

# LINE N

MARCH 2023

Company Description

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# IMPORTANT LEGAL INFORMATION

This document (the “Document”) has been drawn up and made public solely for the purposes of listing the securities of SIA L. J. LINEN, registration number 40003669025, legal address at Antonijas iela 5, Riga, LV-1010, the Republic of Latvia (the “Issuer”) and admitting them to trading in multilateral trading facility First North operated by Nasdaq Riga AS. This Document is not and should not be construed as an offer to sell or solicitation of an offer to buy any securities. The Issuer has made all reasonable efforts to ensure that this Document provides an accurate overview of the Issuer’s business activities, financial standing, and the Bonds issue. The information contained in this Document is published for the assistance of recipients but is not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient.

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# RESPONSIBLE PERSONS

The Issuer and its management board are responsible for the information contained in this Company Description and Terms of the Bonds Issue signed on 13 December 2022 (Including technical amendments dated 14 February 2023) in the attachment.

Hereby I, the member of the board of SIA L. J. LINEN, Jānis Kuļikovskis, certify that, by paying sufficient attention to this purpose, the information included in the Company Description and Terms of the Bonds Issue is true, in accordance with the facts, and no information which may affect its meaning is concealed therein.

Jānis Kuļikovskis  
Member of the board

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# 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.

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42.9

Million EUR turnover in 2022

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29

Years of management board experience in the field



Deep and long term relationships with suppliers and customers

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36

Employees in Riga office

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2556

Shipped containers in 2022

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80k

Metric tons of feed ingredients sold

---

46

Countries

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30%

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

## 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.

## Strong Financial position\*

Equity ratio more than 73% in FY21

EBITDA in FY21 over EUR 2.8 million

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

## 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

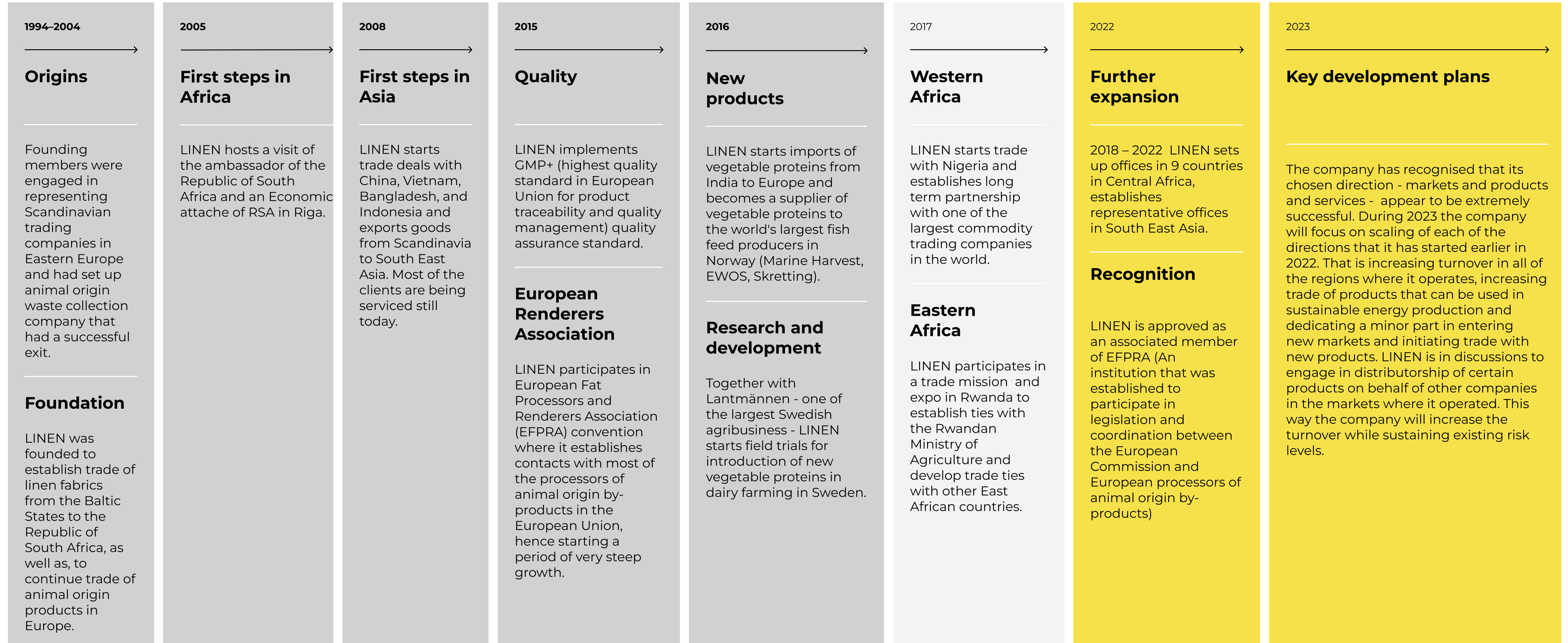
Wide application of goods from animal feed, human food to biofuels, fertilisers, and cosmetics

SIA L.J. LINEN KEY FIGURES EUR'000**	2019	2020	2021	2022 UN-AUDITED
Net Revenue	16 294	18 283	28 332	42 863
EBITDA	883	225	2 843	4 728
Net profit/loss	843	229	2 786	4 590
Accounts receivable	4 445	5 049	6 942	18 079
EBITDA margin	5.4%	1.4%	10.0%	11.0%
Net Debt	176	(27)	255	2 967
Equity ratio	48%	44%	74%	52%

