OROMA CAPITAL GOODS FINANCE BUSINESS SHARE COMPANY

# INDEPENDENT AUDITORS' REPORTS AND FINANCIAL STATEMENTS

## AS AT AND FOR THE YEAR ENDED 30 JUNE 2023

*Tolessa Beyene Certified Audit Firm*

**Finfinee, Ethiopia**

*Tel +251 937 604053*

*Ledeta Sub city around South Africa Embassy, Sarbet Building 5th Floor, office No 302B*

**OROMIA CAPITAL GOODS FINANCE BUSINESS SHARE COMPANY**
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**FOR THE YEAR ENDED JUNE 2023**

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OROMIA CAPITAL GOODS FINANCE BUSINESS SHARE COMPANY
DIRECTORS, BANKERS, PROFESSIONAL ADVISERS AND REGISTERED OFFICE
FOR THE YEAR ENDED JUNE 2023

*Board Directors (as at June 30, 2023)*

| | |
|---|---|
| Ato Nemera Buli | Chairman |
| Ato Ahmed Endris | D/Chairman |
| Dr Mesfin Assefa | Director |
| Ato Ermias Deneke | Director |
| Dr. Lejalem Ayele | Director |
| Ato Zewude Tefera | Director |
| Engineer Gurmessa Olijira | Director |
| Ato Efrem Hailemariam | Director |

***Executive Management (as at June 30 2022)***

| | |
|---|---|
| Ato Yonas Geleta | Chief Executive Officer |
| Ato Chombe Mahmud | D/Chief Executive Officer |
| Ato Birhanu Shumi | A/Manager, Administration and Finance Department |
| Ato Mengistu Gobesho | Director-Internal Audit Directorate |
| Ato Jifar Mirkena | Director-Procrument & Property Administration Directorate |

***Independent Auditor***

Tolessa Beyene
P.O.Box
Mob +251937604053

Finfinee
Ethiopia

***Principal Banker***

Cooperative Bank Of Oromia, Kersa Branch
Commercial Bank Of Ethiopia , Adndenet branch
Addis Ababa
Ethiopia

***Business Office***
Finfinne, Kirkos Subcity,Woreda 08
Regsitration No. OR/25/05/000000024/06
TIN :0041679642
Ethiopia

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Certified Audit Firm

Oromia Capital Goods Finance Business Share Company

OROMIA CAPITAL GOODS FINANCE BUSINESS SHARE COMPANY
STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR THE YEAR ENDED 30 JUNE 2023

The management of the company is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards (IFRS) and other applicable laws and regulation.

In preparing the financial statements of the Company, the managements are required to:

a Select suitable accounting policies and then apply them consistently;

b Make judgments and accounting estimates that are reasonable and prudent;

c State whether the applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

d Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;

e Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

f Provide additional disclosures when compliance with the specific requirements in IFRS sufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

g Make an assessment of the Company's ability to continue as a going concern.

h The Managements are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statement comply with the commercial code of Ethiopia. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Responsibility statement**

We confirm that to the best of our knowledge:

i The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position, profit and loss and cash flows of the Company;

ii Nothing has come to our attention to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Signed on behalf of the Company by:

Yonas Geleta
Chief Executive Officer

Birhanu shumi
Finance & Administrative Manager

*Tolessa Beyene Certified Audit Firm*

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**INDEPENDENT AUDITOR'S REPORT**

**To: THE SHARE HOLDERS OF OROMIA CAPITAL GOODS FINANCE BUSINESS SHARE COMAPNY**

**Report on the Audit of the Financial Statements**

## Qualified Opinion

We have audited the accompanying financial statements of **OROMIA CAPITAL GOODS FINANCE BUSINESS SHARE COMPANY** set out on pages 4 to 32, which comprise the Statement of Financial Position as at 30 June 2023, and the Statement of Profit and Loss and Other Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters stated on the basis for qualified opinion section, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## Basis for qualified opinion

1. Interest income accruals were not made for those lease accounts whose repayment date are due after the reporting period that is 30 June 2023.

2. We have noted opening balance difference net of Birr 1, 994,963.98 for which valid sour documents were not sufficiently established for our verification.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance 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, and 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 the financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from a material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reportin[g] process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statement as a wh[ole] is free from material misstatement, whether due to fraud or error, and to issue an auditor's rep[ort] that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guara[ntee] that an audit conducted in accordance with ISAs will always detect a material misstatement w[hen] it exists. Misstatements can arise from fraud or error and are considered material if, individua[lly]

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or in 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 scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the 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.

