OROMIA CAPITAL GOODS FINANCE BUSINESS S.C.

Auditors' Report and Accounts

At and for the year ended 30th June, 2022

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ERMIAS NEGUSSIE ABEBE
Certified Audit Firm (Eth.)
Chartered Certified Accountant - ACCA
Addis Ababa, Ethiopia

☎ +251 – 116-181863/0116-184156/0118 - 694051 +251 – 911229495

✉ - 11007

E-mail – info@encauditing.com /ermiasn@ethionet.et

Directors (As of 30th June, 2021)	Responsibility	Appointment Date
Ato Nemera Buli	Chairman	23,December, 2021
Ato Ahimed Ediris	D/Chairman	23,December, 2021
Dr. Mesfin Assefa	Member	26, June ,2019
Ato Ermias Deneke	Member	23, December, 2021
Dr. Lijalem Ayele	Member	23, December, 2021
Ato Zewude Tefera	Member	31, December, 2020
Eng. Guremesa Oljira	Member	23, December, 2021

Senior Management	Responsibility	Appointment date
Ato Yonas Geleta	Executive Managing Director	1st January, 2019
Ato Chombe Mahmud	Deputy Managing Director	1st October, 2020
Ato Abdissa Dabasa	CGAD Director	1st May, 2021
Ato Degefa Amante	Finance & Human Resource Management Director	3rd January, 2019
Ato Kumsa Chemeda	CGAFMD A/Director	1st February, 2021
W/ro Workeinesh Gebisa	Planning Business Development & Communication Directorate	1st May, 2020
Ato Mengistu Gobosho	Internal Audit & Risk Management Director	1st December, 2021

Principal Registration No..	: OR/25/05/000000024/06
Tax Identification No. (TIN)	: 0041679642
Registered office /Address	: Addis Ababa Ethiopia
Bankers	: Commercial Bank of Ethiopia (CBE) Addis Ababa Ethiopia
	: Cooperative Bank of OROMIA S.C. Addis Ababa, Ethiopia
	: OROMIA Credit and Savings Institution S.C. Finfine Microfinance Branch
Independent Auditors	: Ermias Negussie Abebe Certified Audit Firm (Eth.) Chartered Certified Accountants (ACCA) P.O. Box 11007 Addis Ababa Ethiopia

INDEPENDENT AUDITORS' REPORT TO SHAREHOLDERS

OROMIA CAPITAL GOODS FINANCE BUSINESS S.C.

We have audited the accompanying financial statements of OROMIA Capital Goods Finance Business S.C. which comprise the Statement of Financial Position as at 30th June, 2022 and the related Statement of Financial Performance, Cash Flows and its Change in Equity for the year ended 30th June, 2022 and a summary of significant accounting policies and other explanatory notes.

Qualified Opinion

In our opinion, except for the effects of the matters discussed on the basis of opinion part of the reports that might have on the financial staemtns, the financial statements present fairly, in all material respects, the Financial Position of OROMIA Capital Goods Finance Business S.C. as at 30th June, 2022 and of its Financial Performances, its Cash Flows and its Change in Equity for the year ended 30th June, 2022 in accordance with the International Financial Reporting Standards (IFRS).

Basis of opinion

1. Leased machines and equipment
   - 1.1 Adequate records on follow-up of the history of leased machines and equipment, the movements of the leased machines and equipment, scheduled maintenance and periodic financial evaluation and other pertinent information have not been presented for audit verification and review purposes.
   - 1.2 Clients who had fulfilled or completed their obligations have not been separately recorded from the record of active clients maintained by the operation department.
2. Receivalbes

   The non-current and current portion of the lease recivable balance of Br. 208,770,203.33 was not properly identified and presented in the financial statemtns as appropritat.

3. Financial risk assessement

   Report for risk assessment, measurment and the related mitigation plan were not presented to us for our review and verification. Moreover, disclosure as per the relevant standard for mesuremnt in respect of various risks where the company is exposed were not made. we are; therefore, unable to acertain the adequecy of the risk management advices of the company.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsiblities under those standards are further described in the Auditor's Responsibility of the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirments that are relevant to our audit of the financial statements in Ethiopia and we have fulfilled our other ethical responsibilities in accordance with these requirments and the IESBA Code. We believe that the audit evidance we have obtained is sufficient and approprite to provide a basis for our opinon.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significant in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Responsibilities of Management and those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies of the company and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

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

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

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Auditors Responsibility for the Audit of the financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Company'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 cause significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then 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.

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- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The reports of the Board of Directors have not been provided to us for our review and verification. We are; therefore, unable to make comments so far as it related to these financial statements and pursuant to Article 349, Sub-article 2 of the Commercial Code of Ethiopia 2021.

Ermias Negussie Abebe
Certified Audit Firm (Eth.)

Addis Ababa, Ethiopia
7 February, 2023

OROMIA CAPITAL GOODS FINANCE BUSINESS S.C.
Statement of Financial Position
30th June, 2022

Currency: Birr

	Notes	30/06/2022	30/06/2021
ASSETS			
Non-current assets			
Property, plant and equipment - net	5	8,322,817.81	4,448,182.01
Asset held for sale	6	-	525,109.32
Lease receivables	7	208,770,203.33	93,307,436.46
Deferred tax assets	8	508,898.84	439,205.73
		217,601,919.98	98,719,933.52
Current assets			
Other assets	9	12,051,470.01	2,871,851.08
Cash and cash equivalents	10	30,060,287.34	132,376,560.91
		42,111,757.35	135,248,411.99
TOTAL ASSET		259,713,677.33	233,968,345.51
LIABILITIES			
Current liabilities			
Trade & other payables	11	39,155,896.16	31,184,563.14
Employee benefit obligations	12	1,766,297.19	1,535,917.29
Taxation	13	4,691,735.57	1,337,087.59
TOTAL CURRENT-LIABILITIES		45,613,928.92	34,057,568.02
Non current liabilities			
Matching fund	14	12,640,433.95	9,762,697.07
Deferred tax liability	15	393,517.12	-
		13,033,951.07	9,762,697.07
TOTAL LIABILITIES		58,647,879.99	43,820,265.09
EQUITY			
Share capital	16	200,000,000.00	200,000,000.00
Legal reserve	17	1,086,553.01	538,792.27
General reserve	18	5,161,127.00	2,559,263.47
Retained earnings	19	(5,181,882.67)	(12,949,975.32)
TOTAL EQUITY		201,065,797.34	190,148,080.42
TOTAL LIABILITIES AND EQUITY		259,713,677.33	233,968,345.51

The accompanying notes as set out on pages from 12 to 49 are an integral part of these financial statements.

The financial statements on pages 8 to 11 were approved and authorized for issue by the Board of Directors on 28 January, 2023 and were signed on its behalf by:

_________________________ _________________________

Chairman - Board of Directors **Chief Executive Officer (CEO)**

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OROMIA CAPITAL GOODS FINANCE BUSINESS S.C.