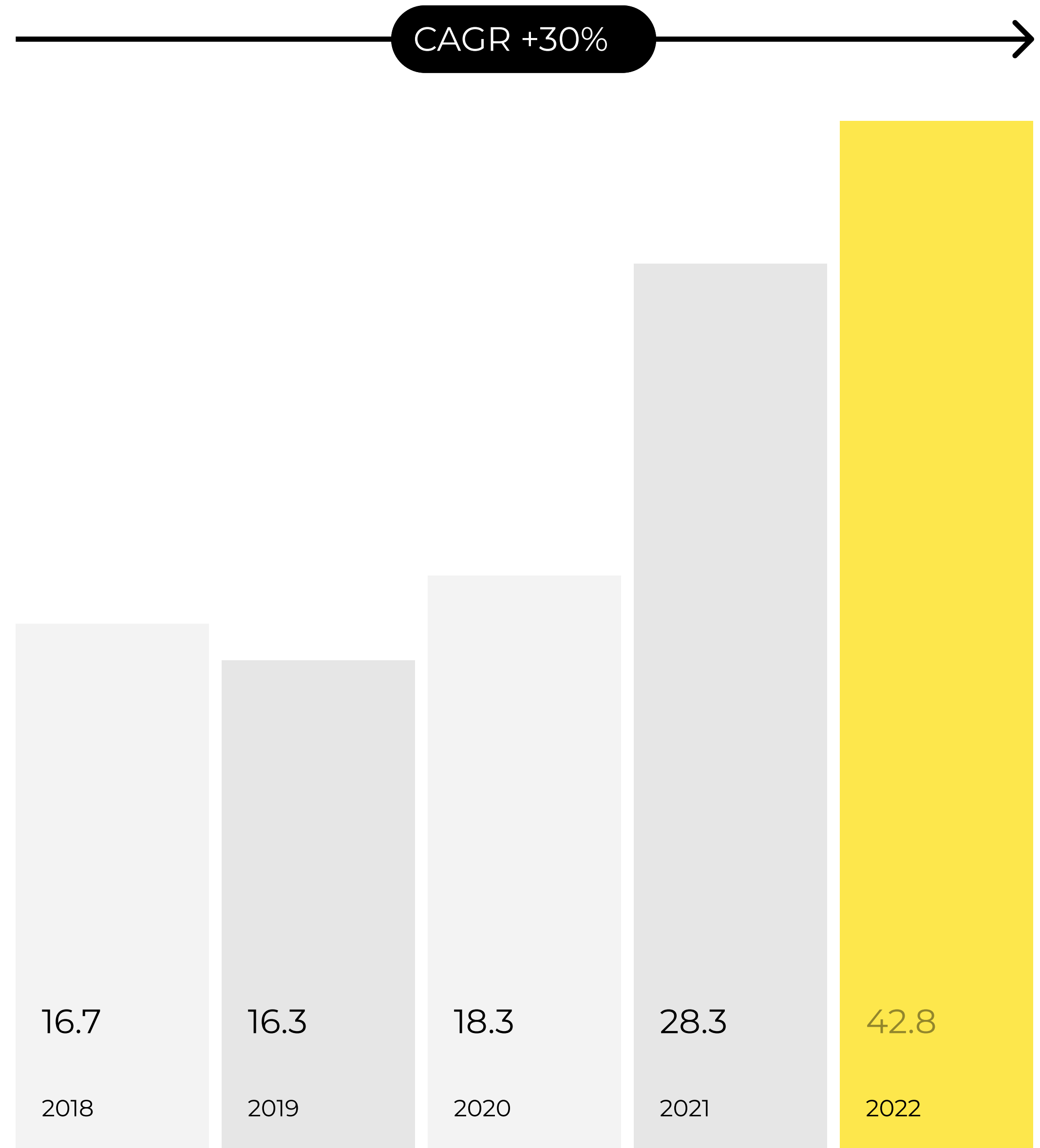
Source\* : Financial statements 2019, 2020, 2021, audited by SIA "Sandra Dzerale un partneris"

Source\*\* : Financial statements 2019, 2020, 2021, audited by SIA "Sandra Dzerale un partneris"

# DEVELOPMENT MILESTONES



LINEN REVENUE  
GROWTH DURING  
LAST 5Y





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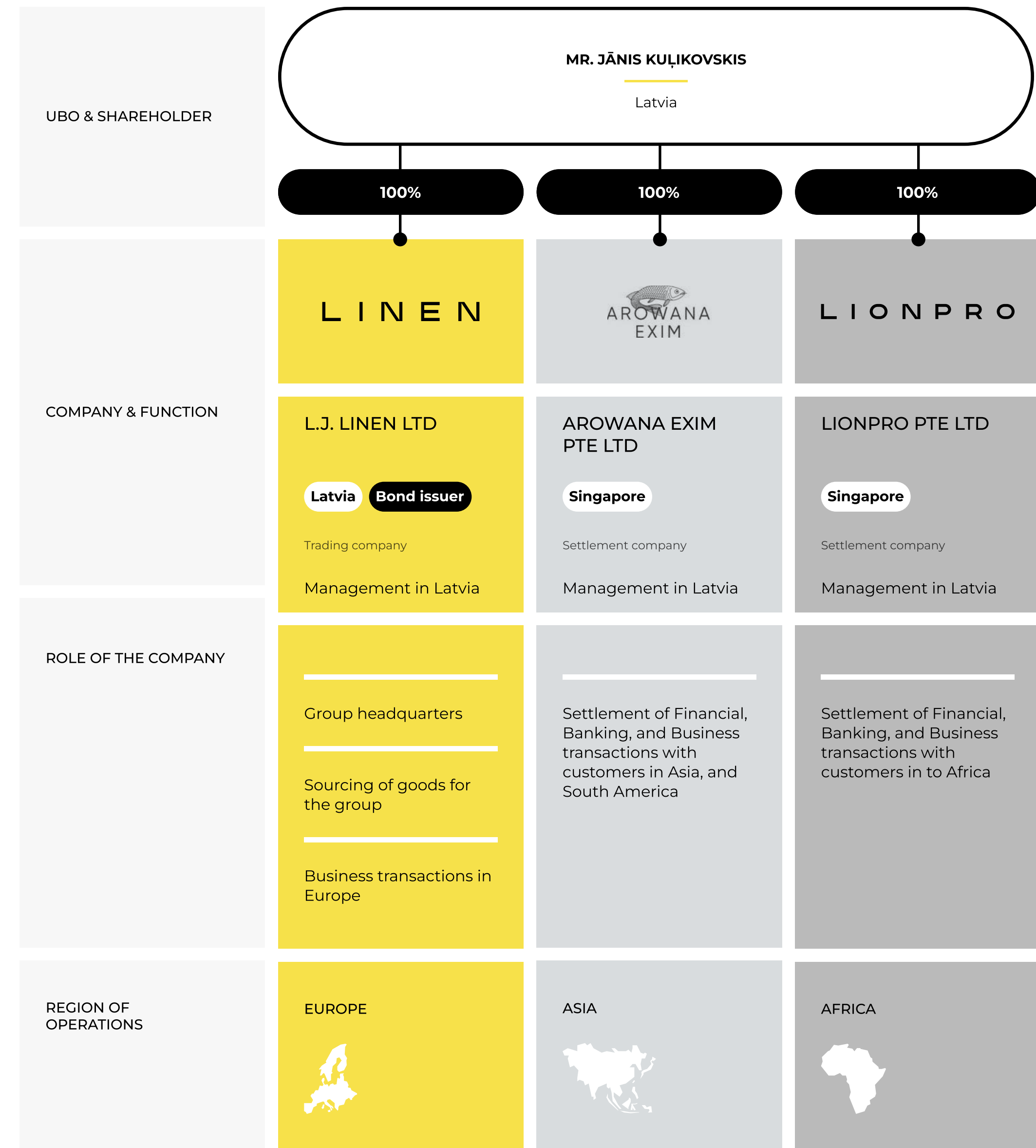
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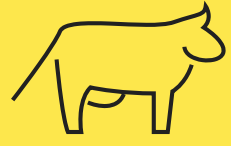
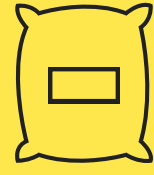




# GROUP STRUCTURE

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.



Note: Arowana is under L.J.Linen from 13.12.2022

# TRADED PRODUCTS

TRADED PRODUCTS	USED IN					
 <p>PROCESSED ANIMAL PROTEIN</p>	Animal feed	Organic Fertilizer	Pet food	Aquafeed	Biodiesel	Cosmetics
 <p>ANIMAL FATS</p>						
 <p>SOYBEANS AND CORN</p>						

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# 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 of animal feeds, biofuels, and human food.

