

**LSEZ LAUMA FABRICS SIA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For 2016, 2015 and 2014**

**LSEZ LAUMA FABRICS SIA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For 2016, 2015 and 2014**

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**LSEZ LAUMA FABRICS SIA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For 2016, 2015 and 2014**

**Consolidated statement of comprehensive income**

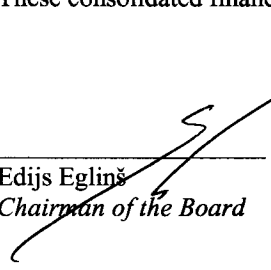
For the year ended 31 December

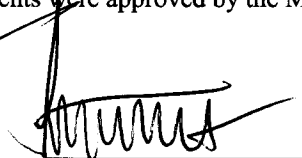
<i>In euros</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Revenue</b>	6	<b>33,197,035</b>	<b>29,894,250</b>	<b>39,540,106</b>
Other operating income	7	984,146	1,294,333	1,320,749
Changes in inventories of finished goods and work in progress		(790,216)	(116,262)	(630,533)
Raw materials and services	8	(13,311,408)	(12,544,708)	(16,292,075)
Employee benefits expense	9	(8,117,481)	(8,346,729)	(10,657,685)
Depreciation and amortisation	10	(1,781,126)	(1,704,867)	(1,423,944)
Other operating expenses	11	(6,693,246)	(6,983,110)	(9,778,256)
<b>Operating profit</b>		<b>3,487,704</b>	<b>1,492,907</b>	<b>2,078,362</b>
Finance income	12	38,262	119	26,582
Finance costs	13	(224,196)	(322,141)	(422,506)
<b>Net finance costs</b>		<b>(185,934)</b>	<b>(322,022)</b>	<b>(395,924)</b>
Share of profit of equity-accounted investees, net of tax	17	2,275	16,637	16,671
<b>Profit before income tax</b>		<b>3,304,045</b>	<b>1,187,522</b>	<b>1,699,109</b>
Income tax (expense)/benefit	14	(567,090)	686,972	(318,050)
<b>Profit/(loss) for the year</b>		<b>2,736,955</b>	<b>1,874,494</b>	<b>1,381,059</b>
<b>Comprehensive income for the year*</b>		<b>2,736,955</b>	<b>1,874,494</b>	<b>1,381,059</b>
<b>Comprehensive income attributable to:</b>				
Owners of the Company		2,736,955	1,841,651	1,663,356
Non-controlling interest	27	-	32,843	(282,297)
<b>Comprehensive income for the year</b>		<b>2,736,955</b>	<b>1,874,494</b>	<b>1,381,059</b>

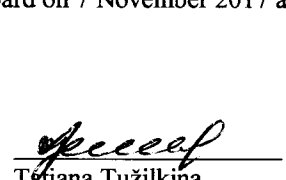
\*The Group has no other comprehensive income items.

The accompanying notes on pages 10 to 45 form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Management Board on 7 November 2017 and signed by

  
 Edijs Eglins  
 Chairman of the Board

  
 Indrek Rahumaa  
 Board member

  
 Tatjana Tužilkina  
 Board member

Liepaja, 7 November 2017

**LSEZ LAUMA FABRICS SIA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For 2016, 2015 and 2014**

**Consolidated statement of financial position**

As at 31 December

<i>In euros</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
<b>Assets</b>					
Property, plant and equipment	15	9,654,733	10,848,923	11,178,968	10,359,015
Intangible assets	16	140,099	161,284	173,633	166,462
Investments in equity-accounted investees	17	-	209,312	53,591	36,970
Deferred tax assets	14	119,882	686,972	-	-
Trade and other receivables	19	587,946	-	-	-
<b>Total non-current assets</b>		<b>10,502,660</b>	<b>11,906,491</b>	<b>11,406,192</b>	<b>10,562,447</b>
Inventories	18	5,744,041	5,758,477	6,543,165	7,624,564
Current tax assets		29,751	274,305	213,054	213,080
Trade and other receivables	19	6,301,917	5,336,819	6,928,281	9,732,129
Prepayments		123,829	176,975	127,589	82,989
Cash and cash equivalents	20	218,914	1,128,090	1,141,837	1,160,998
<b>Total current assets</b>		<b>12,418,452</b>	<b>12,674,666</b>	<b>14,953,926</b>	<b>18,813,760</b>
<b>Total assets</b>		<b>22,921,112</b>	<b>24,581,157</b>	<b>26,360,118</b>	<b>29,376,207</b>

The accompanying notes on pages 10 to 45 form an integral part of these consolidated financial statements.

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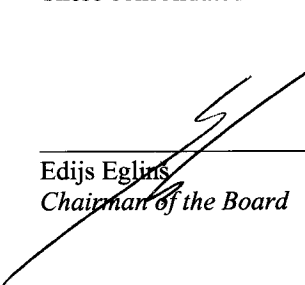
**Consolidated statement of financial position (continued)**

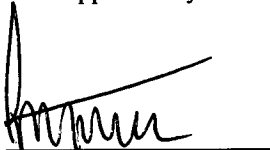
As at 31 December

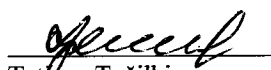
<i>In euros</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
<b>Equity</b>					
Share capital	21	10,084,556	10,084,556	10,084,556	10,084,604
Retained earnings		2,425,894	1,230,165	414,816	2,680,894
<b>Equity attributable to owners of the Group</b>		<b>12,510,450</b>	<b>11,314,721</b>	<b>10,499,372</b>	<b>12,765,498</b>
Non-controlling interests	27	-	-	(833,150)	(550,853)
<b>Total equity</b>		<b>12,510,450</b>	<b>11,314,721</b>	<b>9,666,222</b>	<b>12,214,645</b>
<b>Liabilities</b>					
Loans and borrowings	23	2,710,957	3,258,939	5,019,871	5,656,285
Deferred income	25	752,430	887,629	605,219	491,904
<b>Total non-current liabilities</b>		<b>3,463,387</b>	<b>4,146,568</b>	<b>5,625,090</b>	<b>6,148,189</b>
Loans and borrowings	23	2,485,047	3,396,459	3,136,241	2,515,070
Trade and other payables	24	4,162,896	5,443,908	7,774,549	8,384,936
Deferred income	25	299,332	279,501	158,016	113,367
<b>Total current liabilities</b>		<b>6,947,275</b>	<b>9,119,868</b>	<b>11,068,806</b>	<b>11,013,373</b>
<b>Total liabilities</b>		<b>10,410,662</b>	<b>13,266,436</b>	<b>16,693,896</b>	<b>17,161,562</b>
<b>Total equity and liabilities</b>		<b>22,921,112</b>	<b>24,581,157</b>	<b>26,360,118</b>	<b>29,376,207</b>

The accompanying notes on pages 10 to 45 form an integral part of these consolidated financial statements.

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 Board member

Liepāja, 7 November 2017

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**CONSOLIDATED FINANCIAL STATEMENTS**  
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**Consolidated statement of changes in equity**

For the year ended 31 December

<i>In euros</i>	<i>Note</i>	Attributable to owners of the Parent Company			Non-controlling interests	Total equity
		Share capital	Retained earnings	Total		
<b>Balance at 1 January 2014</b>		<b>10,084,604</b>	<b>2,680,894</b>	<b>12,765,498</b>	<b>(550,853)</b>	<b>12,214,645</b>
Total comprehensive income		-	1,663,356	1,663,356	(282,297)	1,381,059
<b>Transactions with owners of the Group</b>						
Dividends	21	-	(3,929,434)	(3,929,434)	-	(3,929,434)
Transferred to the shareholder		(48)	-	(48)	-	(48)
<b>Total transactions with owners of the Group</b>		<b>(48)</b>	<b>(3,929,434)</b>	<b>(3,929,482)</b>	<b>-</b>	<b>(3,929,482)</b>
<b>Balance at 31 December 2014</b>		<b>10,084,556</b>	<b>414,816</b>	<b>10,499,372</b>	<b>(833,150)</b>	<b>9,666,222</b>
Total comprehensive income		-	1,841,651	1,841,651	32,843	1,874,494
<b>Transactions with owners of the Group</b>						
<b>Contributions and distributions</b>						
Dividends	21	-	(1,026,302)	(1,026,302)	-	(1,026,302)
<b>Total contributions and distributions</b>		<b>-</b>	<b>(1,026,302)</b>	<b>(1,026,302)</b>	<b>-</b>	<b>(1,026,302)</b>
<b>Changes in ownership interests</b>						
Liquidation of a subsidiary	27	-	-	-	800,307	800,307
<b>Total changes in ownership interests</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>800,307</b>	<b>800,307</b>
<b>Total transactions with owners of the Group</b>		<b>-</b>	<b>(1,026,302)</b>	<b>(1,026,302)</b>	<b>800,307</b>	<b>(225,995)</b>
<b>Balance at 31 December 2015</b>		<b>10,084,556</b>	<b>1,230,165</b>	<b>11,314,721</b>	<b>-</b>	<b>11,314,721</b>

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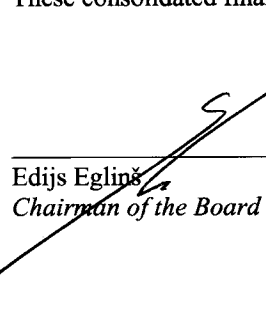
**Consolidated statement of changes in equity (continued)**

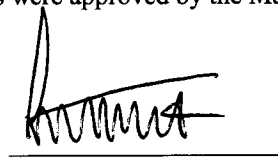
For the year ended 31 December

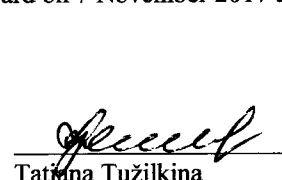
<i>In euros</i>	<i>Note</i>	Attributable to owners of the Parent Company			Non-controlling interests	Total equity
		Share capital	Retained earnings	Total		
<b>Balance at 31 December 2015</b>		<b>10,084,556</b>	<b>1,230,165</b>	<b>11,314,721</b>	-	<b>11,314,721</b>
Total comprehensive income		-	2,736,955	2,736,955	-	2,736,955
<b>Transactions with owners of the Group</b>						
Dividends	21	-	(1,541,226)	(1,541,226)	-	(1,541,226)
<b>Total transactions with owners of the Group</b>		<b>-</b>	<b>(1,541,226)</b>	<b>(1,541,226)</b>	<b>-</b>	<b>(1,541,226)</b>
<b>Balance at 31 December 2016</b>		<b>10,084,556</b>	<b>2,425,894</b>	<b>12,510,450</b>	-	<b>12,510,450</b>

