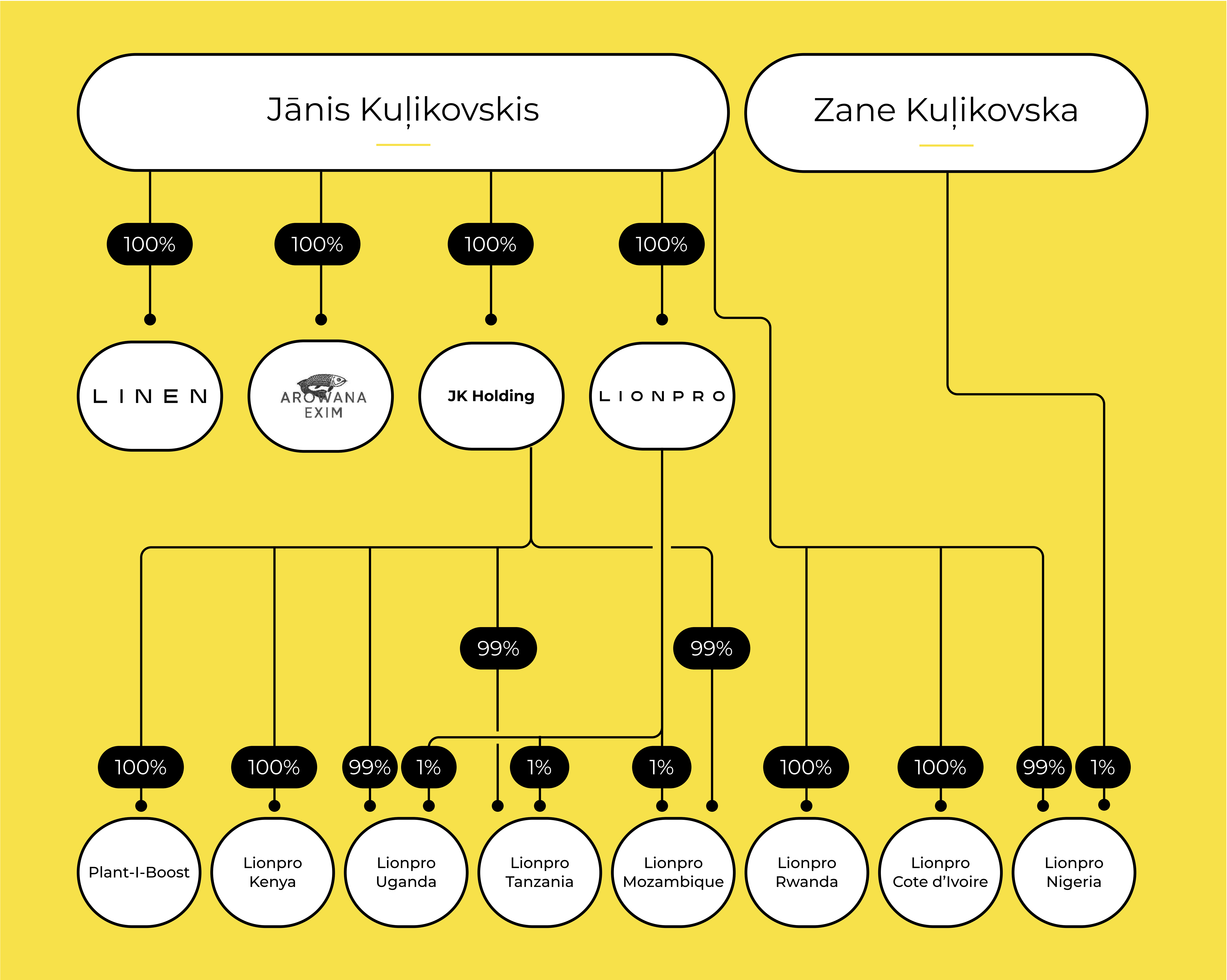
By subscribing for, or accepting the assignment of, any Bond, each of the Bondholders will accept the appointment of the Collateral Agent as the agent and representative of the Bondholders, to represent and act for such secured creditors, i.e., Bondholders, in relation to the Collateral.

Only the Collateral Agent is entitled to exercise the rights under the Collateral and enforce the same. Any failure by an Collateral Agent to perform its duties and obligations properly, or at all, may adversely affect the enforcement of the rights of the Bondholders due to, for example, inability to enforce the security and/or receive any or all amounts payable from the security in a timely and effective manner.

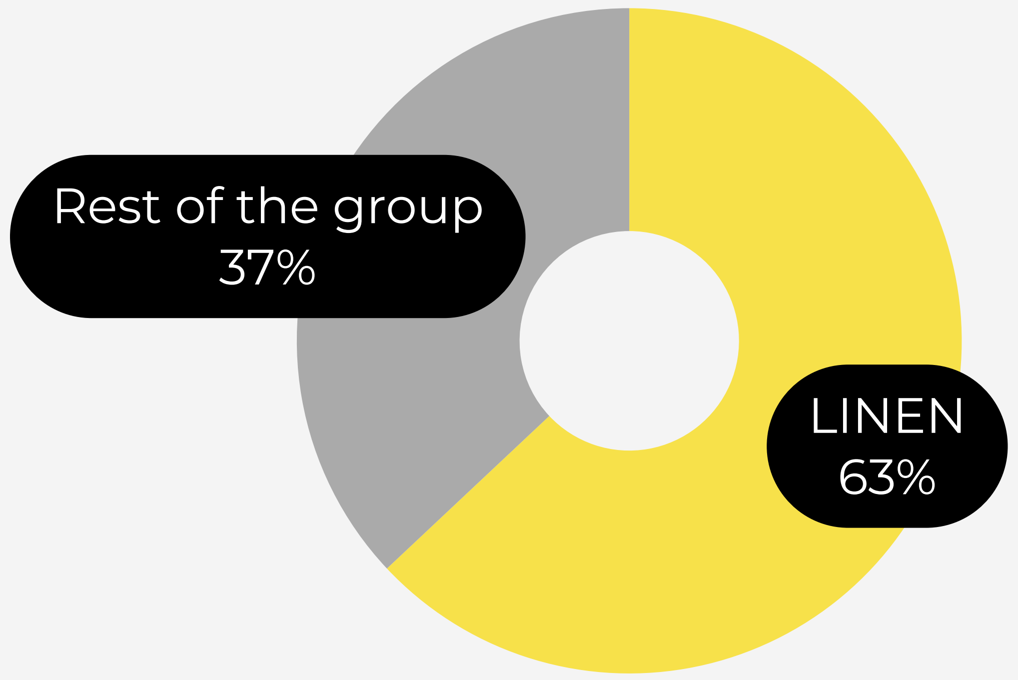
# TABLE OF CONTENTS



# LINEN GROUP LEGAL STRUCTURE



# GROUP AT GLANCE




45,2

Million EUR Consolidated Revenue Y2021

3,2

Million EUR Consolidated EBITDA, Y2021

7,1%

Consolidated EBITDA margin, Y2021

3,1

Million EUR Consolidated Net profit, Y2021

49

Employees worldwide, Y2021

7

Offices worldwide, Y2021

# Let’s make a better future together!

LINEN

2022