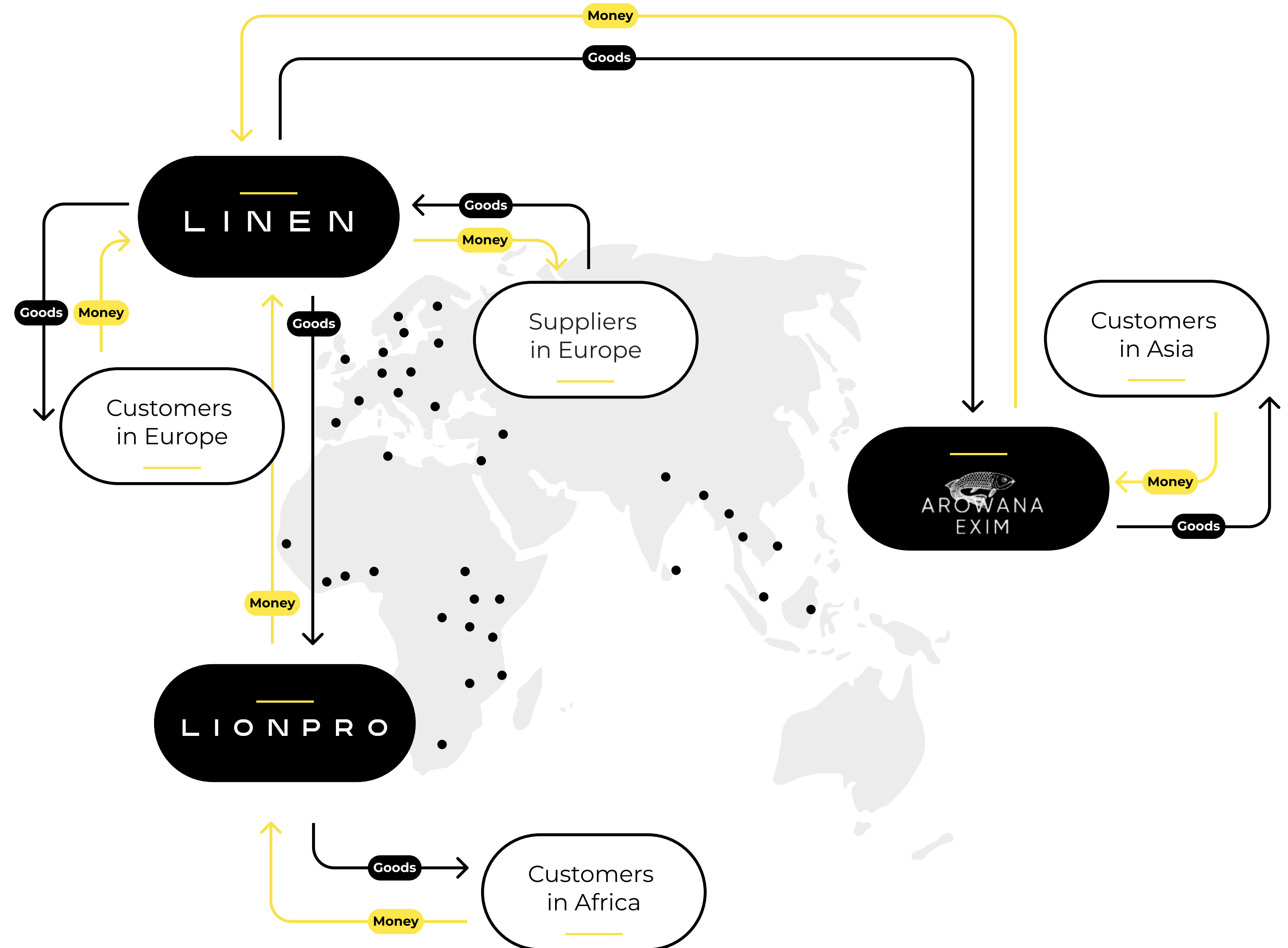


All operations in Europe are executed by LINEN. Sales to Asian customers are executed via AROWANA EXIM LTD. Sales to African customers are executed via Lionpro PTE and 7 SPV companies for distribution.