Statement of Profit or Loss and Other Comprehensive Income

At and for the year ended 30th June, 2022

Currency: Birr

	Notes	30/06/2022	30/06/2021
Income			
Lease	20	18,276,433.18	10,475,701.55
Others	21	10,373,077.81	7,645,771.30
Interest	22	4,660,908.62	8,814,249.14
Total income		33,310,419.61	26,935,721.99
Expenses			
Other operating charges	23	5,719,648.88	4,298,430.08
Depreciation charges	24	1,908,432.32	7,300,273.38
Personnel costs	25	11,112,120.49	7,983,915.85
Impairment on lease receivables	26	355,514.59	-
Total operating expenses		(19,095,716.28)	(19,582,619.31)
Net income before financial charge		14,214,703.33	7,353,102.68
Financial charges - interest		-	-
Net income before business income tax		14,214,703.33	7,353,102.68
Business income tax expense	13.3	(3,259,488.49)	(818,955.52)
Net income and other comprehensive income for the year	19	10,955,214.84	6,534,147.16

The accompanying notes as set out on pages from 12 to 49 are an integral part of these financial statements.

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Chairman - Board of Directors **Chief Executive Officer (CEO)**

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OROMIA CAPITAL GOODS FINANCE BUSINESS S.C.
Statement of Cash Flows
At and for the year ended 30th June, 2022

Currency: Birr

	Notes	30/06/2022	30/06/2021
Net profit for the year		14,214,703.33	7,353,102.68
Adjustments for non-cash items:			
Depreciation	24	1,908,432.32	7,300,273.38
Adjustment in respect of prior year	19	(37,497.92)	(28,256,941.17)
Impairment of Lease receivable		355,514.59	-
		16,441,152.32	(13,603,565.11)
Changes in working capital			
Decrease/(increase) in non-current asset held for sale		525,109.32	10,576.68
Decrease/(increase) lease receivables		(115,818,281.46)	13,865,995.25
Decrease/(increase) in other assets		(9,179,618.93)	(757,694.08)
Increase/(Decrease) in trade & other payables		7,971,333.12	384,281.14
Increase/(Decrease) in employee obligation		230,379.90	961,148.29
Increase/Decrease) taxation		418,983.50	(773,146.84)
Net change in working capital		(115,852,094.55)	13,691,160.44
Net cash (outflow)/inflow from operating activities		(99,410,942.23)	87,595.33
Cash flows from investing activities			
Acquisition of property, plant and equipment	5	(6,517,020.10)	(594,150.44)
Disposal of property, plant and equipment	5	733,951.57	8,911,166.95
Net cash (outflow)/inflow from investing activities		(5,783,068.53)	8,317,016.51
Cash flows from financing activities			
Increase/(Decrease) matching fund		2,877,736.88	5,318,499.07
Decrease in project under progress		-	293,279,763.00
Decrease in legal reserve		-	(590,615.00)
Decrease in general reserve		-	(9,285,340.00)
Interest paid during the year		-	(4,055,268.62)
Interest		-	19,340,210.52
Transferred to OROMIA Regional Council		-	(323,507,327.90)
Net cash (outflow)/inflow from financing activities		2,877,736.88	(19,500,078.93)
Net increase/(decrease) in cash and cash equivalents		(102,316,273.88)	(11,095,467.09)
Cash and cash equivalents at the beginning of the year	10	132,376,560.91	143,472,028.00
Cash and cash equivalents at the end of the year	10	30,060,287.03	132,376,560.91

The accompanying notes as set out on pages from 12 to 49 are an integral part of these financial statements.

The financial statements on pages 8 to 11 were approved and authorized for issue by the Board of Directors on 28 January, 2023 and were signed on its behalf by:

Chairman - Board of Directors **Chief Executive Officer (CEO)**

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OROMIA CAPITAL GOODS FINANCE BUSINESS S.C.
Statement of Change in equity
At and for the year ended 30th June, 2022

Currency: Birr

	Share capital	Retained earning	Legal reserve	General reserve	Total
Balance as at 1st July, 2020	200,000,000.00	11,636,677.00	590,615.00	9,285,340.00	221,512,632.00
Change in equity for the year					
Profit for the year	-	6,534,147.16	-	-	6,534,147.16
Capital contribution made during the year	-	-	-	-	
Transfer to legal reserve	-	-	538,792.27	-	538,792.27
Transfer to general reserve	-	-	-	2,559,263.47	2,559,263.47
Prior period adjustment	-	(31,120,799.48)	(590,615.00)	(9,285,340.00)	(40,996,754.48)
Balance 30th June, 2021	200,000,000.00	(12,949,975.32)	538,792.27	2,559,263.47	190,148,080.42
Balance as at 1st July, 2021	200,000,000.00	(12,949,975.32)	538,792.27	2,559,263.47	190,148,080.42
Change in equity for the year					
Profit for the year	-	10,955,214.84	-	-	10,955,214.84
Transfer to legal reserve	-	(547,760.74)	547,760.74	-	-
Transfer to general reserve	-	(2,601,863.53)	-	2,601,863.53	-
Adjustment in respect of prior year	-	(37,497.92)			(37,497.92)
Balance 30th June, 2022	200,000,000.00	(5,181,882.67)	1,086,553.01	5,161,127.00	201,065,797.34

The accompanying notes as set out on pages from 12 to 49 are an integral part of these financial statements.

The financial statements on pages 8 to 11 were approved and authorized for issue by the Board of Directors on 28 January, 2023 and were signed on its behalf by:

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Chairman - Board of Directors

Chief Executive Officer (CEO)

Statement of Management's Confirmation

At and for the year ended 30th June, 2022

Currency: Birr

These financial statements are prepared in accordance with Financial Reporting Proclamation No.847/2014 and Regulation No.332/2014, which require the company to prepare financial statements based on International Financial Reporting Standards, whether their designation changes or they are replaced, from time to time, following the road map set by the Accounting and Auditing Board of Ethiopia (AABE).

The company's management is responsible for the preparation and fair presentation of these financial statements in conformity with international Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The company is required to keep such records as are necessary to:

a) exhibit clearly and correctly the state of its affairs;

b) explain its transactions and financial position; and

c) enable regulatory bodies such as Accounting and Auditing Board of Ethiopia (AABE) and Ministry of Revenues to determine whether the company had complied with the required financial reporting frame work and the relevant tax proclamations and regulations and directives issued for the implementation. The company's management accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS).

The management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit & loss.

The management further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the management to indicate that the company will not remain as going concern for at least twelve months from the date of this statement.