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Liepaja, 7 November 2017

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**Consolidated statement of cash flows**

For the year ended 31 December

<i>In euros</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>				
Profit/(loss) for the reporting year		2,736,955	1,874,494	1,381,059
Adjustments for:				
Depreciation	10, 15	1,759,758	1,684,682	1,411,226
Amortization	10, 16	21,368	20,185	12,718
Change in allowance for impairment of trade and other receivables	11	41,140	419,067	64,469
(Gain)/loss on disposal of property, plant and equipment	11	(610)	(4,911)	(130,891)
Income from government grants	7	(288,444)	(216,984)	(113,708)
Gain on negative goodwill		-	(42,524)	-
Profit of equity accounted investees	17	(2,275)	(16,637)	(16,671)
Profit from liquidation of subsidiary	7, 27	-	(174,331)	-
Net finance (income)/costs	12, 13	185,934	322,022	395,924
Income tax expense	14	567,090	(686,972)	318,050
		<b>5,020,916</b>	<b>3,178,091</b>	<b>3,322,176</b>
Changes in:				
Inventories	18	14,436	784,688	1,081,399
Trade and other receivables		(605,828)	(660,285)	608,596
Prepayments		53,146	(79,520)	(44,600)
Trade and other payables		(1,204,208)	53,095	(1,380,775)
<b>Cash generated from operating activities</b>		<b>3,278,462</b>	<b>3,276,069</b>	<b>3,586,796</b>
Interest paid		(215,638)	(279,098)	(389,881)
Income taxes paid		(29,741)	(61,251)	(603,438)
<b>Net cash from/(used in) operating activities</b>		<b>3,033,083</b>	<b>2,935,720</b>	<b>2,593,477</b>
<b>Cash flows from investing activities</b>				
Interest received		2,554	119	30,810
Receipt of the difference resulting from the EUR denomination of the share capital of the associate		-	-	50
Proceeds from sale of property, plant and equipment		29,900	85,535	200,000
Proceeds from liquidation of associate		211,587	-	-
Acquisition of property, plant and equipment and intangible assets	15, 16	(562,480)	(1,464,355)	(2,069,695)
Acquisition of shares in associate		-	(96,560)	-
Liquidation of a subsidiary	27	-	(3,038)	-
Loans issued		(475,000)	-	-
<b>Net cash used in investing activities</b>		<b>(793,439)</b>	<b>(1,478,299)</b>	<b>(1,838,835)</b>

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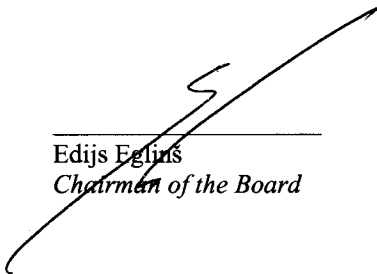
**Consolidated statement of cash flows (continued)**

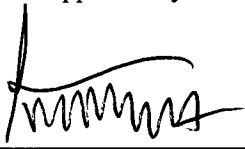
For the year ended 31 December


<i>In euros</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from financing activities</b>				
Pay-out of the difference resulting from the EUR denomination of share capital	21	-	-	(48)
Proceeds from loans and borrowings		1,235,000	188,886	1,334,367
Proceeds from grants and donations	7, 25	173,076	620,879	271,672
Repayment of borrowings		(2,608,926)	(1,354,969)	(1,657,796)
Payment of finance lease liabilities		(86,968)	(195,964)	(411,761)
Factoring received/(paid)		(30,734)	-	479,763
Proceeds from repayments of loans issued		100,000	-	-
Loans issued		(1,085,000)	-	-
Dividends paid	21	(845,268)	(730,000)	(790,000)
<b>Net cash used in financing activities</b>		<b>(3,148,820)</b>	<b>(1,471,168)</b>	<b>(773,803)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(909,176)</b>	<b>(13,747)</b>	<b>(19,161)</b>
Cash and cash equivalents at 1 January		1,128,090	1,141,837	1,160,998
<b>Cash and cash equivalents at 31 December</b>		<b>218,914</b>	<b>1,128,090</b>	<b>1,141,837</b>

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These consolidated financial statements were approved by the Management Board on 7 November 2017 and signed by

  
 Edijs Eglins  
 Chairman of the Board

  
 Indrek Rahumaa  
 Board member

  
 Tatjana Tuzilkina  
 Board member

Liepaja, 7 November 2017

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## **Notes to the consolidated financial statements**

### **1. Reporting entity**

LSEZ Lauma Fabrics SIA (the "Parent") is a Limited Liability Company domiciled in Latvia. The legal and postal address of the Company is Ziemeļu iela 19, Liepāja LV-3405. These consolidated financial statements comprise the Parent and its subsidiaries (together referred to as the "Group"). The subsidiary companies consolidated with the Parent are detailed in Note 3.1 (i).

The Group is primarily involved in manufacturing, processing and wholesale of textiles. At 31 December 2016, 100% of the Company's shares were owned by Myrtyle Ventures Limited. In April 2017, the direct Parent company changed from Myrtyle Ventures Ltd to AS European Lingerie Brands. For more details on the change of the Parent Company refer to Note 30. The ultimate beneficial owners of the Group are Indrek Rahumaa and John Anthony Bonfield.

### **2. Basis of preparation**

#### **2.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). These are not statutory consolidated financial statements. Consolidated statutory financial statements have not been prepared. The consolidated financial statements were authorised for issue by the Board of Directors on 7 November 2017. The owners have the right to reject the consolidated financial statements prepared and issued by management and the right to request that new consolidated financial statements are issued.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. For additional details on the principal sources of estimation uncertainty, refer to Note 4 on Use of judgments and estimates.

#### **2.2 First-time adoption of IFRS**

The financial statements for the year ended 31 December 2016 are the first consolidated financial statements the Group has prepared in accordance with IFRS. The Group also selected to present 2 years of comparative financial statements for the year ended 31 December 2015 and 2014 using consistent accounting policies in all 3 years.

In preparing these financial statements, the Group's date of transition to IFRS is 1 January 2014, the Group's date of first preparation of consolidated statement of financial position. The Group has not previously prepared consolidated financial statements under another accounting framework, therefore these financial statements do not disclose transition from previous GAAP to IFRS.

#### **2.3 Basis of measurement**

The consolidated financial statements have been prepared on the historical cost.

#### **Functional and presentation currency**

These consolidated financial statements are presented in euro, which is the Group's functional currency. All financial information presented in euro has been rounded to whole numbers.

### **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at 1 January 2014 for the purposes of the transition to IFRSs.

The accounting policies have been applied consistently by Group entities.

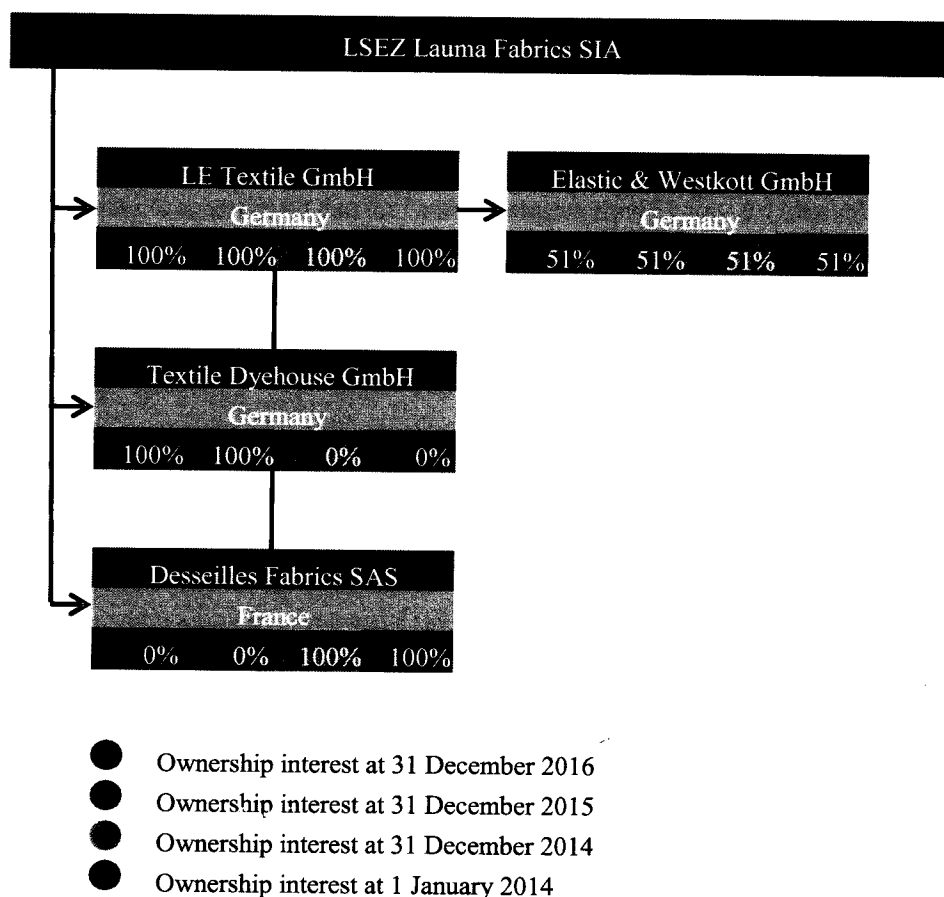
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**3.1 Basis of consolidation**

*(i) Subsidiaries*

Subsidiaries are entities controlled by the Parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the parent takes into consideration the potential voting rights that are currently exercisable. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The reporting periods and dates of the financial statements of the Parent and the subsidiaries correspond to the reporting period and date of the consolidated financial statements. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The list of subsidiaries of the Parent was as follows:



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The Parent's subsidiaries included in the consolidated financial statements were as follows:

		<b>Place of incorporation and operations</b>	<b>Proportion of ownership interest</b>	<b>Principal activity</b>	<b>Periods included in consolidated financial statements</b>
LE Textile GmbH		Germany	100%	Provision of knitting and design development services	September 2013-December 2016
Textile GmbH	Dyehouse	Germany	100%	Provision of dyeing and finishing services	June 2015-December 2016
Elastic GmbH	& Weskott	Germany	51%	Provision of dyeing and finishing services	September 2013-March 2015

**Desseilles Fabrics SAS**

Desseilles Fabrics SAS was not consolidated into the Group as starting from 27 July 2011 the subsidiary was under legal protection and its liquidation commenced. Control was taken over by liquidator. At 31 December 2012 the investment in Desseilles Fabrics SAS was fully impaired by the Parent. The compulsory liquidation of the subsidiary was completed due to the insufficiency of assets and it was removed from the commercial register of France on 23 December 2015. At 31 December 2015 the investment in Desseilles Fabrics SAS was written off by the Parent.