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

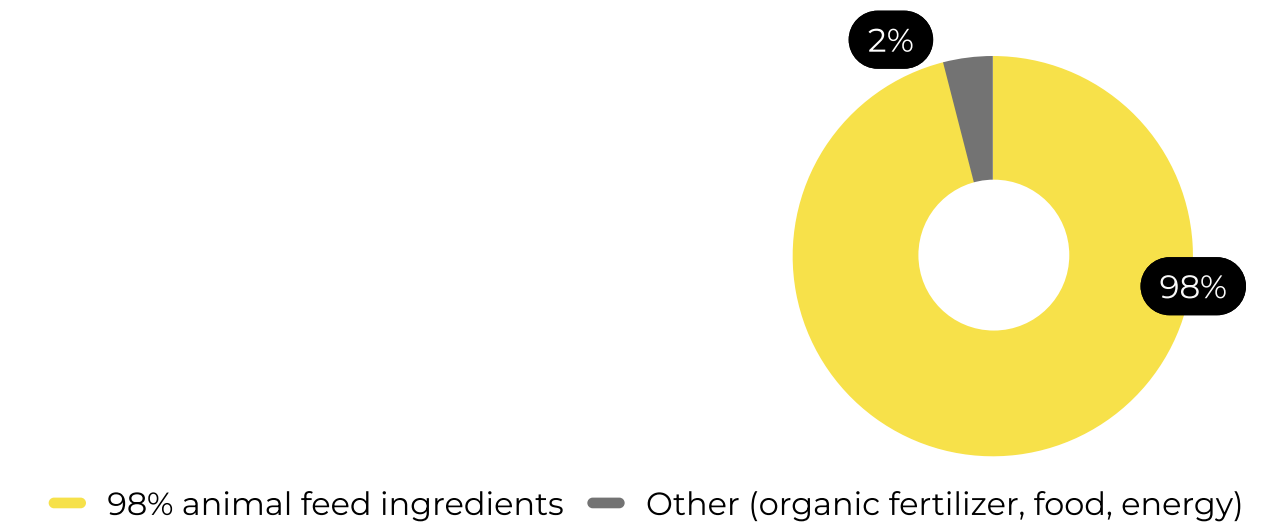
## Customers in Africa and Asia

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

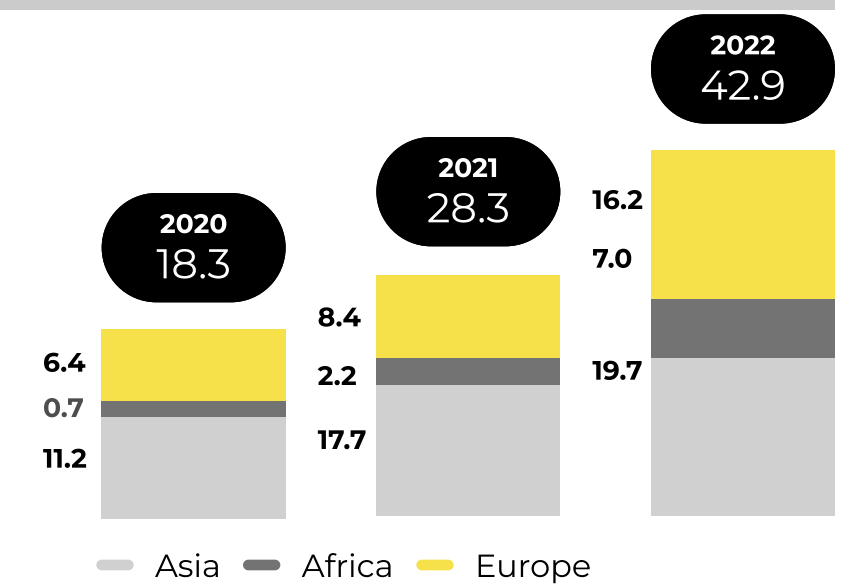
## Growth drivers

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

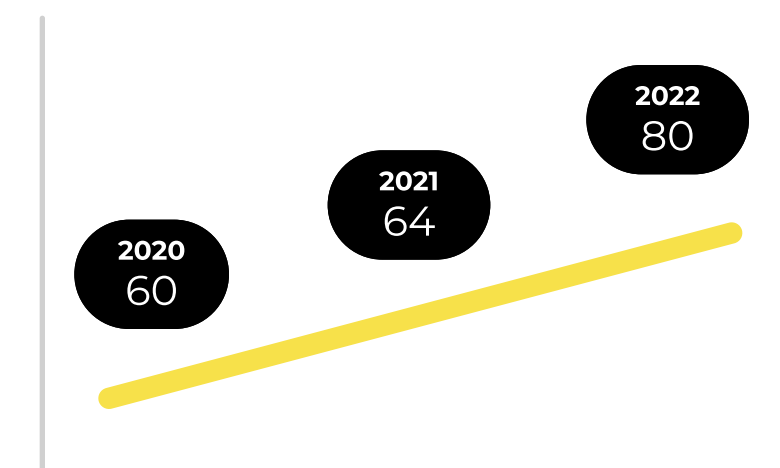
## Sales breakdown by products, 2022



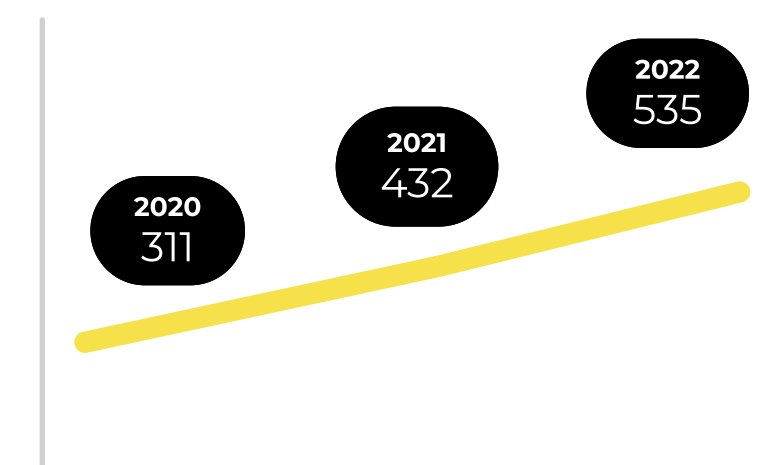
## Sales by region 2020-2022, EURm\*



## Sales volume, thousands, tonnes



## Pet and Animal food average price, EUR/tonne

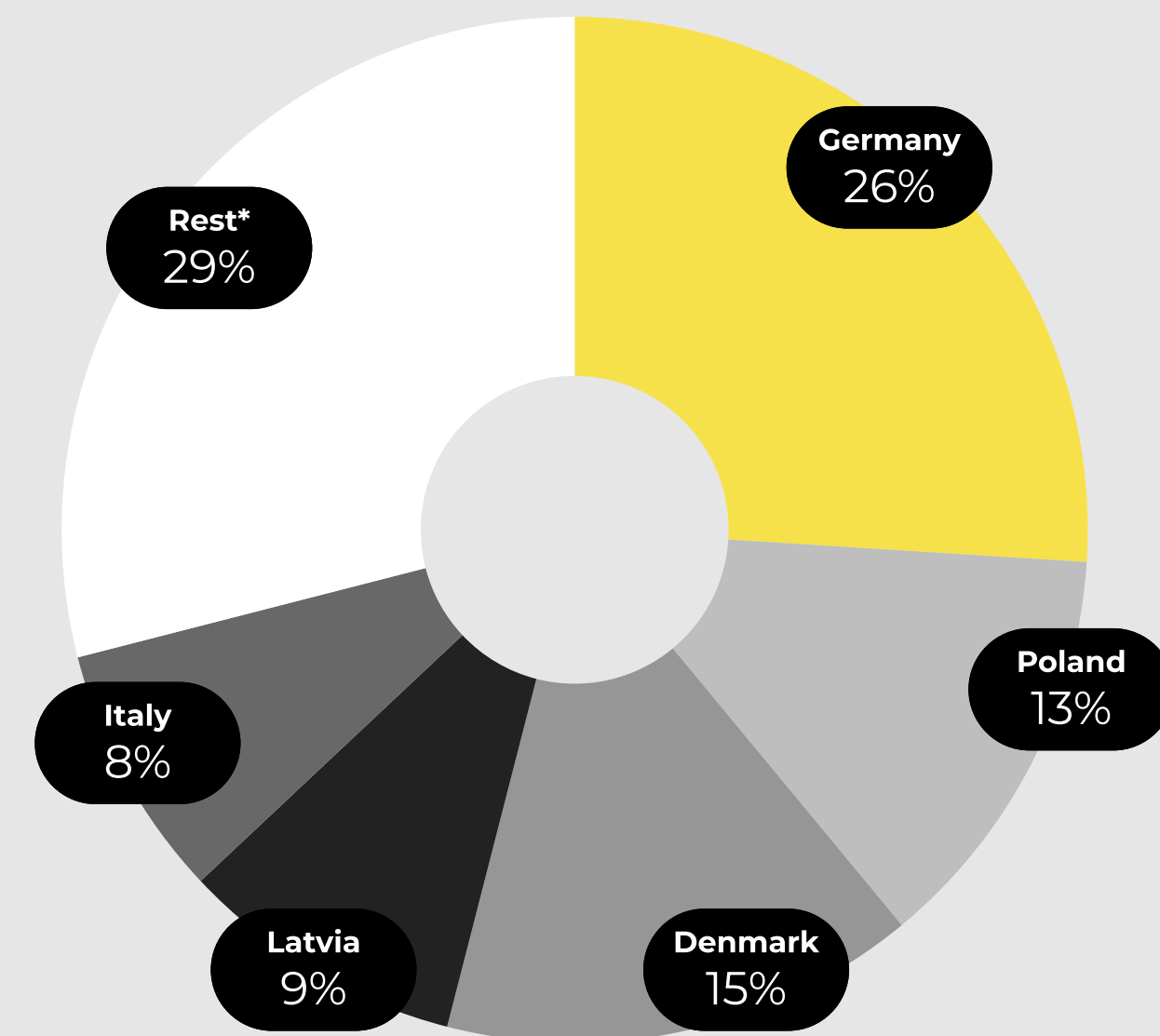


\*Note: Sales to Asia, are reflected as sales to Arowana EXIM PTE LTD and sales to Africa are reflected as sales to Lionpro PTE LTD from SIA L.J. Linen.