Signed on behalf of the management by:

______________________	______________________
Chairman, Board of Directors	General Manager

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Certified Audit Firm

Currency: Birr

1. *Introduction*

OROMIA Capital Goods Finance Business S.C was incorporated in Ethiopia on 15th April, 2014 under License No. OR/25/05/000000024/06 in accordance with the Commercial Code of Ethiopia and the Proclamation for License issued by the National Bank of Ethiopia (NBE) under capital goods finance business license No. CGFBC/003/2014. The company commenced operation with a paid-up and authorized capital of Birr 200,000,000.00.

The company was established for the attainment of the following objectives:

- To provide Capital Goods Financial Service for micro small, growing medium and medium enterprises who are engaged in feasible manufacturing and trading business.
- To provide Capital Goods finance service for other large companies who have better performance and wants to expend their existing business.
- To Mobilize effectively and efficiently the capital necessary for the provision of capital goods lease service and other investment works.
- To perform any other income generating activities for the capital goods lease service;
- To perform and other relevant activities to achieve the objectives and would help for its success.
- Perform the objectives may be given by the regulations and Directives of the Ethiopia national bank.

2. *Summary of significant accounting policies*

2.1 Introduction to summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Basis of preparation

The financial statements for the year ended 30 June 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by national regulations is included where appropriate.

The financial statements comprise:

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Currency: Birr

- ✓ The Statement of Profit or Loss and Other Comprehensive Income,
- ✓ The Statement of Financial Position,
- ✓ The Statement of Changes in Equity,
- ✓ The Statement of Cash Flows, and
- ✓ The notes to the financial statements.

The financial statements for the year ended June 30, 2019 are the first report that the company prepared in accordance with IFRS. Refer first adoption note for information on how the company adopted IFRS. The financial statements have been prepared in accordance with the going concern principle under the historical cost concept. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the company's financial statements represent the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the note.

2.2.1 Current versus non-current classification

2.2.1.1 The company presents assets and liabilities in the Statement of Financial Position based on current and non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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Currency: Birr

2.2.1.2 All other assets are classified as non-current.

2.2.1.3 A liability is current when:

- It is expected to be settled in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

2.2.1.4 The company classifies all other liabilities as non-current.

2.2.1.5 Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.2.2 Going concern

The financial statements have been prepared on a going concern basis. The management has no doubt that the company would remain in existence after 12 months.

2.2.3 Fair value measurement

The company used the cost model for reporting its non-current assets. Revaluation shall be considered in the future as the need arises.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The functional currency and presentation currency of OROMIA Capital Goods Finance Business S.C. is the Ethiopian Birr "Birr".

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the company's functional currency are recognized in profit or loss. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

2.4 Recognition of income

Revenue is recognized to the extent that is probable that the economic benefits will flow to the company and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account defined terms of payment and excluding taxes or duty.

The company earns lease income from loan and rental of finance goods for small and medium scale Enterprises.

2.4.1 Lease income.

As a lessor OROMIA Capital goods finance Business S.C. classify its leases as finance lease and lease income recorded based on contractual interest rate and within stated period.

The value of lease receivable includes present value of fixed lease payment and unguaranteed residual values and initial direct costs (such as transportation and installation costs) and discounted using rate of interest implicit.

2.4.2 Interest income

Interest-bearing short-term investments i.e. financial instruments are measured at their amortized amounts. Interest income will be calculated using the Effective Interest Rate (EIR) taking into account all the fees and transaction fees incidental to the original contract.

2.4.3 Dividend income

This is recognized when OROMIA Capital Goods Finance Business S.C.'s right to the payment is established, which is generally when the shareholders approve and declare the dividend.

2.4.4 Interest expense

All Financial instruments are measured at amortized cost. Interest expense is recorded using the Effective Interest Rate (EIR), which is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability. The calculation takes into account all

Currency: Birr

contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate (EIR).

2.4.5 Fees and commission

Fees and commission income and expenses that are integral to the Effective Interest Rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and income for example, sales of passbooks, interest income on fixed time deposit and others are recognized as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees and they are expensed as the services are received.

2.5 Operating expense

Operating expenses are recognized in profit or loss upon utilization of the service or as incurred. When capital goods are commissioned the corresponding or related expense should be recognized as incurred.

2.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as parts of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing the funds.

2.7 Leases

2.7.1 The company as a lessee

The company assessed at the date of transition to IFRS whether contracts contain a lease. Contract contains lease, if control of the use of an asset is obtained in exchange for a consideration.

A lease is defined as " A contract, or part of contract, that conveys the right to use an asset (the underlying asset) for period of time in exchange for consideration".

To apply this definition the company assesses whether the contract meets three key evaluations which are whether:

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- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the company,
- The company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use considering its rights within the defined scope of the contract, and
- The company has the right to direct the use of the identified as set throughout the period of use.

The company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

2.7.2 Measurement and recognition of leases as a lessee

At commencement date of the lease, the company recognizes right-of-use asset and a lease liability on the statement of Financial Position. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term. The company also assesses the right-of-use as set for impairment when such indicators exist.

The lease liability is measured at the present value of lease payments discounted using the interest rate implication the lease if that rate is readily available or the company's incremental borrowing rate. The lease liability is measured at amortized cost using effective interest rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in substance of the fixed payments. When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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0116-181863
0116-184156
11007

The company has elected not to recognize right of use assets and lease liabilities for short term leases less than twelve months or low value to an asset which is in accordance with the standard. On the statement of Financial Position, right-of-use assets and lease liabilities are separately presented.

2.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provision of the instrument.

2.8.1 Financial assets

Except for those trade receivables that do not contain a significant financing component and are-measured at the transaction price in accordance with IFRS15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified in to the following categories:

- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI), and
- Amortized cost

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The classification is determined by both:

- The entity's business model for managing the financial asset
- The contractual cash flow characteristics of the financial asset.

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2.8.1.1 Initial Recognition and Measurement

Financial assets of the company are classified, at initial recognition as loan and receivables, and held to maturity investment based on the purpose for which the financial assets are acquired. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

2.8.1.2 Subsequent measurement

Subsequent measurement of financial asset depends on the company's business model for managing the asset and the cash flow characteristics of the asset.

2.8.1.3 Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a financial asset that is subsequently measured at amortized cost is recognized in profit or loss when the asset is recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method. Accordingly, cash & cash equivalent, staff receivables and short-term investments are classified and measured at amortized cost.

2.8.1.4 Impairment

The company assesses on a forward-looking basis the expected credit loss associated with its assets carried at amortized. The impairment methodology applied depends on whether there has been a significant increase in credit risk for lease receivables only. The company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The companies do not apply impairment to financial asset as all represent short-term investments due to the mature within 6 months.

2.8.2 Offsetting financial instruments

Financial assets and liabilities are off-set and the net amount reported in the statement of financial position where the company has a legally enforceable right to off-set the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Company or the counterparty.