**Textile Dyehouse GmbH**

A 100% subsidiary Textile Dyehouse GmbH was established in June 2015 with cost of investment amounting to EUR 25,000. The subsidiary provides dyeing and finishing services to the Parent and third parties.

**LE Textile GmbH**

A 100% subsidiary LE Textile GmbH was established in September 2013 with cost of investment amounting to EUR 25,000. The subsidiary provides knitting as well and design development services to the Parent.

**Elastic & Weskott GmbH**

A 51% subsidiary Elastic & Weskott GmbH was consolidated from its acquisition in September 2013 until it filed for insolvency in April 2015. For additional information on liquidation of the subsidiary see Note 27.

*(ii) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*(iii) Non-controlling interests*

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

*(iv) Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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Any goodwill that arises is tested annually for impairment and carried at cost less accumulated impairment losses. Any gain on a bargain purchase is recognised in profit or loss immediately. Acquisition-related transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

*(v) Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlled interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

*(vi) Interests in equity-accounted investees*

The Group's interests in equity-accounted investees comprise interests in associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

**3.2 Foreign currency**

*(i) Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated into the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are recognised in profit or loss.

Exchange rates as of 31 December 2016, 31 December 2015, 31 December 2014 and 31 December 2013 were as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>1 January 2014</b>
<b>LVL/EUR</b>	-	-	-	0.70280
<b>USD/EUR</b>	1.05410	1.08870	1.21410	1.37910
<b>GBP/EUR</b>	0.85618	0.73395	0.77890	0.83370

*(ii) Functional and presentation currency*

The Group consolidated financial statements are presented in euro, the functional currency of the Parent and its subsidiaries.

In connection with the change of the official currency of the Republic of Latvia, as from 1 January 2014 the functional and presentation currency of the Parent is the euro, which replaced the national currency Latvian lat. Balance as at 1 January 2014 has been translated to euros in accordance with the official currency conversion rate set at 0.702804 lats per 1 euro. As the Latvian lat was previously pegged to the euro at the same exchange rate, the change in the functional and presentation currency had no effect on the financial position, financial performance or cash flows of the Group.

**3.3 Revenue**

*(i) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. Generally transfer occurs when the goods are collected from the seller's premises by the customer.

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*(ii) Rendering of services*

The Group is involved in provision of fabrics dyeing and finishing services. Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

*(iii) Rental income*

Income from rent of premises is accounted for on a straight-line basis over the lease terms and is recognised as other income in the statement of profit or loss. The Group is renting out part of production premises which are not used for own use. Such premises do not constitute investment property.

**3.4 Employee benefits**

*(i) Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

No long term employee benefits provided.

**3.5 Government grants**

The Group recognises government grants initially as deferred income if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

**3.6 Finance income and finance costs**

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- fines and penalties received;
- fines and penalties paid.

Interest income or expense is recognised using effective interest rate method.

**3.7 Income tax**

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

*(i) Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

*(ii) Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

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- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

### **3.8 Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Raw materials cost is measured according to the first-in, first-out method. Work in progress and finished goods are carried at cost. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Write downs to net realizable value for obsolete and slow-moving inventories are recognized by the Group at the end of each reporting period.

### **3.9 Property, plant and equipment**

#### *(i) Recognition and measurement*

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

#### *(ii) Subsequent expenditure*

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### *(iii) Depreciation*

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Leased assets

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are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- Buildings 10-50 years
- Machinery and equipment 5-10 years
- Other fixed assets 3-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**3.10 Intangible assets**

*(i) Recognition and measurement*

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets include software, franchises, trademarks, patents and similar rights.

*(ii) Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

*(iii) Amortisation*

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss.

The estimated useful life of other intangible assets is 3-5 years. The Group does not hold intangible assets with indefinite useful lives.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**3.11 Financial instruments**

The Group's non-derivative financial assets include loans and receivables.

The Group classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

*(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition*

The Group initially recognises loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

*(ii) Non-derivative financial assets – Measurement*

<b>Loans and receivables</b>	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.
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*(iii) Non-derivative financial liabilities – Measurement*

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes there in, including any interest expense, are recognised in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

**3.12 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

**3.13 Impairment**

*(i) Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

<b>Financial assets measured at amortised cost</b>	<p>The Group considers evidence of impairment for these assets at an individual asset level. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss within other operating expenses and reflected in an allowance account. Allowance for doubtful trade and other receivables is based on the ageing analysis and information on the financial position of the respective debtor, and recoverability of receivables. 100% allowance is created for receivables overdue more than 12 months and when the lawyers are engaged in the recoverability process.</p> <p>When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.</p>
<b>Equity accounted investee</b>	<p>An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.</p>

*(ii) Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (cash-generating unit – a group of machinery and equipment used in manufacturing of one type of product).

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The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. They are allocated to the carrying amounts of assets in the cash-generating unit on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **3.14 Related parties**

Related parties, as defined by IAS 24: Related Party Disclosures, represent both legal entities and private individuals related to the Group in accordance with the following rules:

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i) Has control or joint control over the reporting entity;
  - ii) Has significant influence over the reporting entity; or
  - iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - iii) Both entities are joint ventures of the same third party;
  - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
  - vi) The entity is controlled, or jointly controlled by a person identified in a);
  - vii) A person identified in a) i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

### **3.15 Leases**

#### *(i) Determining whether an arrangement contains a lease*

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

#### *(ii) The Group as a lessee*

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

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*(iii) Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*(iv) The Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognised in other operating income on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

**3.16 Operating profit**

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

**3.17 Fair value measurement**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the determination of fair value (see Note 4.6).

When one is available the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account when pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

**4. Use of judgements and estimates**

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is described below.

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**4.1 Impairment of non-financial assets**

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

**4.2 Deferred tax assets**

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Further details on taxes are disclosed in Note 14.

**4.3 Useful lives of property, plant and equipment and intangible assets**

Useful lives of intangible assets and property, plant and equipment are based on management's best estimate of the period the asset is expected to be available for use by the Group. The actual useful life can, however, differ from the expected useful life resulting in adjustment of annual depreciation or amortization of the asset or in recording of impairment loss.

**4.4 Impairment of financial assets at amortised cost**

There are a number of significant risks and uncertainties inherent in the process of monitoring financial assets and determining if impairment exists. These risks and uncertainties include the risk that the Group's assessment of client's or borrower's ability to meet all of its contractual obligations will change based on changes in its credit characteristics and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Further details are disclosed in Notes 19 and 26.

**4.5 Inventory**

In accordance with the Group's accounting policies, inventories are measured at the lower of cost and net realizable value. Accordingly, the management has to estimate the value of inventories whenever there are indications that the carrying amount of inventories may have decreased below their cost. If this has occurred, inventories are written down to their net realizable value, i.e., the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Further details are disclosed in Note 18.

**4.6 Measurement of fair values**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*(i) Loans and receivables*

The fair value of loans and receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

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*(ii) Non-derivative financial liabilities*

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The market rate of interest is determined with reference to similar lease and loan agreements.

**5. Standards and amendments issued but not yet effective**

**Standards and amendments issued but not yet effective for annual periods beginning after 1 January 2016**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

*(i) IFRS 15 Revenue from Contracts with Customers*

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

*(ii) IFRS 9 Financial Instruments*

In July 2014, IASB released the full version of IFRS 9 Financial Instruments standard. The standard is effective for annual periods beginning on or after 1 January 2018 and is to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.

This Standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

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For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in other comprehensive income and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will not have a significant impact on the financial statements of the Group. Based on its preliminary assessment, the Group expects that substantially all of financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9. It is expected that the new expected credit loss model under IFRS 9 will accelerate the recognition of impairment losses and lead to higher impairment allowances at the date of initial application.

The Group is not yet able to quantify the expected impact that the initial application of IFRS 9 will have on its IFRS statements.

*(iii) IFRS 16 Leases*

The standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.

IFRS 16 supersedes IAS 17 *Leases* and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Group's management started an initial assessment of the potential impact of the new standard on the consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of machinery and equipment, vehicles and factory facilities. In addition, the nature of expenses related to those leases will not change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions. No significant impact is expected for the Group's finance leases.

*(iv) Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between and investor and its associate or joint venture*

The effective date of the amendments has not yet been determined by the IASB; however, earlier adoption is permitted.

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while

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- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group expects that the amendments, when initially applied, will not have a material impact on the consolidated financial statements. However, the quantitative impact of the adoption of the Amendments can only be assessed in the year of initial application of the Amendments, as this will depend on the transfer of asset or businesses to the associate or joint venture that take place during that reporting period.

*(v) Amendments to IAS 7*

The amendments are effective for annual periods beginning on or after 1 January 2017 and are to be applied prospectively. Early application is permitted.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the consolidated financial statements.

*(vi) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments are effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the consolidated financial statements because the Group already measures future taxable profit in a manner consistent with the Amendments.

*(vii) IFRIC 22 Foreign Currency Transactions and Advance Consideration*

IFRIC 22 is effective for annual periods beginning on or after 1 January 2018.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

*(viii) IFRIC 23 Uncertainty over Income Tax Treatments*

IFRIC 23 is effective for annual periods beginning on or after 1 January 2019.

The Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments, addressing four specific issues:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity should make about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit or loss, tax bases, unused losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group does not expect to have uncertain tax treatments then.

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*(ix) Annual Improvements to IFRSs*

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 *Disclosure of Interest in Other Entities* are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 *Investments in Associates and Joint Ventures* are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the consolidated financial statements of the Group.