# 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

**m sc**

**Mitchell Cotts**  
The home of logistics solutions

**M**

YANG MING

**MAERSK**

BETTER WAYS **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.

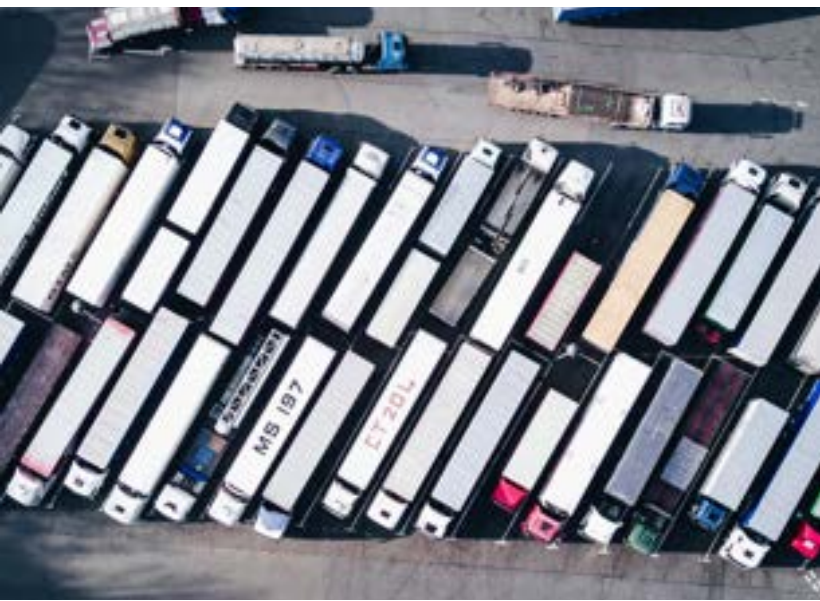




\*Source: OECD-FAO AGRICULTURAL OUTLOOK 2021-2030

\*\*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.

<p>Unique Service</p>	<p>On-time deliveries</p>	<p>Quality Control</p>	<p>New Products</p>	<p>Supplier and customer network expansion</p>
				
<p>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.</p>	<p>LINEN has created client specific reporting to provide real time tracking of consignments and helping inventory planning to its clients.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>

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# SUSTAINABILITY

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17

Million tonnes of animal waste  
by-products are processed annually

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6

Million tonnes of useful  
materials recovered

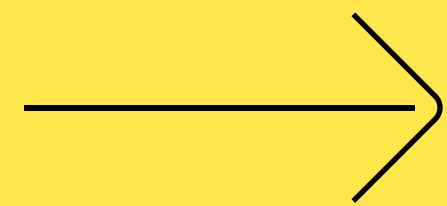
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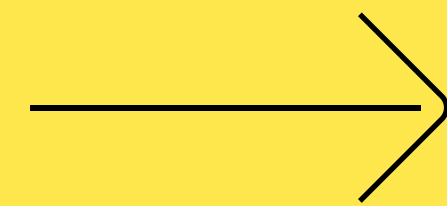
Thousand tonnes of edible  
fats are produced

# SUSTAINABILITY

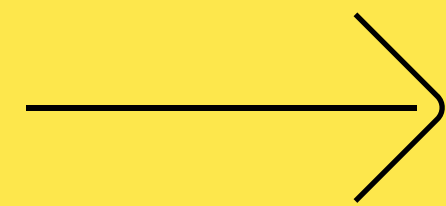
Rendering is a true recycling of waste and it produces three main end products: wastewater that is cleaned, processed animal protein and animal fat. By process of recycling, dependancy on vegetable proteins and oils is decreased and it has a direct influence on CO2 emissions due to less deforestation.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



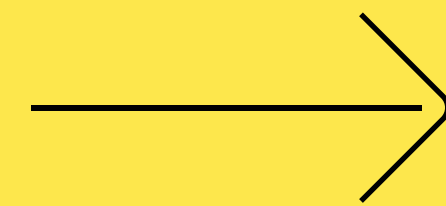
Less food waste, more re-usable materials



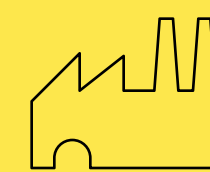
Less deforestation



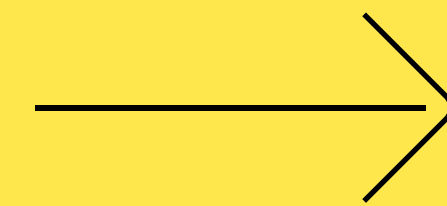
Fewer greenhouse gas emissions



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*	MARKET PRESENCE*	MARKET PRESENCE*	MARKET PRESENCE*	MARKET PRESENCE*
		EUROPE	ASIA	NORTH AMERICA	SOUTH AMERICA	AFRICA
	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.		✓	✓		
	International trader with presence in North America, Asia and Europe. Sells processed animal protein to Europe and Asia from suppliers in USA.	✓				
	International trader with presence in North America, Asia and Europe. Sells processed animal protein to Europe and Asia from suppliers in USA.	✓	✓	✓		
<b>LINEN &amp; group</b>	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

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# 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](https://www.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/](https://www.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-kulikovska-13588053](https://www.linkedin.com/in/zane-kulikovska-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](https://www.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](https://www.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-riekstins-8b885860](https://www.linkedin.com/in/tomass-riekstins-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](https://www.linkedin.com/in/laurisg)