2.9 Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash on hand, fuel coupon and cash at bank including account domination in other currencies. For the purpose of the statements of cash flows cash and cash equivalents consists of cash and cash equivalent as defined above, net of outstanding bank overdrafts as they are considered an integral parts of the company's cash managements. Bank overdrafts are included with in current liabilities on the statements of financial position.

2.10 Property, Plant and Equipment

Property, plant and equipment are initially recognized at cost, including any costs directly attributable to bring in the asset to the location and condition necessary for them to be capable of operating in the manner intended by the company's management.

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the company recognizes such parts as individual assets with specific useful lives and are depreciated accordingly. All other repair and maintenance costs are recognized in the profit or loss statement as incurred.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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0116-181863
0116-184156
-11007
Ermias Negussie Abebe Certified Audit Firm

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Description	Useful life	Residual value
Building	30 years	10%
Motor vehicles	10 years	5%
Computer & accessories	5 years	1%
Software	6 years	1%
Furniture & fixtures	7 years	1%
Equipment	7 years	1%
Machinery	7 years	1%

The company commences depreciation when the asset is available for use.

An item of property, plant and equipment and any significant part de-recognized up on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized. The residual values, useful lives and method of depreciation of property, plant and equipment are reviewed at each financial year and adjusted prospectively, if appropriate.

2.11 *Non-current assets held for sale*

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Accordingly, the company finance goods which are repossessed are classified as non-current asset held for sale. These assets are presented separately from other assets in the statement of financial position and also, they are not depreciated while they are classified as held for sale.

2.12 *Impairment of non-financial assets*

The company asses, at each reporting date, whether there is an indication that an asset may impaired. If any indication exists or when annual impairment testing for asset is required, the company estimates the asset's recoverable amount. An asset recoverable amount is the higher of the asset's or cash generating unit (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual

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0116-181863
0116-184156
11007
Ermias Negussie Abebe Certified Audit Firm

asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset CGU exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transaction can be identified, appropriate valuation model used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indictors.

2.13 Lease

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of specific asset or assets or whether the arrangement conveys a right to use the asset. The company as a lessor, entered a lease contract with the respective customers for rental of capital goods with stated interest rate and to be paid within the contractual period. Upon signing of the agreement, the company collects contract/lease advance amounting to 15% of the cost of capital goods to be transferred to the lessee. The company classifies its leases as finance leases and presents as lease receivable in the face of Statement of Financial Position.

2.14 Other assets

Other assets are generally defined as claims held against other entities for the future receipt of money. The other assets in the company's financial statements include the following:

2.14.1 Pre-payments

Pre-payments are payments made in advance for services to be enjoyed in future. The amount is initially capitalized in the reporting period in which the payment is made and subsequently amortized over the period in which the service is to be delivered.

0116-181863
0116-184156
✉-11007
Ermias Negussie Abebe
Certified Audit Firm

2.14.2 Receivables from organizations

Receivables from organizations are recognized upon occurrence of event or transactions as they arise and cancelled when payment is received or when the contract is fulfilled.

2.14.3 Staff receivable and advances

Staff receivable and advances are recognized upon the occurrence of the transactions and cancelled when payment is received.

2.15 Inventories

Inventories are assets that are:

- Held for sale in ordinary course of business,
- In the process of production for such a sale, and
- In the form of materials and supplies to be consumed in the production process or rendering service

The company's inventories incorporate leased assets in inventory and supplies and are measured at lower of cost or net realizable value. The company uses the following inventory valuation method:

Specific cost method for leased assets at inventory due to the fact that capital goods are ordered based on specific requirements of the lessor and First in First Out (FIFO) for supplies.

2.16 Employee benefits

2.16.1 Short-term employee benefits

Remuneration of employees is charged to profit or loss or to carrying amount of an asset (inventory). Short-term employee benefits are those that are expected to be settled within 12 months after the end of the reporting period in which the services have been rendered. Short-term employee benefit obligations are measured on annual discounted basis and are charged to profit or loss or to inventory as the related service is provided. An accrual is recognized for accumulated leave, incentive bonuses and other employee benefits when the company has a present legal or constructive obligations as a result of past service provided by employees and a reliable estimate of the amount can be made.

2.16.2 Post-employment benefit plans

The company operates post-employments schemes which are defined benefit and defined contribution pension plans.

2.16.1.1 Defined contribution plan

All the employees of the company are under pension scheme in line with the provisions of Ethiopian Pension of Private Organization Employees Proclamation 715/2011. Funding under the scheme is 7% and 11% of the employees monthly basic salary to be made by employees and the company, respectively.

The company has no legal or constructive obligations to pay contributions in addition to its fixed contributions to this scheme, which are recognized as an expense in the period that the related employee services received.

2.16.1.2 Defined benefit plan

The company's defined benefit plan is the statutory severance benefits in Ethiopia, which provides a promised one month salary for the first year of service and one-third of monthly salary for each addition year of service to employees on leaving the company after a minimum of five years service.

The liability recognized in the statement of financial position in respect of this unfunded defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation has been calculated by management with the assistance of external consultants using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using imputed yield on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

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0116-181863
0116-184156
-11007
Ermias Negussie Abebe
Certified Audit Firm

The current service cost of the defined benefit plan, recognized in the income statement in employee benefit expense, reflects the increase in the defined benefit obligation resulting from employee service in the current year. The severance pay liability is reduced by settlements and also increased by unwinding finance costs.

2.16.1.3 *Termination benefits*

Termination benefits are payable to employees when employment is terminated by the company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these.

2.16.1.4 *Bonus plans*

The company recognizes a provision for bonus where contractually obliged or where there is a past practice that has created constructive obligation.

2.17 *Financial liabilities*

Financial liabilities are generally defined as liabilities for the transfer of payments and/or benefits to other entities.

2.18 *Income taxes*

OROMIA Capital Goods Finance Business S.C. present its tax expense reconciliation using an option of reconciliation between tax expense and the product of the accounting profit multiplied by the applicable tax rate.

2.18.1 *Current income tax*

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Ethiopia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities

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0116-181863
0116-184156
-11007
Ermias Negussie Abebe Certified Audit Firm

Currency: Birr

2.18.2 Deferred tax

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting non-taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

2.19 Equity, reserves and dividend

Share capital represents the nominal (par) value of ordinary shares that have been issued. Retained earnings includes all current and prior period profit or losses.

Dividend on ordinary shares are recognized as liability in the year in which they are declared. Proposed dividends are not recognized until they have been declared by the Board of Directors represented the owners.

Legal reserve represents 5% of annual net profit held until the reserve reaches 20% of paid-up capital in accordance with the Commercial Code of Ethiopia 2021.

General reserve represents 25% of annual net profit after the provision of legal reserve in accordance with the provisions on the Article of Association of the company.