- Conclude on the appropriateness of the 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of th Company to express an opinion on the financial statements. We remain solely responsible fo our audit opinion

We communicate with management regarding, among other matters, the planned scope and timi of the audit and significant audit findings, including any significant deficiencies in internal cont that we identify during our audit.

**Independent Auditor's Report (Continued)**

The engagement partner on the audit resulting in this independent auditor's report is Tolessa Beyene Hupa (M.Sc., FCCA).

**Report on other legal and regulatory requirement**

We have no comment to make on the report of the directors so far as it related to these financial statements and pursuant to the commercial code of Ethiopia, and recommended approval of the above mentioned financial statements

Tolessa Beyene
Certified Audit Firm
Finfinee, Ethiopia

12th October 2023

**OROMIA CAPITAL GOODS FINANCE BUSINESS SHARE COMPAMY**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 30 JUNE 2023**

| | | | |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 10,458,592 | 8,322,818 |
| Lease receivable | 6.1(a) | 294,225,331 | 208,770,203 |
| Government Bond | 6.1(b) | 100,000 | 100,000 |
| Investment in share | 6.1(c) | 5,000,000 | - |
| Deferred tax asset | 10.2 (a) | 793,610 | 508,899 |
| **Total non current assets** | | 310,577,533 | 217,701,920 |
| **Current assets** | | | |
| Lease receivable-current | 6.1(a) | 113,217,841 | - |
| Asset held for sales | 7 | 1,088,591 | - |
| Trade and other receivables | 6 | 25,881,767 | 11,951,470 |
| Short term investments | | 200,000,000 | - |
| Cash and cash equivalents | 6.1(d) | 124,443,724 | 30,060,287 |
| **Total current assets** | | **464,631,923** | **42,011,757** |
| **Total assets** | | **775,209,456** | **259,713,677** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Paid up Capital | 11,a | 500,000,000 | 200,000,000 |
| Retained earnings | 11,c | 5,750,340 | (5,181,883) |
| General Reserve | 13 | 8,140,213 | 5,161,127 |
| Legal Reserve | 12 | 1,713,729 | 1,086,553 |
| **Total equity** | | **515,604,283** | **201,065,797** |
| **Liabilities** | | | |
| DBE loan'-long term | 8 | 174,113,193 | - |
| Severance pay payable | 9,b | 2,095,045 | 938,030 |
| Deferred tax liability | 10.2 (a) | 594,636 | 393,517 |
| **Total non current liabilities** | | **176,802,874** | **1,331,547** |
| **Current liabilities** | | | |
| Trade payables and Other payables | 6.2(a) | 42,995,888 | 50,212,730 |
| DBE loan-Current | 8 | 33,333,332 | - |
| Employee benefit obligation | 9,a | 1,588,362 | 2,411,867 |
| Other current taxes | 6.2(b) | 589,242 | 732,108 |
| Current profit tax payable | 10.2('c) | 4,295,476 | 3,959,628 |
| **Total current liabilities** | | 82,802,300 | 57,316,333 |
| **Total liabilities** | | 259,605,174 | 58,647,880 |
| **Total equity and liabilities** | | **775,209,456** | **259,713,677** |

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 4 to 6 were approved and authorized for issue by the management on --29/10/------, 2023 and were signed on its behalf by:

Board Chairman

Chief Executive Offic

**OROMIA CAPITAL GOODS FINANCE BUSINESS SHARE COMPANY**
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 30 JUNE 2023**