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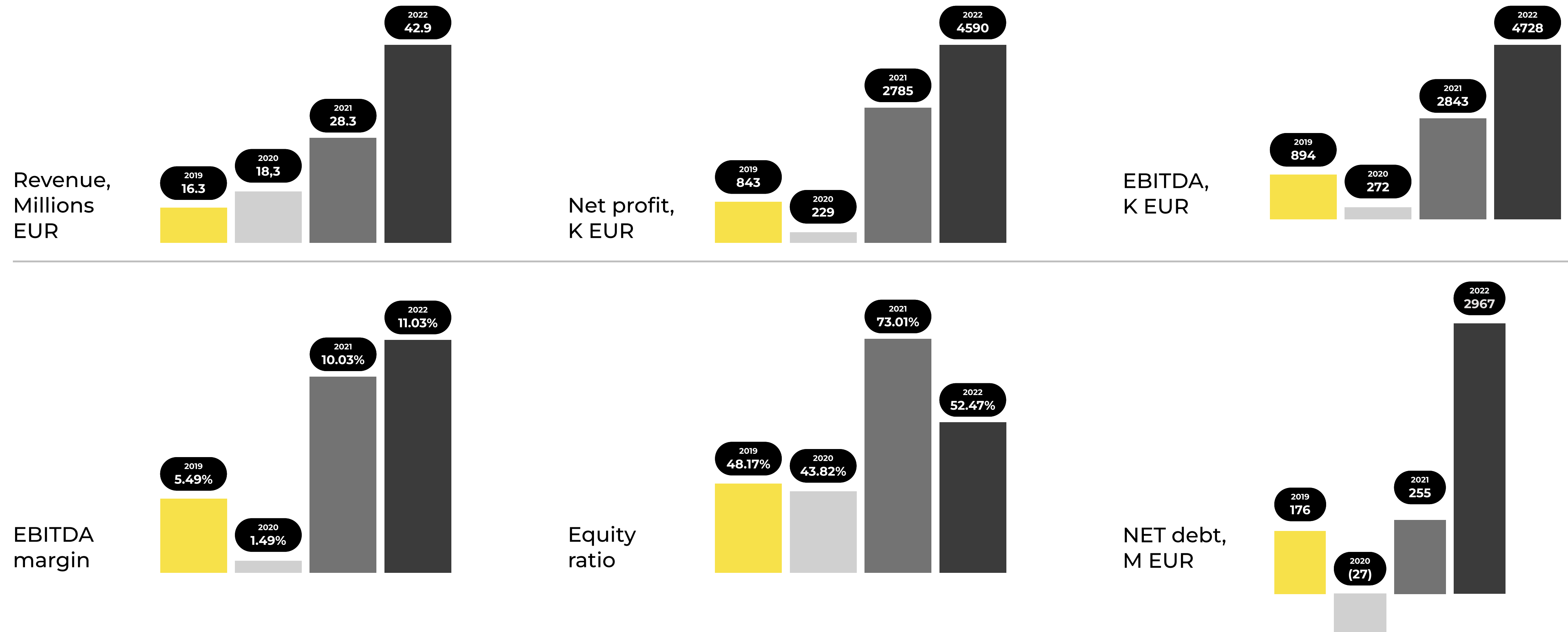
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# KEY FINANCIALS





# 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

10%



Asian customers

70%



African customers

20%



New customers – Advance payment

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

Advance payment

Letter of Credit

Other factoring-like instruments

Cash against documents

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	UNAUDITED 2022   EUR
<b>PROFIT AND LOSS STATEMENT</b>				
<b>NET TURNOVER</b>	16 278 547	18 281 666	28 332 324	42 863 040
Europe	8 222 495	6 353 965	8 367 252	16 219 543
Asia	5 975 267	11 215 649	17 721 072	19 678 682
Africa & other	2 080 785	712 052	2 243 999	6 964 815
Cost of goods sold	14 763 963	17 006 584	24 732 477	36 185 872
<b>GROSS PROFIT</b>	<b>1 514 584</b> 9,30%	<b>1 275 082</b> 6,97%	<b>3 599 847</b> 12,71%	<b>6 677 168</b> 15,58%
Selling expenses	425 625	495 117	659 423	1 326 611
Administrative expense	2 264 88	266 226	407 273	839 684
Other operating income	21 580	15 421	338 911	425 361
Other operating expenses	14 922	284 638	60 308	207 375
Interest expenses	12 076	2553	10 197	43 797
Interest income and similar income	1331	1125	240	-
<b>OPERATING PROFIT</b>	<b>858 384</b> 5,27%	<b>243 094</b> 1,33%	<b>2 801 797</b> 9,89%	<b>4 542 736</b> 10,59%
Corporate Income tax	15 213	13 768	16 228	48 050
<b>PROFIT FOR THE PERIOD</b>	<b>843 171</b> 5,18%	<b>229 326</b> 1,25%	<b>2 785 569</b> 9,83%	<b>4 590 736</b> 10,71%

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

# BALANCE SHEET: ASSETS

	AUDITED Dec 31, 2019   EUR	AUDITED Dec 31, 2020   EUR	AUDITED Dec 31, 2021   EUR	UNAUDITED Dec 31, 2022   EUR
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
<b>Intangible assets</b>				
Total tangible fixed assets	-	-	2 860	24 042
<b>Property, plant and equipment</b>				
Property, plant and equipment	85 227	81 895	78 498	84 577
Advance payments for fixed assets	-	-	20 000	20 000
<b>Total property, plant and equipment</b>	<b>85 227</b>	<b>81 895</b>	<b>98 498</b>	<b>104 577</b>
<b>LONG-TERM ASSETS</b>				
Other long-term receivables	8 327	3 295	3 295	701
<b>TOTAL NON-CURRENT ASSETS</b>	<b>93 554</b>	<b>85 190</b>	<b>104 653</b>	<b>129 319</b>
<b>CURRENT ASSETS</b>				
<b>Inventories</b>				
Finished goods and goods for sale	49 132	493 279	95 093	187 707
Advance payments for goods	-	-	62 216	-
<b>Total inventories</b>	<b>49 132</b>	<b>493 279</b>	<b>157 309</b>	<b>187 707</b>
<b>Receivables</b>				
Trade receivables	4 278 806	4 929 665	6 800 366	18 079 448
Other receivables	165 869	96 205	190 579	203 356
Prepaid expenses	7 513	8 046	9 723	15 070
Accrued income	-	-	21 561	-
<b>Total receivables</b>	<b>4 452 188</b>	<b>5 055 477</b>	<b>7 000 668</b>	<b>18 297 873</b>
<b>Cash and cash equivalents</b>	<b>177 554</b>	<b>136 141</b>	<b>15 245</b>	<b>32 641</b>
<b>TOTAL CURRENT ASSETS</b>	<b>4 678 874</b>	<b>5 684 897</b>	<b>7 173 222</b>	<b>18 518 221</b>
<b>TOTAL ASSETS</b>	<b>4 772 428</b>	<b>5 770 087</b>	<b>7 277 875</b>	<b>18 647 540</b>


## TRADE RECEIVABLES

	AUDITED 12.31.2021   EUR	UNAUDITED 12.31.2022   EUR
Trade Receivables	1 545 466	5 895 973
IC Trade receivables	3 148 497	9 257 662
Goods in transit	2 106 403	2 925 813
	<b>6 800 366</b>	<b>18 079 448</b>