**6. Revenue**

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Sales of goods	32,349,443	29,196,461	38,660,264
Rendering of services	847,592	697,789	879,842
<b>Total</b>	<b>33,197,035</b>	<b>29,894,250</b>	<b>39,540,106</b>

**7. Other operating income**

<i>In euros</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Rental income from property leases		564,714	471,629	538,665
Government grants		288,444	216,984	113,708
Income from sales of non-core materials		16,914	17,773	28,522
Net gain on sale of property, plant and equipment		610	4,911	200,000
Profit from liquidation of subsidiary	27	-	174,331	-
Dyeing and finishing services and sales commission		-	88,864	177,581
Other income from non-core activities		113,464	319,841	262,273
<b>Total</b>		<b>984,146</b>	<b>1,294,333</b>	<b>1,320,749</b>

**8. Raw materials and services**

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Raw materials and consumables	13,155,412	11,830,286	16,065,851
External services	155,996	714,422	226,224
<b>Total</b>	<b>13,311,408</b>	<b>12,544,708</b>	<b>16,292,075</b>

**9. Employee benefits expense**

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Wages and salaries	6,552,990	6,850,807	8,799,716
Social security contributions	1,416,163	1,426,534	1,810,487
Other employee benefits	148,328	69,388	47,482
<b>Total</b>	<b>8,117,481</b>	<b>8,346,729</b>	<b>10,657,685</b>



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**10. Depreciation and amortisation**

<i>In euros</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Depreciation and amortisation by asset type:				
Intangible assets	16	21,368	20,185	12,718
Buildings	15	293,914	285,318	270,880
Machinery and equipment	15	1,264,914	1,118,525	826,928
Other property, plant and equipment	15	200,930	280,839	313,418
<b>Total</b>		<b>1,781,126</b>	<b>1,704,867</b>	<b>1,423,944</b>

**11. Other operating expenses**

<i>In euros</i>	<i>Note</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Utilities		3,159,536	2,991,156	4,390,716
Rents		567,426	602,882	797,357
Sales and marketing		501,867	385,078	644,982
Professional services		453,950	339,876	792,505
Repair and maintenance		362,456	372,708	346,186
Storage, transportation and packaging		202,279	264,307	399,370
Bank services		175,746	139,503	251,105
Real estate tax		122,095	24,521	23,871
Travel expenses		76,876	33,959	62,957
Loss on disposal of property, plant and equipment and intangible assets		-	-	69,109
Change in allowance for impairment of trade and other receivables	19	41,140	(197,911)	64,469
Change in write downs to net realizable value for obsolete and slow-moving inventories	18	(608,252)	350,426	267,189
Other operating expenses		1,638,127	1,676,605	1,668,440
<b>Total</b>		<b>6,693,246</b>	<b>6,983,110</b>	<b>9,778,256</b>

**12. Finance income**

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Interest income on loans	38,262	119	26,582
<b>Total</b>	<b>38,262</b>	<b>119</b>	<b>26,582</b>

**13. Finance costs**

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Interest expense on financial liabilities measured at amortised cost	215,311	270,321	379,583
Fines and penalties	3,196	34,886	34,244
Foreign exchange losses	5,689	16,934	8,679
<b>Total</b>	<b>224,196</b>	<b>322,141</b>	<b>422,506</b>

**14. Income tax expense**

The income tax rate applied to the Parent in 2014-2016 was 15%. The income tax rate applied to the German subsidiaries in 2014 was 29.58% and in 2015-2016 – 29.72%. German income tax was made up of corporation tax of 15.825% in

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2014-2016 (including the solidarity surcharge of 5.5%) and the trade tax of 13,755% in 2014 and 13.895%. Trade tax is a local municipal income tax in Germany.

The major components of income tax expense for the years ended 31 December are:

<i>In euros</i>	2016	2015	2014
<b>Current tax expense</b>			
Current year	-	-	318,050
<b>Deferred tax expense (benefit)</b>			
Origination and reversal of temporary differences	567,090	(686,972)	-
<b>Income tax expense reported in profit or loss</b>	<b>567,090</b>	<b>(686,972)</b>	<b>318,050</b>

Current tax expense of the Parent Company in 2015-2016 was nil due to recognition of tax losses from write-off of trade and loan receivables from Desseilles Fabrics SAS in the amount of 4,6 million EUR. Up until 2015, no deferred tax asset was recognised by the Parent on impairment of these receivables as the realisation of the tax benefit related to it was uncertain. Tax benefit was recognised directly through current tax expense in 2015, when Desseilles Fabrics SAS was removed from the Commercial Register of France.

Reconciliation between tax expense and the product of accounting profit multiplied by the Parent's domestic tax rate of 15% for the years ended 31 December is as follows:

<i>In euros</i>	2016	2015	2014
<b>Profit before tax</b>	<b>3,304,045</b>	<b>1,187,522</b>	<b>1,699,109</b>
Tax using the Parent's domestic tax rate of 15%	495,607	178,128	254,866
Effect of tax rates in foreign jurisdictions	(685)	74,876	(163,387)
Tax effect of:			
Non-deductible expenses	102,479	248,182	200,968
Non-exempt income	(23,533)	(128,054)	(301,991)
Current year losses for which no deferred tax asset is recognised	6,835	39,602	393,366
Additional deductions in equipment	-	(117,763)	(173,519)
Previously unrecognised deferred tax	-	(807,165)	107,747
Utilisation of tax losses, previously unrecognised	(14,273)	(190,049)	-
Other differences	660	15,271	-
<b>Income tax expense reported in profit or loss</b>	<b>567,090</b>	<b>(686,972)</b>	<b>318,050</b>

Movements in deferred tax balances are as follows:

<i>In euros</i>	2016 Net balance at 1 January	Recognised in profit or loss	Balance at 31 December		
			Net	Deferred tax assets	Deferred tax liabilities
Tax losses carried forward	678,817	(482,470)	196,347	196,347	-
Property, plant and equipment	(409,514)	(19,957)	(429,471)	-	(429,471)
Trade and other receivables	207,559	42,546	250,105	250,105	-
Inventories	194,139	(91,238)	102,901	102,901	-
Trade and other payables	15,971	(15,971)	-	-	-
<b>Net tax assets (liabilities)</b>	<b>686,972</b>	<b>(567,090)</b>	<b>119,882</b>	<b>549,353</b>	<b>(429,471)</b>

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2015	Balance at 31 December				
	Net balance at 1 January	Recognised in profit or loss	Net	Deferred tax assets	Deferred tax liabilities
<i>In euros</i>					
Tax losses carried forward	-	678,817	678,817	678,817	-
Property, plant and equipment	(365,801)	(43,713)	(409,514)	-	(409,514)
Trade and other receivables	305,297	(97,738)	207,559	207,559	-
Inventories	141,575	52,564	194,139	194,139	-
Trade and other payables	39,122	(23,151)	15,971	15,971	-
<b>Valuation of deferred tax</b>	<b>(120,193)</b>	<b>120,193</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net tax assets (liabilities)</b>	<b>-</b>	<b>686,972</b>	<b>686,972</b>	<b>1,096,486</b>	<b>(409,514)</b>

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Tax losses for which deferred tax asset was recognised expire as follows.

**Corporate tax**

<i>In euros</i>	31 December 2016		31 December 2015		31 December 2014		1 January 2014	
	Expiry date	Expiry date	Expiry date	Expiry date	Expiry date	Expiry date	Expiry date	Expiry date
Expire	-	-	-	-	-	-	-	-
Never expire	1,308,977		4,525,447		-		-	

No deferred tax was recognised in 2014-2016 by loss-making subsidiaries, as it was not probable that future taxable profit will be available against which they can use the benefits therefrom. No deferred tax was recognised by the Parent Company in 2014 as it mainly related to deferred tax asset arising from the impairment of receivables and the realisation of the tax benefit related to it was uncertain. Deferred tax assets haven't been recognised in respect of the following items.

**Corporate tax**

<i>In euros</i>	31 December 2016		31 December 2015		31 December 2014		1 January 2014	
	Gross amount	Tax effect	Gross amount	Tax effect	Gross amount	Tax effect	Gross amount	Tax effect
Deductible temporary differences	-	-	-	-	801,286	120,193	82,975	12,446
Tax losses	670,375	106,087	696,676	110,249	1,626,732	257,430	551,790	87,321
<b>Total</b>	<b>670,375</b>	<b>106,087</b>	<b>696,676</b>	<b>110,249</b>	<b>2,428,018</b>	<b>377,623</b>	<b>634,765</b>	<b>99,767</b>

Tax losses for which no deferred tax asset was recognised expire as follows.

<i>In euros</i>	31 December 2016		31 December 2015		31 December 2014		1 January 2014	
	Expiry date	Expiry date	Expiry date	Expiry date	Expiry date	Expiry date	Expiry date	Expiry date
Expire	-	-	-	-	-	-	-	-
Never expire	670,375		696,676		1,626,732		551,790	

**Trade tax**

<i>In euros</i>	31 December 2016		31 December 2015		31 December 2014		1 January 2014	
	Gross amount	Tax effect	Gross amount	Tax effect	Gross amount	Tax effect	Gross amount	Tax effect
Deductible temporary differences	-	-	-	-	-	-	-	-
Tax losses	651,113	90,472	677,882	94,192	1,611,393	221,647	549,740	75,617
<b>Total</b>	<b>651,113</b>	<b>90,472</b>	<b>677,882</b>	<b>94,192</b>	<b>1,611,393</b>	<b>221,647</b>	<b>549,740</b>	<b>75,617</b>

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Tax losses for which no deferred tax asset was recognised expire as follows.

<i>In euros</i>	<b>31 December 2016</b>	<b>Expiry date</b>	<b>31 December 2015</b>	<b>Expiry date</b>	<b>31 December 2014</b>	<b>Expiry date</b>	<b>1 January 2014</b>	<b>Expiry date</b>
Expire	-		-		-		-	
Never expire	651,113		677,882		1,611,393		549,740	

Tax losses for which no deferred tax was recognised have arisen in subsidiaries that have been loss making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

There are no income tax consequences attached to the payment of dividends in 2016, 2015 or 2014 by the Group to its shareholders.