2.20. Provisions

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there area number of similar obligations, the likely hood that an out flow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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0116-181863
0116-184156
✉-11007
Ermias Negussie Abebe
Certified Audit Firm

Provisions are recognized when the company has a present obligation (legal or constructive) as result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the Statement of profit or loss net of any reimbursement.

2.21 Estimates and assumptions

In the process of applying the accounting policies adopted by the company, the directors make certain judgments and estimates that may affect the amounts recognized in the financial statements. Such judgments and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. However, actual results may differ from those estimates. The judgments and estimates are reviewed at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available, and any revisions to such judgments and estimates are recognized in the year in which the revision is made.

2.21.1 Significant judgments made in applying the company's accounting policies

The judgments made by the Directors in the process of applying the company's accounting policies that have the most significant effect on the amounts recognized in the financial statements include:

2.21.1.1 Fair value of Property, Plant and Equipment used as deemed cost on transition date to IFRS.

The fair value of Property, Plant and Equipment is estimated by management based on the parameters and various assumptions which involve judgments and uncertainties.

2.21.1.2 Recognition of Defined Benefit Obligation – Severance Pay

The recognition of severance pay involved a number of assumptions which depends on the judgment of the management.

2.21.1.3 Recognition of Right-of-use asset and lease liability

The recognition of Right-of-use asset and lease liability involved a number of assumptions which depends on the judgment of the management.

2.21.1.4 Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilized.

2.21.2 Key sources of estimation

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year includes:

2.21.2.1 Defined Benefit Obligation (DBO)

Management's estimate of the defined benefit obligation (DBO) is based on a number of critical underlying assumptions such as rates of inflation, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses.

2.21.2.2 Property, Plant and Equipment

Property, Plant and Equipment is valued at deemed cost with changes value being recognized in retained earnings on the transition date. OROMIA Capital Goods Finance Business S.C.

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0116-181863
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11007
Ermias Negussie Abebe
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takes cost of an item of PPE with the cash price equivalent at the recognition date. The fair value of most of the assets are measured using depreciated replacement cost.

2.21.2.3 *Depreciation and carrying value of property, plant and equipment*

The estimation on the useful life of asset is based on management's judgment. Any material adjustment to the estimated use full lives of items of property plant and equipment will have an impact on the carrying value

2.21.2.4 Recognition of right-of-use asset and lease liability for leased asset

The recognition of right-of-use asset and lease liability involved estimation of discount rate which is the estimated incremental cost of capital and the extension of the lease term are the main sources of estimation uncertainty.

2.21.2.5 Inventories

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

2.21.2.6 Impairment (Expected credit) losses on lease receivables

The company reviews its lease portfolios for impairment on an on-going basis. The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognized for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

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0116-181863
0116-184156
-11007
Ermias Negussie Abebe Certified Audit Firm

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. *Financial Risk Management*

3.1 Introduction

Risk is inherent in the leasing activities, but it is managed through a process of ongoing identification, measurement and monitoring. The process of risk management is critical to the leasing company profitability and each employee within the leasing company is accountable for the risk exposures relating to his or her responsibility. The leasing company is exposed to Credit lease risk, Liquidity risk and if leasing company's involved into debt, they faced interest rate/market risk.

3.1.1 Risk management structure

The Board of Directors and the company's management are responsible for the overall risk management approach and for approving the risk management strategies and principles.

3.2 Credit lease risk

The lease company has been exposed to credit lease risk which is the risk that the lessees fail to pay its contractual obligation. Exposure to credit lease risk arises as a result of the company's lending activities and then the lessees fails to discharge loans to the lessor.

Hence in order to manage credit lease risk, OROMIA Capital has tried to do preliminary assessment/measurement before extending the loans to the lessee. After the lessee's submit the applications to the company the appraisal team investigates the lessees overall business activities then afterwards the approval teams have approved it. After the business approved, the management monitors and reviews the non-performing leases on an ongoing basis to maintain the risk. Furthermore, as per the risk assessment report made by the company, the risk level in these regard is moderate (Medium) which needs more investigation and to place adequate internal control and work procedures.

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3.3 Liquidity risk

Liquidity risk is a risk that the company does not have sufficient financial resources to meet its present obligations and payments. So, liquidity risk is the risk that the lease companies unable to meet its payment to suppliers and also cannot be pay back its obligation (matching fund) to the lessees. But, the company faced no liquidity problem due to sufficient cash circulations.

3.4 Interest market risk

Interest rate risk is the potential loss on the lease company arising from mismatch between positions which are subjected to interest rate adjustment within a specified period, or in any other interest rate relationship.

Therefore, OROMIA Capital Goods Finance Business S.C. is using its equity in order to fund lease portfolio to its clients. As a result, the company has not yet involved in debt/ loan agreement with other financial institutions. Due to the above reason, the company has no interest rate risk.

3.5 Strategic risk

Strategic risks are risks that affect company's business strategy and strategic objectives. The risk might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well changes in the business environment.

OROMIA Capital has set out a clear strategy and policies to facilitate the ongoing operation and to confirm the existence of the company to the future period. To strengthen the formulated strategy, OROMIA Capital should be supported by Computerized Information System/CIS/. However, OROMIA Capital has a lack of specialized leasing software at present time.

3.6 Operational risk

Operation risk is the risk of loss or costs resulting from employee errors, inadequate internal processes and systems and adverse market conditions.

Operational risk is measured in consideration of weaknesses in the control system, manpower/employees/ and inadequacies of procedural manuals. Thus, The Leasing sector is a new business phenomenon in Ethiopia due to this, the company has challenged by the inadequate leasing expertise and insufficient leasing software's.

4. *Related party disclosure*

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity') [IAS 24.9].

4.1 A person or a close member of that person's family is related to a reporting entity, if that person:

4.1.1 has control or joint control over the reporting entity;

4.1.2 has significant influence over the reporting entity; or

4.1.3 is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

4.2 An entity is related to a reporting entity if any of the following conditions applies:

4.2.1 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).

4.2.2 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).

4.2.3 Both entities are joint ventures of the same third party.

4.2.4 One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

4.2.5 The entity is a post-employment defined 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.

4.2.6 The entity is controlled or jointly controlled by a person identified in (4.1)

4.2.7 A person identified in (4.1.1) 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).

4.2.8 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.