# BALANCE SHEET: EQUITY AND LIABILITIES

	AUDITED Dec 31, 2019   EUR	AUDITED Dec 31, 2020   EUR	AUDITED Dec 31, 2021   EUR	UNAUDITED Dec 31, 2022   EUR
<b>EQUITY AND LIABILITIES</b>				
<b>CAPITAL AND RESERVES</b>				
Share capital	2 842	2 842	2 842	2 842
Reserves	4	-	-	-
<b>Accumulated profit</b>				
a) brought forward	1 452 882	2 296 057	2 525 381	5 190 950
b) for the year	843 171	229 326	2 785 569	4 590 736
<b>Total equity</b>	<b>2 298 899</b>	<b>2 528 225</b>	<b>5 313 792</b>	<b>9 784 528</b>
<b>NON-CURRENT LIABILITIES</b>				
Loan from from financial institutions	19 893	2 920	-	2 000 000
<b>CURRENT LIABILITIES</b>				
Short term liabilities from financial institutions	182 057	18 255	269 876	1 000 000
Trade payables	1 986 262	2 922 413	1 604 819	5 628 211
Taxes and social insurance contributions	33 967	30 806	873	-
Other current liabilities	24 277	22 194	29 616	4 337
Unpaid dividends	153 241	89 326	-	-
Accrued liabilities	73 832	155 948	58 899	230 465
<b>Total current liabilities</b>	<b>2 453 636</b>	<b>3 238 942</b>	<b>1 964 083</b>	<b>6 863 012</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 772 428</b>	<b>5 770 087</b>	<b>7 277 875</b>	<b>18 647 540</b>

# FUNDING STRATEGY

Credit line →	Europe →	L I N E N	LINEN has credit line available in total of EUR 1 million with purpose to fund operations in Europe.
Bonds →	Asia →	 AROWANA EXIM	LINEN acknowledges further growth potential in Asia, which is intended to be the use of proceeds.
Equity →	Africa →	L I O N P R O	Operations in Africa are funded by shareholders' capital.

Before 2021 all operations were funded by equity.

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# TERM-SHEET

<b>Issuer</b>	SIA L. J. Linen
<b>Issue size</b>	EUR 2'000'000
<b>Type of notes</b>	Secured bonds
<b>Seniority of notes</b>	SNDB - Senior Debt
<b>Issue price</b>	100.00%
<b>Collateral</b>	2nd order commercial pledge on the assets of Issuer 2nd order commercial pledge on the shares of Issuer
<b>Maturity</b>	16 December 2024, bullet
<b>Annual coupon rate, coupon frequency</b>	10.00% +3M EURIBOR, quarterly p.a., paid quarterly
<b>Call option</b>	@102% after Year 1 @100.5% 3 months before maturity
<b>Put option</b>	In case of Change of Control @101%
<b>Nominal value</b>	EUR 1'000
<b>Financial covenants</b>	Interest Coverage Ratio: min 3x; Equity ratio: min 40%, Net Debt / EBITDA (recurring normalised): max 2x
<b>Type of Placement</b>	Private bond placement
<b>Listing</b>	Nasdaq Riga First North within 12 months from the Issue Date
<b>Use of proceeds</b>	Working capital financing

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# CERTIFIED ADVISER

Signet Bank AS acts as the First North Certified Adviser for SIA L. J. LINEN

Official name: Signet Bank AS  
Registration number: 40003043232  
Main field of activity: Banking services  
Address: Antonijas iela 3, Riga, LV-1010, Latvia  
Web page: <https://www.signetbank.com/>

Representative  
Kristiāna Janvare, CFA  
E-mail: [Kristiana.Janvare@signetbank.com](mailto:Kristiana.Janvare@signetbank.com)  
Phone: +371 67 081 128

Signet Bank AS is advising SIA L. J. LINEN with the preparation of admission documents. The agreement is valid from the day of submitting the application for admission to trading on First North to Nasdaq Riga until the actual first trading day of the Bonds on First North platform.

Certified Adviser and employees of the Certified Adviser do not have any direct or indirect shareholdings in the Issuer and are not represented in Board of the Issuer.





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## 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.

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## 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.

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## 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.

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## RISK FACTORS

### **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.

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## 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, Guarantors and related parties are directly controlled by the employees of the Issuer.

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## 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.

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## RISK FACTORS

### **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.

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## 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.



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## 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.

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## RISK FACTORS

### **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.

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## 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.

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## 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.

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## 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.

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## 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.

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## INVESTOR RIGHTS

Any Bondholder has the right to receive Coupon and Nominal Value payments in accordance with the Clause 4.2.13. “Coupon payments” and 4.2.15. “Procedure of the Bonds repayment”, as well as exercise other rights fixed in these Terms of the Bonds Issue and Applicable Laws of the Republic of Latvia.

Status of the Bonds: The Bonds rank pari passu with other senior secured obligations of the Issuer, however, 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 the bank. If the Collaterals would be enforced, 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, or in case of refinancing - other financial institution, secured by the same Collateral and the costs of enforcement of the Collaterals.

Early redemption: Bondholders shall not have rights to demand early redemption of Bonds (put option), except in case of occurrence of the events of default in accordance with the Clause 5.2 “Event of Default”. Additionally, in case a Change of Control has occurred, each Bondholder has the right to require the Issuer to purchase all of such Bondholders’ Bonds at a price equal to 101% (one hundred and one percent) of the Nominal Value plus accrued and unpaid interest.

Restrictions on free circulation of the Bonds: The Bonds are freely transferable securities and can be pledged. However, the Bonds cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under the Legal Acts.

Representation of the Bondholders: The Collateral Agent holds the Collateral and the Guarantees on behalf of the Bondholders and is authorized to act with the Collateral and the Guarantees in favour of all the Bondholders in accordance with these Terms of the Bonds Issue and the Collateral Agent Agreement. Bondholders have no rights to act with the Collateral and the Guarantees directly, yet at the same time there are no restrictions set for Bondholders’ right to create and/or authorize an organization/person that represents the legal interests of all Bondholders or part thereof. In case of the insolvency of the Issuer, every Bondholder has the right to represent their own interests in creditors’ meetings. The Bondholders will have equal rights for satisfaction of their claims with other creditors in the same claims’ group.

## RIGHTS IF ISSUER BREACHES OTS OBLIGATIONS

Bondholders representing at least 10% (ten per cent) of the outstanding Bonds issue, have the right to submit a written notification to the Issuer, Guarantors and Collateral Agent regarding that the immediate repayment deadline has set in for the Bonds owned by the relevant Bondholder. If the Issuer receives such written notification from the Bondholders, stating the Bonds owned by the relevant Bondholders have become due and payable, at any time after the event of default has occurred (and as long as the event of default exists), the Issuer shall pay the Nominal value of Bonds along with the accrued Coupon and contractual penalty in accordance with Clause 5.2.6 “Contractual penalty” within 10 (ten) Business Days after the receipt of the notification.

Each of the events or circumstances set out in below shall constitute an event of default:

Non-payment (Clause 5.2.1.)

Breach of covenants (Clause 5.2.2.)

Cross-Default (Clause 5.2.4.)

Insolvency (Clause 5.2.5.)

Security enforced (Clause 5.2.6.)

Note: For full overview, please refer to the Terms of the Bonds Issue

## TRANSACTIONS WITH RELATED PARTIES

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Issuer are shareholders who could control or who have significant influence over the Issuer in accepting operating business decisions, key management personnel of the Issuer including close family members of any above-mentioned persons, as well as entities over which those persons have a control or significant influence, including subsidiaries.