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**15. Property, plant and equipment**

<i>In euros</i>	<b>Land and buildings</b>	<b>Machinery and equipment</b>	<b>Other property, plant and equipment</b>	<b>Property, plant and equipment under construction</b>	<b>Total</b>
<b>Cost</b>					
At 1 January 2014	6,337,626	16,149,166	3,585,208	422,055	26,494,055
Additions	7,651	1,063,890	181,570	985,554	2,238,665
Transfers	-	308,770	101,226	(409,996)	-
Disposals	-	(198,006)	(33,947)	-	(231,953)
<b>At 31 December 2014</b>	<b>6,345,277</b>	<b>17,323,820</b>	<b>3,834,057</b>	<b>997,613</b>	<b>28,500,767</b>
Additions	352,945	962,179	128,644	12,751	1,456,519
Transfers	88,620	807,074	11,919	(907,613)	-
Liquidation of subsidiary	-	(28,388)	(2,172)	-	(30,560)
Disposals	-	(57,824)	(12,662)	(76,000)	(146,486)
<b>At 31 December 2015</b>	<b>6,786,842</b>	<b>19,006,861</b>	<b>3,959,786</b>	<b>26,751</b>	<b>29,780,240</b>
Additions	55,609	263,292	68,352	207,605	594,858
Transfers	-	25,495	1,256	(26,751)	-
Disposals	-	(256)	(276,037)	-	(276,293)
<b>At 31 December 2016</b>	<b>6,842,451</b>	<b>19,295,392</b>	<b>3,753,357</b>	<b>207,605</b>	<b>30,098,805</b>
<b>Accumulated depreciation</b>					
At 1 January 2014	902,614	12,920,958	2,311,468	-	16,135,040
Depreciation	270,880	826,928	313,418	-	1,411,226
Disposals	-	(198,006)	(26,461)	-	(224,467)
<b>At 31 December 2014</b>	<b>1,173,494</b>	<b>13,549,880</b>	<b>2,598,425</b>	<b>-</b>	<b>17,321,799</b>
Depreciation	285,318	1,118,525	280,839	-	1,684,682
Liquidation of subsidiary	-	(8,113)	(1,189)	-	(9,302)
Disposals	-	(55,571)	(10,291)	-	(65,862)
<b>At 31 December 2015</b>	<b>1,458,812</b>	<b>14,604,721</b>	<b>2,867,784</b>	<b>-</b>	<b>18,931,317</b>
Depreciation	293,914	1,264,914	200,930	-	1,759,758
Disposals	-	(256)	(246,747)	-	(247,003)
<b>At 31 December 2016</b>	<b>1,752,726</b>	<b>15,869,379</b>	<b>2,821,967</b>	<b>-</b>	<b>20,444,072</b>
<b>Carrying amounts</b>					
At 1 January 2014	5,435,012	3,228,208	1,273,740	422,055	10,359,015
<b>At 31 December 2014</b>	<b>5,171,783</b>	<b>3,773,940</b>	<b>1,235,632</b>	<b>997,613</b>	<b>11,178,968</b>
<b>At 31 December 2015</b>	<b>5,328,030</b>	<b>4,402,140</b>	<b>1,092,002</b>	<b>26,751</b>	<b>10,848,923</b>
<b>At 31 December 2016</b>	<b>5,089,725</b>	<b>3,426,013</b>	<b>931,390</b>	<b>207,605</b>	<b>9,654,733</b>

The Group did not have any items of property, plant and equipment under construction that would qualify for borrowing cost capitalisation.

**Leased plant and equipment**

The Group leases production equipment under a number of finance leases. The leased equipment secures lease obligations. The leased equipment had the following net carrying amounts: as at 31 December 2016: EUR 114,207, as at 31 December 2015: EUR 164,651 and as at 31 December 2014: EUR 416,280 (1 January 2014: EUR 577,850).

The following equipment was acquired by the Group under finance lease: during 2016: EUR 32,561, during 2015: EUR 0 and during 2014: EUR 250,482.

**Property, plant and equipment under construction**

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During 2014-2015, the Parent Company was carrying out the reconstruction of its finishing and dyeing departments. In 2016, the amounts recognised in property, plant and equipment under construction related to fixed assets bought but not yet put into use.

**Pledged assets**

The carrying amount of property, plant and equipment pledged as collateral under bank loan agreements amounted to EUR 6,982,715 as at 31 December 2016, EUR 7,395,909 as at 31 December 2015 and EUR 7,296,473 as at 31 December 2014 (1 January 2014: EUR 7,561,910). For more details on pledged property, plant and equipment refer to Note 23 of these financial statements.

**16. Intangible assets**

<i>In euros</i>	<b>Concessions, patents, licenses, trademarks and similar rights</b>
<b>Cost</b>	
At 1 January 2014	263,766
Additions acquired separately	251,512
Disposals	(245,000)
<b>At 31 December 2014</b>	<b>270,278</b>
Additions acquired separately	7,836
<b>At 31 December 2015</b>	<b>278,114</b>
Additions acquired separately	183
<b>At 31 December 2016</b>	<b>278,297</b>
<b>Accumulated depreciation</b>	
At 1 January 2014	97,304
Amortisation	12,718
Disposals	(13,377)
<b>At 31 December 2014</b>	<b>96,645</b>
Amortisation	20,185
<b>At 31 December 2015</b>	<b>116,830</b>
Amortisation	21,368
<b>At 31 December 2016</b>	<b>138,198</b>
<b>Carrying amounts</b>	
At 1 January 2014	166,462
<b>At 31 December 2014</b>	<b>173,633</b>
<b>At 31 December 2015</b>	<b>161,284</b>
<b>At 31 December 2016</b>	<b>140,099</b>

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**17. Equity accounted investees**

During 2014-2016, the Group held interest in Emme Latvia SIA involved in the manufacture of textiles and fabrics. The following table summarises the financial information of Emme Latvia SIA as included in its own financial statements prepared in accordance with Latvian accounting standards.

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Non-current assets	-	-	151,258	204,135
Current assets	-	210,655	393,637	497,862
Non-current liabilities	-	-	-	(1,480)
Current liabilities	-	(1,343)	(276,941)	(515,669)
Net assets		209,312	267,954	184,848
<b>Carrying amount of interest in associate</b>		<b>209,312</b>	<b>53,591</b>	<b>36,970</b>
Purchase value	-	120,700	24,140	24,190
Revenue	-	433,436	1,092,691	
Profit/(loss)	2,275	(58,642)	83,354	
Total comprehensive income	2,275	(58,642)	83,354	
<b>Group's share of total comprehensive income</b>	<b>2,275</b>	<b>16,637</b>	<b>16,671</b>	

The Group held 20% in its associate Emme Latvia SIA with the carrying amount of the investment of EUR 209,312 as at 31 December 2015, EUR 53,591 as at 31 December 2014 and EUR 36,970 as at 1 January 2014. The Company accounted for as an associate until its liquidation on 9 June 2016. As a result of liquidation, Emme Latvia SIA repaid EUR 211,587 to the Group and no profit or loss was recognised.

On 1 March 2016, the Group acquired a 50% share in Tele Textile Latvia SIA without consideration. Tele Textile Latvia SIA does not qualify to be a subsidiary as none of the shareholders have majority votes in the Company and the control is shared equally. The following table summarises the financial information of Tele Textile Latvia SIA as included in its own financial statements prepared in accordance with Latvian accounting standards.

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Percentage ownership interest	50%	0%	0%	0%
Non-current assets	1,189,652	-	-	-
Current assets	562,215	-	-	-
Non-current liabilities	(1,438,166)	-	-	-
Current liabilities	(462,513)	-	-	-
Net assets	(148,812)	-	-	-
Group's share of net assets	(74,406)	-	-	-
Carrying amount of interest in associate	-	-	-	-
Revenue	795,113	-	-	
Profit/(loss)	(317,711)	-	-	
Total comprehensive income	(317,711)	-	-	
Group's share of profit	(158,856)	-	-	

The Group did not recognise its share of profit or loss of Tele Textile Latvia SIA in 2016 since the Company reported a loss in 2016 while the carrying amount of interest was zero.

The Group did not receive dividends from the equity accounted investees during the reported periods.

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**18. Inventories**

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Raw materials and consumables	2,994,172	2,826,644	3,144,644	3,328,321
Work in progress	962,112	1,162,896	977,624	1,589,697
Finished goods	2,473,762	3,063,194	3,364,728	3,383,188
Write downs of inventories	(686,005)	(1,294,257)	(943,831)	(676,642)
<b>Inventories</b>	<b>5,744,041</b>	<b>5,758,477</b>	<b>6,543,165</b>	<b>7,624,564</b>

The following inventories were recognised as an expense during 2016: EUR 13,184,749, 2015: EUR 12,070,869 and 2014: EUR 15,949,774 and included in 'raw materials and consumables'.

Movement in write downs of inventories:

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cumulative write downs at 1 January</b>	<b>1,294,257</b>	<b>943,831</b>	<b>676,642</b>
Additional write downs recognized	-	350,426	267,189
Write downs released	(608,252)	-	-
<b>Cumulative write downs at 31 December</b>	<b>686,005</b>	<b>1,294,257</b>	<b>943,831</b>

In 2016, due to changes in economic conditions in CIS countries, the Group managed to sell inventories, which were written down in previous periods.

The carrying amount of inventories pledged as collateral under bank loan agreements amounted to EUR 5,590,198 as at 31 December 2016, EUR 5,621,897 as at 31 December 2015 and EUR 6,540,213 as at 31 December 2014 (1 January 2014: EUR 7,426,322). For more details on pledged inventories refer to Note 23 of these financial statements.

**19. Trade and other receivables**

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
<b>Financial trade and other receivables</b>				
Loans to related parties	1,433,480	623,730	5,374,725	7,782,243
Loans to third parties	-	90,000	50,000	50,000
Trade receivables	5,671,293	4,908,680	5,583,450	5,702,704
Trade receivables due from related parties	616,978	616,978	1,004,168	973,712
Other receivables	162,308	82,387	57,692	194,098
Allowance for trade and other receivables	(1,067,691)	(1,026,551)	(5,198,627)	(5,134,158)
	<b>6,816,368</b>	<b>5,295,224</b>	<b>6,871,408</b>	<b>9,568,599</b>
<b>Non-financial trade and other receivables</b>				
VAT receivable	51,554	20,509	36,553	144,142
VAT from unpaid invoices	21,941	21,086	20,320	19,388
	<b>73,495</b>	<b>41,595</b>	<b>56,873</b>	<b>163,530</b>
<b>Total</b>	<b>6,889,863</b>	<b>5,336,819</b>	<b>6,928,281</b>	<b>9,732,129</b>
Non-current	587,946	-	-	-
Current	6,301,917	5,336,819	6,928,281	9,732,129
<b>Total</b>	<b>6,889,863</b>	<b>5,336,819</b>	<b>6,928,281</b>	<b>9,732,129</b>

As at 31 December 2015 loans to third parties consisted of outstanding principal of EUR 90,000 from Tele Textile Latvia SIA. According to the loan agreement the loan matures on 31 May 2021 and the interest rate is 7% per annum.

As at 31 December 2014 and 1 January 2014 loans to third parties consisted of outstanding principal of EUR 50,000 from Elastic Holding GmbH on which 100% allowance was recognised.



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The Group sold with recourse trade receivables to a factoring company with cash proceeds. These trade receivables were not derecognised from the statement of financial position, because the Group retains substantially all of the risks and rewards – primarily credit risk. The amount received on transfer was recognised as a secured other loans (see Note 23).