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0116-181863
0116-184156
-11007
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Related party transactions

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is changed. [IAS 24.9]

Relationships between parents and subsidiaries: Regardless of whether there have been transactions between a parent and a subsidiary, an entity must disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so must also be disclosed. [IAS 24.16]

Management compensation: Disclose key management personnel compensation in total and for each of the following categories: [IAS 24.17]

- short-term employee benefits
- post-employment benefits
- other long-term benefits
- termination benefits
- share-based payment benefits

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity. [IAS 24.9]

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5. *Property, Plant and Equipment*

5.1 These are

	Motor vehicles	Computer & accessories	Office furniture & equipment	Machinery	Total
COST					
As at 1st July 2020	4,321,755.27	763,347.01	590,080.90	49,226,174.66	54,901,357.84
Add: current additions	-	433,325.84	160,824.60	-	594,150.44
disposal	-	-	-	(43,497,783.99)	(43,497,783.99)
As at 30th June, 2021	4,321,755.27	1,196,672.85	750,905.50	5,728,390.67	11,997,724.29
As at 1st July, 2021	4,321,755.27	1,196,672.85	750,905.50	5,728,390.67	11,997,724.29
Add: current additions	6,376,500.00	103,000.00	37,520.10	-	6,517,020.10
disposal	-	-	-	(5,728,391.67)	(5,728,390.67)
As at 30th June, 2021	10,698,255.27	1,299,672.85	788,425.60	-	12,786,353.72
DEPERCIATION					
As at 1st July, 2020	2,062,845.75	528,921.59	330,485.11	31,913,633.90	34,835,886.35
Add: current year's	410,566.75	167,377.89	94,144.10	6,628,184.64	7,300,273.38
disposal	-	-	-	(34,586,617.04)	(34,586,617.04)
As at 30th June, 2021	(2,413,412.55)	(696,299.48)	(424,629.21)	(3,955,201.50)	(7,549,542.69)
As at 1st July, 2021	2,473,412.50	696,299.48	424,629.21	3,955,201.50	7,549,542.69
Add: current year's	729,217.05	120,417.57	83,771.54	975,026.16	1,908,432.32
adjustment/disposal	-	(66,329.82)	2,118.38	(4,930,227.66)	(4,994,439.10)
As at 30th June, 2022	(3,202,629.55)	(750,387.23)	(510,519.13)	-	(4,463,535.91)
NET BOOK VALUES					
As at 7th July, 2021	1,848,342.54	500,373.49	326,276.51	1,173,190.39	4,448,182.01
As at 7th July, 2022	7,495,625.72	549,285.62	277,906.47	-	8,322,817.81

Currency: Birr

5.2 Br. 52,291,011.66 reported as machinery in the report of the company represents financial lease made to enterprise and or clients where the ownership title belong to the company until the clients conclude their financial lease agreement. The amount of the cost of machinery and the corresponding accumulated depreciation will be reversed up on the completing of their financial lease agreement.

6. ***Non-current asset held for sale***

6.1 These are

	30/06/2022	30/06/2021
Capital goods for lease - repossessed	-	525,109.32
	-	525,109.32

6.2 Capital goods which are repossessed are classified as non-current asset held for sale. These assets are presented separately from other assets in the statement of Financial Position and also, they are not depreciated while they are classified as held for lease in the future.

7. ***Lease receivables***

7.1 The make-up of non-current lease receivables account is as follows:

		30/06/2022	30/06/2021
Non-current lease receivables	(Note 7.2)	213,424,847.21	97,606,565.75
Less: impairment charges	(Note 7.3)	(4,654,643.88)	(4,299,129.29)
	(Note 7.2)	208,770,203.33	93,307,436.46

7.2 The make-up of the impairment charge is as follows:

		30/06/2022	30/06/2021
Opening balance		4,299,128.29	4,299,129.29
Add: current year's provision		355,514.58	-
Ending balance	(Note 7.1)	4,654,643.87	4,299,129.29

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0116-181863
0116-184156
-11007
Ermias Negussie Abebe Certified Audit Firm

Currency: Birr

8. *Deferred tax assets*

8.1 The make-up of the account is as follows:

		30/06/2022	30/06/2021
Book value of liabilities	(Note 8.2)	1,696,329.47	1,464,219.11
Temporary difference		1,696,329.47	1,464,219.11
Deferred tax on temporary difference as at – 30%			
	(Note 8.3)	508,898.84	439,205.73

8.2 The detail of the liabilities at their book value is as follows:

		30/06/2022	30/06/2021
Severance pay	(Notes 12 & 8.2.1)	938,030.19	685,939.94
Annual leave	(Notes 12 & 8.2.2)	758,299.28	778,279.17
	(Note 8.1)	1,696,329.47	1,464,219.11

8.2.1 The movement of severance pay is as follows:

Opening balance – 01/07/2021	(Note 8.2)	685,939.94
Less: payment made during the year		(8,684.02)
		677,255.92
Add: current year provision	(Notes 13.2 & 25)	260,774.27
Ending balance – 30/06/2022	(Notes 8.2 & 12)	938,030.19

8.2.2 The movement of Annual Leave is as follows:

Opening balance – 01/07/2021	(Note 8.2)	778,279.17
Less: annual leave used expired during the year		(576,256.00)
		202,063.17
Add: current year provision	(Notes 13.2 & 25)	556,236.11
Ending balance – 30/06/2022	(Notes 8.2 & 12)	758,299.28

8.3 The movement of deferred tax assets is as follows:

Opening balance – 01/07/2021	(Note 8.1)	439,205.73
Add: current year's addition	(Note 13.3)	69,693.11
Ending balance- 30/06/2022	(Note 8.1)	508,898.84

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0116-181863
0116-184156
11007
Ermias Negussie Abebe Certified Audit Firm

Currency: Birr

9 *Other assets*

These are

	30/06/2022	**30/06/2021**
Government of the OROMIA National Regional State	1,425,974.59	-
Ethiopia Capital Goods Finance Institution Association	200,000.00	-
Grand Ethiopian Renaissance Dam	100,000.00	50,000.00
Pre-payments	3,015,366.70	461,480.71
Staff receivables & advances	7,304,131.25	2,339,289.53
Sundry	5,997.47	21,080.84
	12,051,470.01	2,871,851.08

10 *Financial assets*

10.1 The make-up of the financial asset is as follows:

		30th June, 2022		
			FVTOCI	
		Amortized cost	**Birr**	**Total Birr**
Cash & cash equivalents	(Note 10.2)	30,060,287.34	-	30,060,287.34
Other assets	(Note 9)	12,051,470.01	-	12,051,470.01
		42,111,757.35	-	42,111,757.35

		30th June, 2021		
			FVTOCI	
		Amortized cost	**Birr**	**Total Birr**
Cash & cash equivalents	(Note 10.2)	132,376,560.91	-	132,376,560.91
Other assets	(Note 9)	2,871,851.08	-	2,871,851.08
		135,248,411.99	-	135,248,411.99

10.2 Cash and cash equivalent

These are

		30/06/2022	**30/06/2021**
At bank		30,068,306.91	132,378,999.92
On hand		(8,019.57)	(2,439.01)
	(Note 10.1)	30,060,287.34	132,376,560.91

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0116-181863
0116-184156
✉-11007
Ermias Negussie Abebe Certified Audit Firm