| [illegible] | [illegible] | [illegible] | [illegible] |
|---|---|---|---|
| **Revenue** | | | |
| Interest income on lease finance | 14 | 38,621,826 | 18,276,433 |
| Other income | 15 | 5,745,754 | 10,373,078 |
| | | **44,367,580** | **28,649,511** |
| **Expense** | | | |
| Personnel expense | 16 | 10,998,228 | 11,156,163 |
| Impairment loss on financial asset | 6.1(a) | 605,938 | 355,515 |
| Other Operating and administrative expense | 17 | 11,622,855 | 7,584,038 |
| **Total Expense** | | 23,227,020 | 19,095,716 |
| **Operating profit** | | **21,140,560** | **9,553,795** |
| Finance income | 18 | 8,516,127 | 4,660,909 |
| Finance cost | 18 | (12,901,281) | - |
| **Finance income cost net** | | -4,385,154 | **4,660,909** |
| **Profit/(loss) before tax** | | **16,755,406** | **14,214,703** |
| Income tax expense | 12,c | (4,211,884) | (3,259,488) |
| Profit/(loss) for the year | | **12,543,521** | **10,955,215** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Items that are or may be reclassified subsequently to profit or loss | | - | - |
| Remeasurement gain/(loss) on retirement benefits obligations | | - | - |
| Deferred tax (liability)/asset on remeasurement gain or loss | | - | - |
| Available-for-sale financial assets - net change in fair value | | - | - |
| Other comprehensive income, net of tax | | - | - |
| Total comprehensive income/(loss) | | **12,543,521** | **10,955,215** |
| **Basic earnings per share** | **11,b** | 25 | 55 |

The accompanying notes are an integral part of these financial statements.

Oromia Capital Goods Finance Business Share Company

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**OROMIA CAPITAL GOODS FINANCE BUSINESS SHARE COMPANY**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 30 JUNE 2023**

| | | | |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 16,755,406 | 14,214,703 |
| Add: Depreciation | | 1,392,115 | 1,908,432 |
| Add: interest expense | 18 | 12,901,281 | - |
| Add: impairment loss on financial asset | 6.1(a) | 605,938 | 355,515 |
| Add: Prior years adjustment | | 1,994,964 | (37,498) |
| | | 33,649,703 | 16,441,152 |
| **Changes in operating assets and liabilities:** | | | |
| (Increase) Decrease in non current asset held for sale | | (1,088,591) | 525,109 |
| (Increase) Decrease in lease receivables | | (199,278,906) | (115,818,281) |
| (Increase) Decrease in trade and other receivables | | (13,930,297) | (6,301,882) |
| Increase (Decrease) in trade and other payables | | (7,216,842) | 7,971,333 |
| Increase (Decrease) in employee obligation | | 333,509 | 230,380 |
| Profit tax paid | | (3,959,628) | - |
| Increase (Decrease) in other taxes | | (142,866) | 418,984 |
| **Net cash from (used in) operating activities** | | **(191,633,918)** | **(96,533,205)** |
| **Cash flows from investing activities** | | | |
| Addition of fixed assets | | (8,527,889) | (6,517,020) |
| Disposal of property, plant and equipment | | - | 733,952 |
| Additional short term investment | | (200,000,000) | - |
| **Net cash from (used in) investing activities** | | **(208,527,889)** | **(5,783,069)** |
| **Cash flows from financing activities** | | | |
| additional capital | | 300,000,000 | - |
| Interest paid | | (5,454,756) | - |
| Loan from DBE | | 200,000,000 | - |
| Net cash from (used in) financing activities | | **494,545,244** | - |
| **Net increase (decrease) in cash and cash equivalents** | | **94,383,437** | **(102,316,27** |
| Cash and cash equivalents at beginning of year | | 30,060,287 | 132,376,5 |
| Cash and cash equivalents at end of year | | **124,443,724** | **30,060,2** |

| | | |
|---|---|---|
| Components of Cash and Cash Equivalent at end of the year | | |
| Cash at Bank | 124,443,605 | 30,068, |
| Cash on hand | 120 | (8, |
| Total Net Cash and cash Equivalent at end of the year | **124,443,724** | **30,060,** |

The accompanying notes are an integral part of these financial statements.

**OROMIA CAPITAL GOODS FINANCE BUSINESS SHARE COMPANY**
**STATEMENT OF CHANGES IN OWNER'S EQUITY**
**FOR THE YEAR ENDED 30 JUNE 2023**

| | Paid up capital | Retained Earning | General Reserve | Legal Reserve | Total |
|---|---|---|---|---|---|
| Balance as at 1 July 2022 | 200,000,000 | (5,181,883) | 5,161,127 | 1,086,553 | 201,065,797 |
| Profit (loss) for the year | - | 12,543,521 | - | - | 12,543,521 |
| Transfer to legal reserve | - | (627,176) | - | 627,176 | - |
| Prior year adjustment | - | 1,994,964 | - | - | - |
| Transfer to general reserve | - | (2,979,086) | 2,979,086 | - | - |
| Current capital addition | 300,000,000 | - | - | - | 300,000,000 |
| **Balance as at 30 June 2023** | **500,000,000** | **5,750,340** | **8,140,213** | **1,713,729** | **513,609,319** |

The accompanying notes are an integral part of these financial statements.