The following information shows the carrying amount of trade receivables at the year end that have been transferred but have not been derecognised and the associated liabilities.

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Carrying amount of trade receivables transferred to a factoring company	698,382	560,065	566,828	-
Carrying amount of associated liabilities	336,027	366,761	479,763	-

The carrying amount of trade and other receivables pledged as collateral under bank loan agreements amounted to EUR 5,371,807 as at 31 December 2016, EUR 4,679,139 as at 31 December 2015 and EUR 6,272,215 as at 31 December 2014 (1 January 2014: EUR 9,639,806). For more details on pledged trade and other receivables refer to Note 23 of these financial statements.

For terms and conditions relating to related party receivables, refer to Note 29.

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 26.

## **20. Cash and cash equivalents**

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Bank balances	218,900	1,127,845	1,140,887	1,160,556
Cash on hand	14	245	950	442
<b>Cash and cash equivalents in the statement of financial position</b>	<b>218,914</b>	<b>1,128,090</b>	<b>1,141,837</b>	<b>1,160,998</b>

The carrying amount of cash and cash equivalents pledged as collateral under bank loan agreements amounted to EUR 198,807 as at 31 December 2016, EUR 1,119,564 as at 31 December 2015 and EUR 1,029,725 as at 31 December 2016 (1 January 2014: EUR 1,028,314).

## **21. Capital and reserves**

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Share capital, EUR	10,084,556	10,084,556	10,084,556	10,084,604
Number of ordinary shares	71,018	71,018	71,018	70,875
Nominal value of one share, EUR	142	142	142	142

The Parent Company has one series of shares. All shares have equal rights to dividends and the Parent Company's residual assets. At 1 January 2014 the registered share capital of the Parent Company was LVL 7,087,500 and the number of shares was 70,875 with a nominal value of LVL 100. Due to the change of the official currency of Latvia from the lat to the euro from 1 January 2014 share capital was translated from lats to euros at the official exchange rate of LVL 0.702804 to EUR 1 resulting in a share capital of EUR 10,084,604. The share capital of the Parent Company was officially re-registered from the lats to the euros on 27 February 2014 and was EUR 10,084,556. The difference between the two amounts of EUR 48 was transferred to the shareholder. No changes in share capital occurred during the years 2016 and 2015.

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The following table summarises movement in dividends:

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Undistributed dividends at 1 January</b>	<b>80,000</b>	<b>810,000</b>	<b>100,000</b>
Dividends declared	1,541,226	1,026,302	3,929,434
Dividends paid	(845,268)	(730,000)	(790,000)
Offset against loan receivable from shareholders	(775,958)	(1,026,302)	(2,403,290)
Offset against other receivable from shareholders	-	-	(26,144)
<b>Undistributed dividends at 31 December</b>	<b>-</b>	<b>80,000</b>	<b>810,000</b>

Declared dividends per share amounted to EUR 21.70 in 2016, EUR 14.45 in 2015 and EUR 55.33 in 2014. Dividends in the amount of EUR 2,584,722, EUR 1,541,226 and EUR 1,026,302 were declared after 31 December 2016, 31 December 2015 and 31 December 2014 respectively. The unpaid parts of the dividends have been recognised as liabilities and there are no tax consequences.

## **22. Capital management**

Capital includes total equity including non-controlling interest.

The aim of the Group's capital management is to support business operations with an optimal capital structure by ensuring normal resources for operations and increasing shareholder value with the goal of generating the best possible return.

The Group monitors capital using a gearing ratio, which is adjusted net debt divided by total equity. For this purpose, adjusted net debt is defined as total liabilities, comprising interest-bearing loans and borrowings and obligations under finance leases, less cash and cash equivalents.

The Group's policy is to keep the ratio below 2.00. The Group's adjusted net debt to equity ratio at reporting dates was as follows:

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Total liabilities	10,410,662	13,266,436	16,693,896	17,161,562
Less: cash and cash equivalents	(218,914)	(1,128,090)	(1,141,837)	(1,160,998)
<b>Adjusted net debt</b>	<b>10,191,748</b>	<b>12,138,346</b>	<b>15,552,059</b>	<b>16,000,564</b>
<b>Total equity</b>	<b>12,510,450</b>	<b>11,314,721</b>	<b>9,666,222</b>	<b>12,214,645</b>
<b>Adjusted net debt to equity ratio</b>	<b>0.8</b>	<b>1.1</b>	<b>1.6</b>	<b>1.3</b>

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to accelerate loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the reported periods.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016, 2015 and 2014.

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**23. Loans and borrowings**

<i>In euros</i>	2016	2015	2014	1 January 2014
<b>Non-current liabilities</b>				
Secured bank loans	2,625,044	3,110,143	4,789,579	5,344,390
Finance lease liabilities	85,913	148,796	230,292	311,895
<b>Total</b>	<b>2,710,957</b>	<b>3,258,939</b>	<b>5,019,871</b>	<b>5,656,285</b>
<b>Current liabilities</b>				
Current portion of long-term secured bank loans	1,844,311	1,962,337	1,528,375	1,454,336
Short-term secured bank loans	229,731	1,001,146	942,115	794,779
Secured other loans	336,027	366,761	479,763	-
Current portion of finance lease liabilities	74,978	66,215	185,988	265,955
<b>Total</b>	<b>2,485,047</b>	<b>3,396,459</b>	<b>3,136,241</b>	<b>2,515,070</b>

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note 26.

**Terms and repayment schedule**

The terms and conditions of outstanding loans are as follows.

<i>In euros</i>	Currency	Nominal interest rate	Year of maturity	31 December 2016		31 December 2015	
				Nominal value	Carrying amount	Nominal value	Carrying amount
Secured bank loan	EUR	6mEuribor+3.7%	2019	4,377,205	4,377,205	4,902,955	4,902,955
Secured bank loan	EUR	6mEuribor+3.5%	2018	229,731	229,731	1,001,146	1,001,146
Secured bank loan	EUR	3%	2017	92,150	92,150	169,525	169,525
Finance lease liabilities	EUR	6mEuribor+3.2%	2016- 2018	137,476	133,500	224,343	215,011
Finance lease liabilities	EUR	6mEuribor+2.3%	2021	28,750	27,391	-	-
Secured other loans	EUR	6mEuribor+4.5%	2018	336,027	336,027	366,761	366,761
<b>Total interest- bearing liabilities</b>				<b>5,201,339</b>	<b>5,196,004</b>	<b>6,664,730</b>	<b>6,655,398</b>

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<i>In euros</i>	Currency	Nominal interest rate	Year of maturity	31 December 2014		1 January 2014	
				Nominal value	Carrying amount	Nominal value	Carrying amount
Secured bank loan	EUR	6mEuribor+3.7%	2019	6,063,704	6,063,704	6,798,726	6,798,726
Secured bank loan	EUR	6mEuribor+3.5%	2018	814,111	814,111	676,267	676,267
Secured bank loan	EUR	3%	2017	254,250	254,250	-	-
Secured bank loan	EUR	3%	2015	128,004	128,004	118,512	118,512
Finance lease liabilities	EUR	6mEuribor+3.2%	2016-2018	386,799	367,504	513,763	485,674
Finance lease liabilities	EUR	6.9%-10%	2015	50,604	48,776	99,575	92,176
Secured other loans	EUR	6mEuribor+4.5%	2018	479,763	479,763	-	-
<b>Total interest-bearing liabilities</b>				<b>8,177,235</b>	<b>8,156,112</b>	<b>8,206,843</b>	<b>8,171,355</b>

On 31 August 2012, a loan agreement was signed by the Parent Company with Citadele Banka concerning a loan of EUR 8,551,024. The agreement matures on 14 May 2019, and the annual interest rate is Euribor +3.7%. As at 31 December 2016, the loan amounts to EUR 4,363,303, as at 31 December 2015: EUR 4,887,173 and as at 31 December 2014: EUR 6,044,390 (1 January 2014: EUR 6,769,561) and accrued interest amounts to EUR 13,902 as at 31 December 2016, EUR 15,782 as at 31 December 2015 and EUR 19,314 as at 31 December 2014 (1 January 2014: EUR 29,165). On 20 September 2013, an agreement was signed by the Parent Company with Citadele Banka concerning a credit line of EUR 1,000,000. The agreement matures on 31 August 2018, and the annual interest rate is Euribor +3.5%. The amount of the credit line utilized as at 31 December 2016 is EUR 227,632, as at 31 December 2015: EUR 1,000,000 and as at 31 December 2014: EUR 813,000 (1 January 2014: EUR 675,000) and accrued interest as at 31 December 2016 is EUR 2,099, as at 31 December 2015: EUR 1,146 and as at 31 December 2014: EUR 1,111 (1 January 2014: EUR 1,267). The loan is secured with a mortgage of real estate property in Liepaja, Ziemeļu iela 19 and 19A, commercial pledge of all property collectively at the date of pledge, commercial pledge of all shares of the Parent Company and of all shares owned by the Parent Company in Tele Textile Latvia SIA, a financial pledge of all current accounts of the Parent Company. The credit line is secured with another mortgage of real estate property in Liepaja, Ziemeļu iela 19 and 19A, commercial pledge of all property collectively at the date of pledge, a financial pledge of all current accounts of the Parent Company and a guarantee by the development financing institution ALTUM.

The secured bank loans are secured over property, plant and equipment with a carrying amount of EUR 6,982,715 as at 31 December 2016, as at 31 December 2015: EUR 7,395,909 and as at 31 December 2014: EUR 7,296,473 (1 January 2014: EUR 7,561,910) and current assets with a carrying amount as at 31 December 2016 of EUR 11,292,274, as at 31 December 2015: EUR 11,862,116 and as at 31 December 2014: EUR 14,174,205 (1 January 2014: EUR 18,395,016). Additionally certain loan agreements are secured by the pledge of all shares of the Parent and a guarantee by the development financing institution ALTUM.

Secured other loans represent amounts received from factoring company, see Note 19.

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**Finance lease liabilities**

Finance lease liabilities are payable as follows.