As of publishing this Company Description, the Issuer has one subsidiary Arowana Exim, but its business operates in cooperation with various Related Entities. The companies are held directly by the UBO and majority shareholder of the SIA L.J. Linen Jānis Kuļikovskis or other individuals of the management (see Annex 1 enclosed to the Terms of the Bonds Issue). In the near future, the Related Entities will be consolidated under one group (see Annex 2 enclosed to the Terms of the Bonds Issue).

31.12.2022, EUR	AROWANA EXIM* AND LIONPRO	OTHER RELATED ENTITIES CONTROLLED BY BENEFICIAL OWNER	TOTAL
<b>RECEIVABLES FROM RELATED PARTIES:</b>			
Loan issued		36'889	36'889
Trade and other receivables	12'182'676	13'720	12'196'396
<b>Borrowings and payables:</b>			
Loan received	-	-	-
Trade and other payables	-	-	-

12M 2022, EUR	AROWANA EXIM* AND LIONPRO	OTHER RELATED ENTITIES CONTROLLED BY BENEFICIAL OWNER	TOTAL
<b>Income and expenses:</b>			
Sales to related parties	26'643'497	-	26'643'497
Purchases from related parties	-	-	-
Interest income	-	-	-
Interest expense	-	-	-

\*Note: Arowana is under L.J.Linen from 13.12.2022



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## OTHER STATEMENTS

### Legal proceedings

At the time of signing these Terms of the Bonds Issue, the Issuer is not involved in any government interventions, lawsuits or arbitration processes, which may significantly affect or have significantly affected the financial situation or profitability of the Issuer.

### Important agreements

Apart from the agreement referred to in Clause 4.2.5. (Status of the Bonds) the Issuer has no knowledge of any other important agreements or internal decisions that could have been concluded within the company or between the Issuer and any related company and that could affect the Issuer's capability to fulfil its liabilities due to Bondholders regarding the securities to be issued.

### Employee share options

After the issue of the Bonds the Issuer plans to issue additional shares intended for employee share options, the number of which will contribute up to 10% (ten percent) of the total number of Issuer's shares at the date of these Terms of the Bonds Issue. The newly issued shares granted to the employees of the Issuer as part of share options programme shall not be subject to the Collateral and the relevant amendments shall be made in the Collateral Agreements if necessary to reflect the changes thereof.

### Substantial changes in financial situation of the Issuer

As of the publication of the last financial statement, the financial situation or performance of the Issuer has not worsened. The Issuer is unaware of any factors, claims, obligations, or events which would negatively affect the financial situation or performance of the Issuer in future.

### Significant and recent known trends

During the year 2020 and 2021 many economic sectors were affected by global pandemic. The Issuer has no information at its disposal regarding any known trends that have negatively affected the Issuer or the activity, apart from the aforementioned global pandemic impact.

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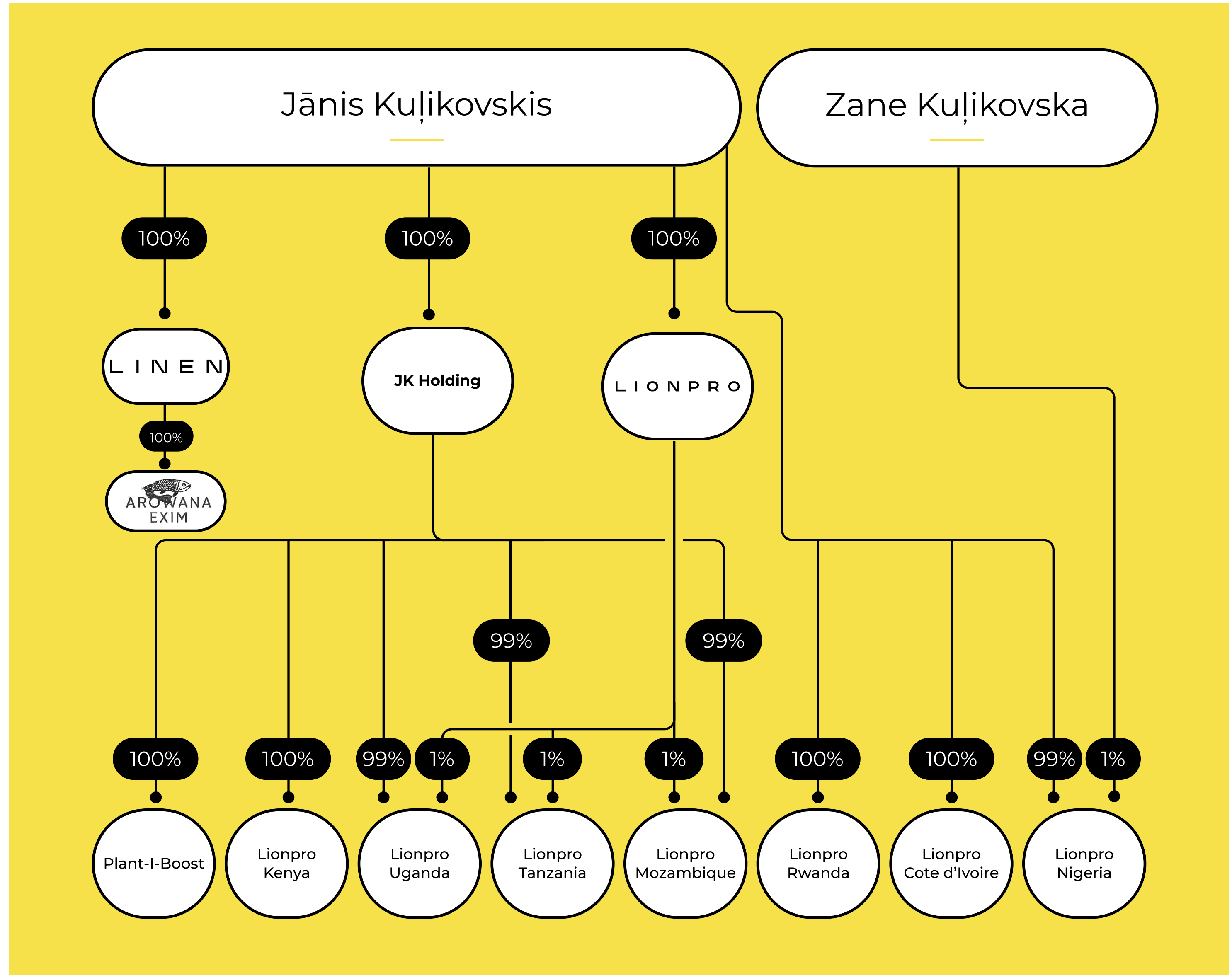
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LINEN  
GROUP  
LEGAL  
STRUCTURE



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# APPENDIX

Terms of the Bonds Issue signed on 13 December 2022 (Including technical amendments dated 14 February 2023).

Audited financial reports of SIA L. J. LINEN for the years 2021 and 2020

Let's make a  
better future  
together!



**L I N E N**