## 1. General information

Oromia Capital goods Finance Business S.C was established in Ethiopia on 15th April 2014 under license No. OR/25/05/000000024/06 in accordance with the Commercial Code of Ethiopia and 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 capital of Birr 200,000,000 which is increased and stood up Birr 500,000,000 as of 30 June 2023.

The company was established with the following business objectives:

To provide capital goods finance service for micro,samll ,growing medium and medium enterprise 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 expand their existing business.
To mobilize effectively and efficiently the capital necessary for the provision of capital goods lease services and other investment activities.
To perform any other income generating activities for the capital goods lease services
To perform the objectives that may be given by the regulations and directives of the NBE.

## 2. Summary of significant accounting policies

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

### 2.1 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations as issued by International Accounting Standard Board (IASB).

The financial statements have been prepared under the historical cost convention except for certai properties and financial instruments that are measured at revalued amounts or fair values as explaine under significant accounting policies section below.

### 2.2 Functional and presentation currency

2.2.1 These financial statements are presented in Ethiopian Birr (ETB), which is the Company's functior currency. All financial information presented in Ethiopian Birr has been rounded to the nearest birr in t Company's financial statements and in the notes to the financial statements except where indicat otherwise.

2.2.2 Foreign currency transactions are translated into the functional currency using exchange ra prevailing at the dates of the transactions or valuation where items are re-measured. Foreign excha gains and losses resulting from the settlement of such transactions and from the translation at year- exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of comprehensive income unless it qualify for capitalization to fixed assets (in cases where associated fixed asset is not yet ready for intended use or under procurement process) or effect hedged.

## 2.3 Going Concern

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

## 2.4 Current versus non-current classification

The company presents assets and liabilities in the statement of financial position based on current/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 realised 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

All other assets are classified as non-current.
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

All other liabilities are classified as non-current.

## 2.5 Accounting estimates

The preparation of financial statements in conformity with International Financial Reporting Standar requires the use of certain critical accounting estimates. It also requires the management to exercise the judgment in the process of applying the Company's accounting policies. The areas involving higher degr of judgment or complexity or where assumptions and estimates are significant to the financial statement are disclosed in note 3 below.

## 2.6 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the compa and the revenue can be reliably measured regardless of when payment is being made. Revenue measured at the fair value of the consideration received or receivables, taking in to account the defi terms of payment excluding taxes or duty. The company earn lease income from lease finance for Sr and Medium Scale Enterprises(SMEs).

### 2.6.1 Lease income

As a lessor, the Company classifies its leases as finance lease and lease income recognised based o contractual interest rate and term of credit.

The value of lease receivables includes present value of fixed lease payment and un guaranteed res values and initial indirect cost discounted using contractual interest rate.

Oromia Capital Goods Finance Business Share Company

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**2.6.2 Interest income**

Interest income from short term investment is calculated using effective interest rate taking in to account all the fees to the original contract.

**2.6.3. Dividend income**

This is recognised when the Company right to the payment is established ,which is generally when the shareholders approve and declare dividend .

Government grants(if any) are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments. Where the Company receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the income statement over the expected useful life of the relevant asset by equal annual installments.

## 2.7 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred. Wh inventories are sold, the carrying amount of those inventories shall be recognised as an expense in period in which the related revenue is recognised.

## 2. 8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying a (such as Construction of building) are recognized as costs of the asset. These are assets that neces take a substantial period of time to get ready for their intended use, so these are added to the c qualifying assets, until such time as the assets are substantially ready for their intended use. Bor costs consist of interest and other costs that the Company incurs in connection with the borrov funds. Where appropriate borrowing costs include exchange rate dif-fer-ences arising from foreign cu bor-row-ings to the extent that they are regarded as an adjustment to interest costs.
Investment income earned on the temporary investment of specific borrowings pending the disburse the proceeds towards expenditure on qualifying assets is deducted from the borrowing costs eli capitalization. All other borrowing costs are recognized in profit or loss in the period in which incurred.