<i>In euros</i>	Future minimum lease payments		Interest		Present value of future minimum lease payments	
	2016	2015	2016	2015	2016	2015
Less than one year	78,624	86,848	3,587	5,355	75,037	81,493
Between one and five years	87,602	137,495	1,749	3,977	85,854	133,518
<b>Total</b>	<b>166,226</b>	<b>224,343</b>	<b>5,336</b>	<b>9,332</b>	<b>160,891</b>	<b>215,011</b>

<i>In euros</i>	Future minimum lease payments		Interest		Present value of future minimum lease payments	
	2014	1 January 2014	2014	1 January 2014	2014	1 January 2014
Less than one year	212,755	286,892	11,791	16,608	200,964	270,284
Between one and five years	224,648	326,446	9,332	18,880	215,316	307,566
<b>Total</b>	<b>437,403</b>	<b>613,338</b>	<b>21,123</b>	<b>35,488</b>	<b>416,280</b>	<b>577,850</b>

Certain leases provide for additional payments that are contingent on changes in future price indices.

**24. Trade and other payables**

<i>In euros</i>	2016	2015	2014	1 January 2014
<b>Financial trade and other payables</b>				
Trade payables due to third parties	3,484,142	4,320,260	5,346,939	5,388,826
Trade payables due to related parties	-	46,788	86,546	86,546
Payables to personnel	230,324	301,448	322,188	475,165
Dividends payable	-	80,000	810,000	100,000
Accrued vacation pay	135,202	115,652	253,799	297,826
Other accrued expenses	36,802	54,671	216,957	966,517
Other payables	14,046	13,312	307	129,658
	<b>3,900,516</b>	<b>4,932,131</b>	<b>7,036,736</b>	<b>7,444,538</b>
<b>Non-financial trade and other payables</b>				
Advances received	10,066	15,016	1,390	47,548
VAT payable	64,488	42,535	96,376	31,972
Personal income tax payable	67,775	188,284	188,335	255,560
Social contributions payable	112,582	255,952	444,395	568,032
Other taxes payable	7,469	9,990	7,317	37,286
	<b>262,380</b>	<b>511,777</b>	<b>737,813</b>	<b>940,398</b>
<b>Total</b>	<b>4,162,896</b>	<b>5,443,908</b>	<b>7,774,549</b>	<b>8,384,936</b>

For terms and conditions relating to related party payables, refer to Note 29.

Information about the Group's exposure to currency and liquidity risks is included in Note 26.

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**25. Deferred income**

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Long-term LIDA financing	752,430	887,629	605,219	491,904
Short-term LIDA financing	299,332	279,501	158,016	113,367
<b>Deferred income</b>	<b>1,051,762</b>	<b>1,167,130</b>	<b>763,235</b>	<b>605,271</b>

The Group received co-financing from the Investment and Development Agency of Latvia in relation to the reconstruction of the finishing and dyeing departments of LSEZ Lauma Fabrics SIA. The total value of the projects is EUR 4,856,870. The Investment and Development Agency of Latvia provided the following financing: during 2016: EUR 173,076, during 2015: EUR 620,879 and during 2014: EUR 271,672. This financing was initially recognized as part of deferred income and is to be charged to the other operating income over the useful life of the relevant property, plant and equipment - 5 to 20 years.

**26. Financial instruments**

**Accounting classifications and fair values**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

<i>In euros</i>	<i>Note</i>	<b>2016 Carrying amount</b>	<b>2016 Fair value</b>	<b>Fair value level</b>
<b>Financial assets</b>				
<b>Loans and other receivables at amortised cost</b>				
<b>Non-current financial assets</b>				
Trade and other receivables	19	587,946	476,410	Level 3
<b>Total non-current financial assets</b>		<b>587,946</b>	<b>476,410</b>	

The fair values of trade and other receivables due within one year and fair values of cash and cash equivalents approximate to their carrying amounts.

<i>In euros</i>	<i>Note</i>	<b>2015 Carrying amount</b>	<b>2015 Fair value</b>	<b>2014 Carrying amount</b>	<b>2014 Fair value</b>	<b>Fair value level</b>
<b>Financial liabilities</b>						
<b>Financial liabilities at amortised cost</b>						
<b>Non-current financial liabilities</b>						
Fixed-rate secured bank loans	23	169,525	156,917	254,250	227,198	Level 3
<b>Total non-current financial liabilities</b>		<b>169,525</b>	<b>156,917</b>	<b>254,250</b>	<b>227,198</b>	

The fair values of secured bank loans, other loans, finance lease liabilities and trade and other payables due within one year approximate to their carrying values.

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**Financial risk management**

The Group has exposure to the following risks arising from financial instruments:

- a) credit risk
- b) liquidity risk
- c) currency risk
- d) interest rate risk

*(i) Risk management framework*

The general principles of the Group's risk management are approved by the Board of Directors, and their practical implementation is the responsibility of the Group's management. The aim of the Group's risk management is to minimize the adverse effects of financial market fluctuations on the Group's result.

*(ii) Credit risk*

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

The carrying amount of financial assets represents the maximum credit exposure.

**Trade receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the country in which customers operate.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, financial statements and industry information. Sale limits are established for each customer and reviewed on necessity. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Three largest debtors comprise 11%, 32%, 44% and 32% of total trade and other receivables as at 31 December 2016, 31 December 2015, 31 December 2014 and 01 January 2014 respectively.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 10 to 90 days. The Group does not have in its possession any security for its receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables (see Note 3.13(i)).

At 31 December, the maximum exposure to credit risk for trade and other receivables by geographic region was as follows:

<i>In euros</i>	<b>Carrying amount</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Russia	375,500	270,534	459,631	699,131
Baltic states	2,824,895	1,750,358	1,799,039	1,942,269
Belarus	980,685	1,181,941	1,354,499	1,073,545
Ukraine	348,796	227,556	254,484	202,414
Poland	100,956	130,612	182,327	154,804
Germany	338,440	269,503	583,017	414,624
Cyprus	845,534	623,730	1,669,121	4,076,639
Morocco	298,151	227,863	-	-
Other counties	703,411	613,127	569,290	1,005,173
<b>Total</b>	<b>6,816,368</b>	<b>5,295,224</b>	<b>6,871,408</b>	<b>9,568,599</b>

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At 31 December, the ageing of trade receivables, net of impairment and other receivables was as follows:

<i>In euros</i>	2016	2015	2014	1 January 2014
Neither past due nor impaired	6,001,140	4,171,310	5,890,111	8,680,329
Past due 1-30 days	671,088	867,812	951,268	642,670
Past due 31-60 days	134,214	255,592	30,029	142,986
Past due 61-90 days	9,926	510	-	102,614
<b>Total</b>	<b>6,816,368</b>	<b>5,295,224</b>	<b>6,871,408</b>	<b>9,568,599</b>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

<i>In euros</i>	2016 Individual impairment	2015 Individual impairment	2014 Individual impairment
<b>Balance at 1 January</b>	<b>1,026,551</b>	<b>5,198,627</b>	<b>5,134,158</b>
Impairment loss recognised during the period (+)	41,140	511,357	64,569
Utilised during the period (-)	-	(4,591,143)	-
Unused amounts reversed during the period (-)	-	(92,290)	(100)
<b>Balance at 31 December</b>	<b>1,067,691</b>	<b>1,026,551</b>	<b>5,198,627</b>

Change in allowances for impairment of trade and other receivables charged to other operating expenses (Note 11).

**Cash and cash equivalents**

The Group held cash and cash equivalents of EUR 218,914 as at 31 December 2016, EUR 1,128,090 as at 31 December 2015 and EUR 1,141,837 as at 31 December 2014 (1 January 2014: EUR 1,160,998). Main banks used by each company of the Group are approved by the Board of Directors.

**Guarantees**

During 2016, the Group issued a guarantee to Fiber International BV by which it guarantees the repayment of the receivables up to the limit of EUR 300,000 of its associate - Tele Textile Latvia SIA.

*(iii) Liquidity risk*

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

On 20 September 2013, the Group signed a credit line agreement with Citadele Banka concerning a credit line of EUR 1,000,000. The agreement matures on 31 August 2018, and the annual interest rate is Euribor +3.5%. The amount of credit line utilized at 31 December 2016 was EUR 227,632, as at 31 December 2015: EUR 1,000,000 and as at 31 December 2014: EUR 813,000 (1 January 2014: EUR 675,000) and accrued interest as at 31 December 2016 was EUR 2,099, as at 31 December 2015: EUR 1,146 and as at 31 December 2014: EUR 1,111 (1 January 2014: 1,267).

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

**31 December 2016**

<i>In euros</i>	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	Total
Secured bank loans	4,699,086	992,609	1,217,463	1,814,831	882,392	4,907,295
Secured other loans	336,027	338,547	-	-	-	338,547
Finance lease liabilities	160,891	39,309	39,315	72,652	14,950	166,226
Trade and other payables	3,900,516	3,900,516	-	-	-	3,900,516
<b>Total</b>	<b>9,096,520</b>	<b>5,270,981</b>	<b>1,256,778</b>	<b>1,887,483</b>	<b>897,342</b>	<b>9,312,584</b>



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<b>31 December 2015</b>						
<i>In euros</i>	<b>Carrying amount</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
Secured bank loans	6,073,626	1,014,494	2,026,333	1,959,523	1,354,386	<b>6,354,736</b>
Secured other loans	366,761	369,512	-	-	-	<b>369,512</b>
Finance lease liabilities	215,011	50,956	35,892	71,743	65,752	<b>224,343</b>
Trade and other payables	4,932,131	4,932,131	-	-	-	<b>4,932,131</b>
<b>Total</b>	<b>11,587,529</b>	<b>6,367,093</b>	<b>2,062,225</b>	<b>2,031,266</b>	<b>1,420,138</b>	<b>11,880,722</b>

<b>31 December 2014</b>						
<i>In euros</i>	<b>Carrying amount</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
Secured bank loans	7,260,069	1,081,671	1,778,405	1,842,341	3,013,269	<b>7,715,686</b>
Secured other loans	479,763	483,361	-	-	-	<b>483,361</b>
Finance lease liabilities	416,280	110,935	101,819	87,153	137,495	<b>437,402</b>
Trade and other payables	7,036,736	7,036,736	-	-	-	<b>7,036,736</b>
<b>Total</b>	<b>15,192,848</b>	<b>8,712,703</b>	<b>1,880,224</b>	<b>1,929,494</b>	<b>3,150,764</b>	<b>15,673,185</b>

As disclosed in Note 23, the Group has secured bank loans that contain loan covenants. A future breach of covenants may require the Group to repay the loans earlier than indicated in the above table.

The interest payments on variable interest rate loans in the table above are based on rates which were valid at the end of the reported periods. These amounts may change as market interest rates change.

*(iv) Currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities, when revenue is denominated in a different currency from the Group's functional currency.