Currency: Birr

11 Trade & other payables

11.1 These are

		30/06/2022	30/06/2021
Trade		11,927,207.33	2,472,450.87
Retention		2,882,728.91	2,723,340.14
OROMIA Medium and Small Enterprise Development Agency	(Note 11.2)	22,084,868.75	24,579,998.84
Unearned revenue		454,519.75	615,103.50
Provident fund		719,421.48	530,978.52
Bonus		842,678.77	-
Accrued expenses		48,152.80	-
Cash indemnity		21,500.00	6,910.00
Sundry		174,818.37	255,781.27
		39,155,896.16	31,184,563.14

11.2 OROMIA Capital Goods Finance Business S.C. entered into a memorandum of understanding, with OROMIA Medium and Small Enterprise Development Agency for a total loan fund of Br. 50,315,283.00 to support youth who were graduated in 2008 from OROMIA Regional Government Higher and Technical Institutions who are also unemployed by providing them a revolving fund for capital goods finance service and get benefit from it. In previous and during the year Br. 28,230,414.25 is provided to finance the beneficiaries of the project. (Note 11.1)

12 Employees benefit obligations

These are on account of:

		30/06/2022	30/06/2021
Pension fund		69,967.72	71,698.18
Accrued annual leave	(Note 8.2)	758,299.28	778,279.17
Accrued severance pay	(Note 8.2)	938,030.19	685,939.94
		1,766,297.19	1,535,917.29

Currency: Birr

13 Taxation

13.1 This is on account of:

		30/06/2022	30/06/2021
Withholding		237,391.34	188,653.30
Personnel income		494,716.32	124,470.86
Business income	(Note 13.4)	3,959,627.91	1,023,963.43
		4,691,735.57	1,337,087.59

13.2 The provision of business income tax for the current year is arrived at as follows:

Net profit and other comprehensive income for the year - IFRS			14,214,703.33
Less: interest income	(Note 22)		(4,660,908.62)
Net income for the year before business income tax			9,553,794.71
Add: disallowed expense			
Penalty	(Note 23)	5,000.00	
meal & entertainment	(Note 23)	158,859.88	
bad debts	(Note 23)	12,053.07	
			175,912.95
			9,729,707.66
Add: adjustment for the effects of IFRS application on tax			
depreciation under IFRS accounting policies	(Notes 5 & 24)		1,908,432.32
annual leave expenses	(Note 25)		556,236.11
severance expenses	(Note 25)		260,774.27
impairments on lease receivable	(Note 26)		355,514.59
Loss due to reprocess and default	(Note 23)		96,261.77
			3,177,219.06
			12,906,926.72
Less: depreciation provision under tax law			(3,121,378.47)
Net profit for the year before business income tax			9,785,548.25
Provision for business income tax:			
(Br. 9,785,548.25 x 30%)	(Note 13.3 & 13.4)		2,935,664.48

Ermias Negussie Abebe Certified Audit Firm
0116-181863
0116-184156
11007

Currency: Birr

13.2 The make-up of the business income tax charged for the year arrived at as follows:

Income tax provision current year	(Note 13.2)		2,935,664.48
Less: deferred tax assets	(Note 8.3)	(69,693.11)	
Add: deferred tax liabilities	(Note 15)	393,517.12	
			323,824.01
Income tax expense charged to the statement of profit & loss for the year			3,259,488.49

13.3 The movement in the business income tax account is as follows:

		30/06/2022	30/06/2021
Opening balance		1,023,963.43	974,441.00
Less: adjustments in respect of prior year's account		-	(974,441.00)
		1,023,963.43	-
Add: current year provision	(Note 13.2)	2,935,664.48	1,023,963.43
Ending balance	(Note 13.1)	3,959,627.91	1,023,963.43

14 *Other liabilities*

14.1 This is on account of

		30/06/2022	30/06/2021
Matching fund	(Note 14.2)	12,640,433.95	9,762,697.07
		12,640,433.95	9,762,697.07

14.2 The balance reported as matching fund represents contract lease advances of 15% and/or 20% paid by the lessee on the cost of the capital goods to be transferred up on signing of the lease agreement. The balance will be absorbed on the remaining outstanding balance of lease payments by the lessee at the end of the lease agreements. (Note 14.1)

15 *Deferred tax liability*

		30/06/2022	30/06/2021
Tax base of the assets at June		(7,011,094.08)	(5,747,681.07)
Book value of the asset at June	(Note 5)	8,322,817.81	4,448,182.01
Temporary difference		1,311,723.73	(1,299,499.06)
Deferred tax liability at 30%	(Note 13.3)	393,517.12	-

Currency: Birr

16 Share capital

16.1 This is

	30/06/2022	30/06/2021
Paid-up capital (200,000 ordinary shares)		
(Notes 16.2 & 16.3)	200,000,000.00	200,000,000.00
	200,000,000.00	200,000,000.00

16.2 The movement in ordinary shares is as follows:

	No. of shares	Share Amount
At 1st July, 2020	200,000	200,000,000
Add: issued during the year	-	-
As at 30th June, 2021	200,000	200,000,000
At 1st July, 2021	200,000	200,000,000
Add: issued and paid during the year	-	-
As at 30th June, 2022 (Note 16.1)	200,000	200,000,000

16.2 OROMIA Capital Goods Finance Business S.C. was established with an authorized and paid-up capital of Br. 200,000,000.00 dividend in to 200,000 shares each having par value of Br. 1,000.00. The detail of the capital contribution made by the respective shareholder of the company is as follows:

Name of the shareholder	No. of shares	Par value	Total
OROMIA Credit and Saving Institution S.C.	100,000	1,000	100,000,000
OROMIA National Regional Government	90,000	1,000	90,000,000
ASELLA Town Administration	3,000	1,000	3,000,000
ADAMA Town Administration	3,000	1,000	3,000,000
DUKEM Town Administration	2,000	1,000	2,000,000
SULULTA Town Administration	1,999	1,000	1,999,000
Omer Husien	1	1,000	1,000
(Note 16.1 & 16.2)	200,000		200,000,000

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0116-181863
0116-184156
-11007
Ermias Negussie Abebe Certified Audit Firm

Currency: Birr

17 Legal reserve

17.1 The make-up of the account is as follows:

		30/06/2022	30/06/2021
Opening balance		538,792.27	590,615.00
Less: adjustment in respect of prior year		-	(590,615.00)
		538,792.27	-
Add: provision on net profit for the year ended 30th June	(Notes 19 & 27)	547,760.74	538,792.27
Ending balance		1,086,553.01	538,792.27

17.2 As per the Commercial Code of Ethiopia 2021, companies are required to transfer at least 5% of the net profit for the year to legal reserve account until it reaches 20% of the paid-up capital.