Borrowing costs incurred on or after the date of transition (1 July 2017) for all eligible qualifying capitalised. The Company has not restated the borrowing costs capitalised under previous accou reporting practices on qualifying assets to the date of transition to IFRS. The Company did no qualifying assets under construction as at the date of transition to IFRS.

## 2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise direct materials and where applicable direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Costs of issues are calculated using the weighted moving average method. Net realizable value represents the estimated selling price less all estimated costs of disposal.

Redundant and slow-moving inventories are identified on a regular basis and written down to their realizable values. Consumables are written down with regard to their age, condition and utility.

## 2.10 Property, plant and equipment

Properties held for use in the supply of services, or for administrative purposes and properties in the course of construction are carried at cost, less accumulated depreciation, less any recognized impairment loss. Cost includes professional fees and for qualifying assets borrowing costs capitalized in accordance with the Company's accounting policy. When major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated over their respective useful lives.

Maintenance and repair costs are recognized as follows: Maintenance expenses incurred during the useful life of property, plant and Equipment (regular maintenance activities to maintain the asset in a good condition) are recorded as operating expenses. The cost of periodic major overhaul programs are capitalized as a separate component and depreciated over its expected useful life. That is, Major overhaul expenditure, including replacement spares and labour costs, is capitalized and amortized over the average expected life between major overhauls.

Depreciation on property is charged so as to write off the cost of the assets, other than properties under construction, over their estimated useful lives, using the straight line method. Depreciation on assets under construction commences when the assets are ready for their intended use. The percentage for calculation of Depreciation is as follows:

| **Property, Plant and Equipment Class** | **Useful life** | **Residual value(% cost)** |
|---|---|---|
| Building | 30 yrs | 10% |
| Motor Vehicles | 10 yrs | 10% |
| Computers and Accessories | 5 yrs | 1% |
| Furniture and fixture | 7 yrs | 1% |
| Equipment | 7yrs | 1% |
| Computers software | 6yrs | 1% |
| Machinery | 7 yrs. | 1% |

The estimated useful life, depreciation method and residual value are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. No depreciation is provided for projects in progress. When the Company receives credits from manufacturers in connection with the acquisition of certain Equipment, the credits are offset against the cost of related fixed asset. The spares acquired on the introduction or expansion of service, as well as rotable spares purchased separately are carried as property, plant and equipment if meet recognition criteria and generally depreciate in line with the fixed asset to which they relate.

Property, plant and equipment items whose individual unit costs are less than birr 2,000.00 are charged to operating expenses. Gains or losses arising on disposal or retirement of an asset are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognized through profit or loss.

### 2.11 Non current assets held for sale

Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use. This condition is regarded as met only when the sale is highly probable (to be enacted within 12 months) and non-current asset (disposal group) is available for immediate sales in its present condition. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Accordingly, the company finance goods which are repossessed are classified as non current asset held for sale . These assets are presented separately from other asset in the statement of financial position and also they are not depreciated while they are classified as held for sale.

### 2.12 Employee benefits

The Company operates various post-employment schemes, including defined benefit and defined contribution pension plans and post employment benefits.

**Defined contribution plan**

The Company operates two defined contribution plans;

I) pension scheme in line with the provisions of Ethiopian pension of private organisation employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Company respectively;

ii) provident fund contribution, funding under this scheme is 3% only by the Company ;

Both schemes are based on the employees' salary. Employer's contributions to this scheme are charged to profit or loss and other comprehensive income in the period in which they relate.

**Defined benefit plan**

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate 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

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and Past-service costs are recognised immediately in income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

**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 benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary

**Bonus plans**

The Company recognises a liability and an expense for bonuses based on management decision. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2.13 Current and deferred income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement Comprehensive Income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The Company utilizes the asset and liability method of accounting for taxes under which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the enactment date. Deferred tax assets are recognized to the extent that realization is considered

## 2.14 Impairment of non-financial assets

The Company reviews at each statement of financial position date whether there is any indication of impairment (obsolescence, physical deterioration, significant changes in the method of utilization, performances falling short of forecasts, decline in revenues, other external indicators) or reversal of impairment loss. Non-financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the non-financial asset, the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. The value in use is determined by the estimated present value of future cash flows generated by the asset.