The Group operates internationally. In order to limit the risk, almost all of the Group's agreements with customers are concluded in EUR. As a result gains or losses from fluctuations of currency exchange rates are immaterial. During 2016, the group reported net loss from currency exchange fluctuations of EUR 5,689, during 2015: net loss of EUR 16,934 and during 2014: net loss of EUR 8,679.

*(v) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term obligations with floating interest rates. The Group doesn't hedge the interest rate risk as considered to be immaterial for the Group.

**Exposure to interest rate risk**

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
<b>Fixed-rate instruments</b>				
Financial assets	1,433,480	623,730	1,669,121	4,076,639
Financial liabilities	(92,150)	(169,525)	(382,254)	(118,512)
<b>Net position</b>	<b>1,341,330</b>	<b>454,205</b>	<b>1,286,867</b>	<b>3,958,127</b>
<b>Variable-rate instruments</b>				
Financial assets	-	-	-	-
Financial liabilities	(5,103,854)	(6,485,873)	(7,773,858)	(8,052,843)
<b>Net position</b>	<b>(5,103,854)</b>	<b>(6,485,873)</b>	<b>(7,773,858)</b>	<b>(8,052,843)</b>

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**Fair value sensitivity analysis for fixed-rate instruments**

The Group doesn't account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Group does not use derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting dates would not affect profit or loss. A change of 100 basis points in interest rates would have increased or decreased equity by the following amounts: as at 31 December 2016 by EUR 11,263 after tax, as at 31 December 2015 by EUR 3,607 after tax, as at 31 December 2014 by EUR 10,365 after tax (as at 1 January 2014 by EUR 33,466 after tax). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

**Cash flow sensitivity analysis for variable-rate instruments**

The Group monitors the sensitivity of its interest bearing loans and borrowings to changes in interest rates and the effect of such changes on the Group's profit or loss and equity. A reasonably possible change of 100 basis points in interest rates at the reporting dates would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

<i>Effect in euros</i>	<b>Profit or loss</b>	
	<b>100 bp increase</b>	<b>100 bp decrease</b>
<b>Variable rate instruments</b>		
31 December 2016	(51,039)	51,039
31 December 2015	(64,859)	64,859
31 December 2014	(77,739)	77,739
1 January 2014	(80,528)	80,528

**27. Non-controlling interests and liquidation of subsidiary**

**Non-controlling interests**

The following table summarises the information relating to the Group's subsidiary Elastic & Weskott GmbH that had non-controlling interest, before any intra-group eliminations.

<i>In euros</i>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Non-controlling interest percentage	49% (until liquidation)	49%	49%
Non-current assets		21,256	30,560
Current assets		49,595	253,536
Non-current liabilities		-	-
Current liabilities		(1,771,157)	(1,408,286)
Net assets		(1,700,306)	(1,124,190)
<b>Net assets attributable to non-controlling interests</b>		<b>(833,150)</b>	<b>(550,853)</b>
Revenue	1,080,644	3,574,261	
Profit/(loss)	67,026	(576,116)	
Total comprehensive income	67,026	(576,116)	
<b>Total comprehensive income allocated to non-controlling interests</b>	<b>32,843</b>	<b>(282,297)</b>	

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**Liquidation of subsidiary**

In April 2015, the Group's subsidiary Elastic & Weskott GmbH filed for receivership and the group lost control over it. As a result, the subsidiary was excluded from consolidation as of the date of the loss of control.

**Carrying amounts of net assets over which control was lost**

<i>In euros</i>	<b>2015</b>
Property, plant and equipment	21,258
<b>Total non-current assets</b>	<b>21,258</b>
Trade and other receivables	111,715
Prepayments	30,134
Cash and cash equivalents	3,038
<b>Total current assets</b>	<b>144,887</b>
	-
Loans and borrowings	(129,890)
Trade and other payables	(1,669,533)
<b>Total current liabilities</b>	<b>(1,799,423)</b>
<b>Net assets</b>	<b>(1,633,278)</b>
Allowance for receivable from Elastic & Weskott GmbH	658,640
<b>Net assets derecognised</b>	<b>(974,638)</b>

**Profit on liquidation**

<i>In euros</i>	<b>2015</b>
Net assets derecognised	974,638
Non-controlling interest derecognised	(800,307)
<b>Profit on liquidation</b>	<b>174,331</b>

The profit on liquidation of the subsidiary is recorded as part of other operating income in the statement of comprehensive income.

**Net cash outflow arising on liquidation**

<i>In euros</i>	<b>2015</b>
Cash and cash equivalents derecognised	(3,038)

**28. Operating leases**

**Leases as lessee**

The Group leases some of its production plants and a number of machinery and equipment as well as cars under operating leases. The leases typically run for a period of 4-5 years, with an option to renew the lease after that date or to buy out the leased asset. Lease payments stay fixed during the valid lease term. When the lease term is renewed, the lease terms are renegotiated. The Group does not have an interest in the residual value of the leased property. As a result it was determined, that substantially all of the risks and rewards of the land and buildings are with the landlord.

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows.

<i>In euros</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
Less than one year	18,550	314,568	329,436	329,436
Between one and five years	-	38,410	352,987	682,414
<b>Total</b>	<b>18,550</b>	<b>352,978</b>	<b>682,423</b>	<b>1,011,850</b>

Operating lease expenses recognised in profit or loss amounted to EUR 567,426 in 2016, EUR 602,882 in 2015 and EUR 797,357 in 2014.

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**29. Related parties**

**Transactions with key management personnel**

Key management personnel compensation comprised the following.

<i>In euros</i>	2016	2015	2014
Short-term employee benefits	207,382	302,340	301,301

Compensation of the Group's key management personnel includes salaries and social contributions.

Other expenses related to key management personnel comprised the following.

<i>In euros</i>	2016	2015	2014
Travel and other expenses	256,471	213,337	30,058

**Other related party transactions**

<i>In euros</i>	Transaction values for the year ended 31 December			Balance outstanding at			
	2016	2015	2014	31 December 2016	31 December 2015	31 December 2014	1 January 2014
<b>Sale of goods and services</b>							
Emme Latvia SIA (associate)	-	88,864	177,581	-	-	118,629	88,173
<b>Purchase of goods and services</b>							
Emme Latvia SIA (associate)		-	-	-	46,788	-	-
<b>Loans receivable and related interest</b>							
Parent of the Group - Myrtyle Ventures Limited	12,763	-	25,772	845,534	623,730	1,669,121	4,076,639
Tele Textile Latvia SIA (associate)	22,946	-	-	587,946	-	-	-

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within six months of the reporting date except as indicated below. None of the balances is secured.

A 100% allowance was recognised for trade receivable, loan and related interest receivable from Desseilles Fabrics SAS as the Company was under legal protection and its liquidation commenced on 27 July 2011.

A 100% allowance was recognised for trade receivables from Elastic & Westkott GmbH at 31 December 2016 and 31 December 2015 as the Company declared insolvency on 17 April 2015 and further entered into liquidation.

At 31 December 2014 allowance in the amount of EUR 1,634 was provided for the amount receivable from the associate - Emme Latvia Sia. Subsequently, the allowance was reversed in 2015.

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**30. Subsequent events**

**Changes in the Group structure**

In April 2017, the direct Parent Company of LSEZ Lauma Fabrics SIA changed from Myrtyle Ventures Ltd to AS European Lingerie Brands. The change was carried out by contributing LSEZ Lauma Fabrics SIA shares into the share capital of AS European Lingerie Brands. After the restructuring, the ultimate Parent Company of the Group did not change and is still Myrtyle Ventures Ltd.

**Other events**

In May 2017, LSEZ Lauma Fabrics SIA concluded a new borrowing agreement with AS Citadele Bank and AS Baltikums Bank for an amount of EUR 20,563,586. The new agreement matures on 9 May 2024 and the outstanding balance of the existing long-term borrowing from AS Citadele Bank was refinanced into the new borrowing.

**Amendments to the Latvian tax legislation**

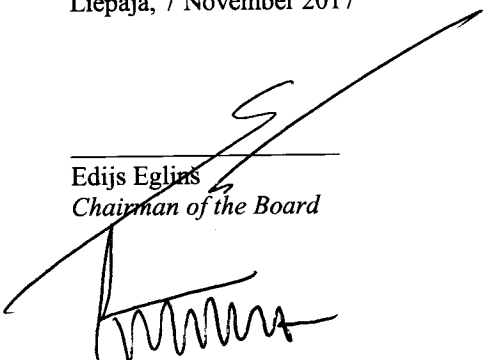
On 28 July 2017, Latvian parliament passed amendments to the Latvian tax. These amendments are expected to become effective for tax periods beginning on or after 1 January 2018; for specific items transitional provisions apply. The amendments concern corporate income tax regime and certain other taxes in Latvia.

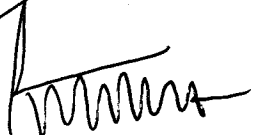
Currently corporate income tax in Latvia is payable on taxable profits and the amounts due to State Revenue Service may be partially offset by tax loss carry forward from previous tax periods. The new regime introduces a concept where corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions (e.g. marketing expenses that exceed specific thresholds).


As the Parent will fully use its tax losses in 2017, no impact on the Group's deferred tax is expected.

**Signatures to the Financial Statements**

Liepaja, 7 November 2017

  
\_\_\_\_\_  
Edijs Eglins  
*Chairman of the Board*

  
\_\_\_\_\_  
Indrek Rahumaa  
*Board member*

  
\_\_\_\_\_  
Tatjana Tužilkina  
*Board member*



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## Independent Auditors' Report

### To the shareholder of LSEZ Lauma Fabrics SIA

#### *Our Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of LSEZ Lauma Fabrics SIA and its subsidiaries ("the Group") set out on pages 3 to 45 of the accompanying consolidated financial statements, which comprise:

- the consolidated statements of financial position as at 31 December 2016, 31 December 2015 and 31 December 2014,
- the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2016, 31 December 2015 and 31 December 2014,
- the consolidated statements of changes in equity for the years ended 31 December 2016, 31 December 2015 and 31 December 2014,
- the consolidated statements of cash flows for the years ended 31 December 2016, 31 December 2015, 31 December 2014, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, 31 December 2015 and 31 December 2014 and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### *Basis for Opinion*

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### *Auditors' Responsibility for the Audit of the Consolidated Financial Statements*

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Baltics SIA  
Licence No 55

A handwritten signature in black ink, appearing to be 'Armine Movsisjana'.

Armine Movsisjana  
Chairperson of the Board  
Riga, Latvia  
7 November 2017