18 General reserve

18.1 The make-up of the account is as follows:

		30/06/2022	30/06/2021
Opening balance		2,559,263.47	9,285,340.00
Less: adjustment in respect of prior year		-	(9,285,340.00)
		2,559,263.47	-
Add: provision on net profit for the year ended 30th June	(Notes 19 & 28)	2,601,863.53	2,559,263.47
Ending balance		5,161,127.00	2,559,263.47

18.2 As per the Article of Association of the company Article 7(3), the company is required to transfer 25% of its annual net profit after legal reserve to a general reserve account until the balance is equal to the paid-up capital of the company.

Currency: Birr

19 *Retained earnings*

The make-up of the account is as follows:

		30/06/2022	30/06/2021
Opening balance		(12,949,975.32)	11,636,677.00
Add: current year's net profit /(loss) and other			
comprehensive income		10,955,214.84	6,534,147.16
		(1,994,760.48)	18,170,824.16
interest income		(688,948.62)	-
depreciation expense		(2,118.38)	-
		(2,685,827.48)	18,170,824.16
Less: transfer to:			
legal reserve	(Note 28)	(547,760.74)	(538,792.27)
general reserve	(Note 19.1)	(2,601,863.53)	(2,559,263.47)
write off turnkey project	(Note 20.3)	-	(27,865,935.29)
prior period adjustment	(Note 20.2)	653,569.08	(156,808.45)
		(2,496,055.19)	(31,120,799.48)
		(5,181,882.67)	(12,949,975.32)

20 *Income*

20.1 This is from:

	30/06/2022	30/06/2021
Lease	18,276,433.18	10,475,701.55
	18,276,433.18	10,475,701.55

20.2 The company entered into a lease contract with the respective customers for rental of capital goods with interest at the rate of 12% per annum.

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0116-181863 0116-184156 ✉-11007
Ermias Negussie Abebe Certified Audit Firm

Currency: Birr

21 Other income

These are from:

	30/06/2022	30/06/2021
Lease receivable write-off	6,430,317.03	5,157,701.03
Penalty	2,196,769.88	1,224,713.32
Revenue on donated equity	160,583.75	160,583.75
Sales of capital goods	123,277.92	956,000.00
Sundry	1,462,129.23	146,773.20
	10,373,077.87	7,645,771.30

22 Interest income – Br. 4,660,908.62 (Br. 8,814,249.14 – 2021)

This is from:

		30/06/2022	30/06/2021
Saving accounts	(Note 13.2)	4,660,908.62	8,814,249.14
		4,660,908.62	8,814,249.14

Currency: Birr

23 Other operating charges

23.1 These are

		30/06/2022	30/06/2021
Transport		333,711.21	174,662.39
Bank service charges		16,031.34	11,346.35
Insurance		89,837.96	30,548.92
Repairs & maintenances		653,190.98	343,209.11
Professional fees		178,631.08	131,166.00
License & registration fees		14,354.50	29,099.50
Meal & entertainment	(Note 13.2)	158,859.88	44,861.13
Wages		44,043.00	-
Uniforms & outfits		22,232.00	4,200.00
Training		364,569.31	168,950.52
Utilities		4,791.27	2,679.51
Advertising & promotion		310,231.10	36,336.50
Stationary & printings		371,796.83	220,185.22
Rent		726,422.09	537,816.26
Peridium & traveling		1,391,524.68	639,965.46
Fuel & lubricants		390,701.85	213,102.34
Loss due to re-process & machine default	(Note 13.2)	96,261.77	473,126.80
Communications		186,340.75	120,167.16
Bad debt	(Note 13.2)	12,053.07	-
Donation	(Note 23.2)	234,884.91	1,060,000.00
Cleaning & sanitation		79,130.69	51,438.55
Penalty	(Note 13.2)	5,000.00	-
Miscellaneous		35,048.61	6,168.36
		5,719,648.88	4,298,430.08

23.2 Donation amounting to Br. 234,884.91 represents payments for the call made by the government for Ethiopian National Defense Force during the year. (Note 23.1)

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0116-181863
0116-184156
✉-11007
Ermias Negussie Abebe Certified Audit Firm

Currency: Birr

24 Depreciation charges

These are

		30/06/2022	30/06/2021
Depreciation	(Note 5)	1,908,432.32	7,300,273.38
		1,908,432.32	7,300,273.38

25 Personnel costs

These are

		30/06/2022	30/06/2021
Salaries		7,271,640.67	6,035,054.62
Wages		-	23,058.04
Pension		789,356.10	651,903.09
Cash indemnity		17,300.00	6,100.00
Bonus		1,220,112.18	-
Transport allowance		374,970.00	233,767.49
Provident fund		143,800.95	84,788.13
Reward & motivation		35,940.00	46,600.00
House allowance		142,500.00	105,167.74
Position allowance		108,000.00	66,516.13
Mobile allowance		68,250.00	38,237.10
Board allowance		57,100.00	33,321.49
Employee insurance		66,140.21	83,042.59
Accrued annual leave	(Note 13.2)	556,236.11	179,508.69
Accrued severance pay	(Note 13.2)	260,774.27	396,850.74
		11,112,120.49	7,983,915.85

26 Impairment on lease receivables

This is

		30/06/2022	30/06/2021
Impairment charges for the year	(Note 13.2)	355,514.59	-
		355,514.59	-

Currency: Birr

27 *Provision for legal reserve*

This is arrived at as follows:

Net profit for the year		10,955,214.84
Current year's provision		
(Br. 10,955,214.84 x 5%)	(Note 17 & 19)	547,760.74

28 *Provision for general reserve*

This is arrived at as follows

Net profit for the year		10,955,214.84
Less: provision for legal reserve	(Note 17 & 27)	(547,760.74)
		10,407,454.10
Current year's provision		
(Br. 10,407,454.10 x 25%)	(Notes 18 & 19)	2,601,863.53

29 *Related Party Transaction*

Related parties or transactions with related parties as defined by IAS "Related Party Disclosures" could be one or more of the following:

a) Parties that directly or indirectly through one or more intermediaries: control or are controlled by or are under common control with the company this includes parents subsidiaries and fellow subsidiaries; have an interest in the company that gives then significant influence over the company; and that have joint control over the company;

b) Members of key management personnel of the company or its parent;

c) Close members of the family of any individuals referred to in a or b;

d) Parties that are entities controlled jointly controlled or significantly influenced by or for which significant voting power in such entity resides with directly or indirectly any individual referred to in c or b;

30 Entities that have significant influence over the company

30.1 These are

	30/06/2022	30/06/2021
OROMIA National Regional State Government	90,000,000.00	90,000,000
OROMIA Credit and Saving Institution S.C.	100,000,000.00	100,000,000
	190,000,000.00	190,000,000

30.1 Due to the proportion of the capital contribution made by OROMIA National Regional State government and OROMIA Credit and Savings Institution S.C., the two shareholders have a significant influence over the company as listed below:

	har nership proportion	
	30/06/2022	30/06/2021
OROMIA Credit & Savings Institution S.C.	50%	50%
OROMIA National Regional State Government of	45%	45%