When there is a reversal of impairment loss, the carrying amount of the asset is increased to the lower of the recoverable amount and the carrying amount (net of depreciation or amortization) that the asset would have had if previous impairment loss had not been recognized. The reversal of impairment loss is recognized in net income. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.15 Financial Instruments

Financial assets and financial liabilities are initially measured at fair value at the date they are originated and recognized when the Company becomes a party to the contractual provisions of the instruments. Subsequent to initial recognition, financial instruments are measured based on their classification: Amortized costs, fair value through profit and loss, and fair value through other comprehensive income financial instruments. The Company derecognizes a financial instrument when the contractual rights or obligation to the cash flows from the asset or liability expires.

### I) Financial assets

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the assets have been impacted.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment individually. Objective evidence of impairment for receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the past, the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized in the profit and loss. Changes in the carrying amount of the allowance account are recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists. For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

**a) Amortized costs**

Financial assets maintained at amortized costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Company's loans and receivables arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash receipts (including all fees, transaction costs and premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

**b) Financial assets at Fair value through other comprehensive income**

Financial assets that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at Fair value through other comprehensive income.

**c) Financial assets at fair value through profit and loss**

Financial assets at fair value through profit or loss include financial assets held-for trading. These mainly include the derivative financial assets and commodity derivatives. A financial asset is classified as held-for-trading if it has been acquired principally for the purposes of selling in the near future, is a derivative that is not designated and effective as a hedging instrument and it is part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking. After initial recognition, these financial assets are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest on the financial asset.

**d) Impairment of financial assets**

Financial assets, other than those at fair value through profit and loss (FVTPL), are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the assets have been affected.

amount and the present value of the estimated future cash flows. When a subsequent event such as a change in the estimates used to determine the recoverable amount, causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income. However, any subsequent reversal of an impairment loss on an available-for-sale financial asset is recognized in other comprehensive income (loss).

e) **Derecognition of financial assets**

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay and also recognizes a collateralized borrowing for the proceeds received.

f) **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

**II) Financial liabilities**

Financial liabilities primarily include trade and other payables, bank overdrafts, interest-bearing borrowings from financial institutions denominated in local and foreign currency, and other liabilities such as finance lease obligations. Other financial liabilities are subsequently measured at amortized cost, with the exception of finance lease obligations, which are measured per provision in accounting policy on leases. Financial liabilities at fair value through profit and loss are classified as held-for-trading.

A financial liability is classified as held-for-trading if it is a derivative not designated and effective as a hedging instrument. Financial liabilities held-for-trading are subsequently stated at fair value, with any gains and losses recognized in profit or loss. Debt instruments are classified as financial liabilities in accordance with the substance of the contractual arrangement. Financial liabilities are classified in the category of trade payables and other financial liabilities. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

However, with regard to the measurement of financial liabilities designated as at fair value through profit or loss, The policy of Company requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

**a) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognized at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

**b) Derecognition of financial liabilities**

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**III. Equity and Reserve**

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

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are not recognised until they have been declared by board of directors representing the owners.

### 2.16 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:

**a) Prepayment**

Prepayments are payments made in advance for services to be consumed in future. The amount is initially capitalised in the reporting period in which the payment is made and subsequently amortized over the period in which the service is to be consumed

**b) Other receivables**

Other receivables are recognised upon the occurrence of event or transaction as they arise and cancelled when payment is received. The company's other receivables are advance payments for purchase of goods and services and other receivables from debtors.

### 2.17 Provisions

Provisions, including provisions for legal litigations, restructuring and environmental issues, are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.
When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognized when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures, mainly severance costs, arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Company.

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The provision includes estimated costs to meet government laws and regulations when such costs can be reasonably estimated. Estimates of the anticipated future costs for remediation work are based on the Company's prior experience.

**2.18 Non-Monetary Transactions**

Non-monetary transactions are recorded at the estimated fair value of the goods or services received. When the fair value of the goods and services received cannot be measured reliably, the transactions are recorded at the estimated fair value of the goods or services given. Revenues from non-monetary transactions are recognized when the related services are rendered. Expenses resulting from non-monetary transactions are recognized during the year when goods or services are provided by third parties.

## 3. Critical accounting estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. Accordingly, in the process of applying the Company's accounting policies, the management has made estimates and assumptions that affect the reported amounts of assets and liabilities within current and future financial periods. These estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The critical areas of accounting estimates and judgments in relation to the preparation of these financial statements are as

**3.1** A decline in the value of fixed assets could have a significant effect on the amounts recognized in the financial statements. The management asses the impairment of fixed assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could make an impairment review necessary included the following:

- Significant decline in the market value beyond the level which would be expected from the passage of time and normal use.
- Significant changes in technology and regulatory environments.
- Evidence from internal reporting which indicates that the performance of the asset is, or will be, worse than expected.

**3.2** Useful lives and residual values of Property, Plant and Equipment: Critical estimates are made by management in determining the useful lives, usage pattern and residual values of property, plant and equipment based on the intended use and economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

**3.3** Management uses judgment and estimates in determining the appropriate amounts in recordin deferred income taxes, giving consideration to timing and probability of realization. Actual taxes coul significantly vary from these estimates as a result of a variety of factors including future events, changes i income tax law or the outcome of reviews by tax authorities and related appeals. The Company has n recognized any deferred tax assets on its deductible temporary differences and unused tax losses as it ha determined that it is not probable that taxable profit will be available against which the deductib temporary differences and unused tax losses can be utilized. The resolution of these uncertainties and t associated final taxes may result in adjustments to the Company's deferred and current tax situations.

**3.4** Post-employment and other employee benefits except for the defined contribution component of the pension plans, require certain level of estimation with respect of employee turnover rates, discount rate, salary increment rate. Due to the long-term nature of these benefits, such estimates are subject to significant uncertainty. Actual results may differ from results that are estimated based on assumptions.

**3.5** The Company uses judgment in assessing, at each reporting date, whether there is any indication that non-financial assets may have lost value requiring the undertaking of an impairment test. These tests are designed, in part, to determine a recoverable amount, which is the fair value, based on current replacement cost, less costs of disposal. The current replacement cost and the costs of disposal calculations are based on management's best estimates. Difference in estimates could materially affect the financial statements in determining both the impairment existence and the amount of impairment.

**3.6** Determining whether a liability should be recognized as a provision requires management to exercise judgment. The Company must determine if a present obligation arises from past events, if it is probable that the Company will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation. The decision is based on management's experience and judgment. If the Company considers that one of the three conditions is not satisfied, it must still determine if a contingent liability should be disclosed in the notes, unless the possibility of any outflow in settlements is remote.

## 4. Financial risk management

The risk 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 p[profitably and each employee within the leasing company is accountable for the risk exposures relating to his/her responsibility. The leasing company is expected to liquidity risk, credit risk interest rate or market risk.

### 4.1 Risk management structure

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

#### 4.1.1 Credit risk

The Company has been exposed to credit risk which is the risk that the lessees fail to pay its contractual obligation. Exposure to the credit risk arises as a result of the company's leasing activities and then the lessee fail to discharge the credit to the lessor. Hence , in order to manage credit risk, the Company has tried to do preliminary assessment /measurement of the capacity of the lessees before extending the loans to the lessees. After the lessees submit the application to the company ,the appraisal team analyses and After approval of the credit , the management monitors regularly and review the non performing leases to manage the risk. Further , as per the risk assessment report of made by the management , the risk level in this regard is moderate (medium) which in fact needs more monitoring and placement of adequate internal controls and risk management procedures.

#### 4.1.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with it financial liabilities when they fall due and to replace funds when they are withdrawn. The Compan proactively manages cash surpluses using a combination of short and long term investment program tha ensure adequate liquidity to meet its short and long term obligations. The Company seeks to maintai sufficient cash balances to cover its short term debt obligations which involve arranging overdraft facilitie with banks when needed.

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**4.1.3 Market risk**

The Company is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises – interest rate risk and foreign currency risk.

**a) Interest rate 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.

The Company is exposed to changes in interest rates as it has outstanding borrowing.

**b) Foreign currency exchange rate risk**

Currently, the Company has no exposed to foreign currency exchange risk because it has no transactions denominated in foreign currency.

**4.1.4 strategic risk**

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

The Company has set a clear strategy and polices to facilitate the ongoing operation and to confirm the existence of the Company to the future period. To strengthen the formulated strategy, the company should be supported by Computerized Information system

**4.1.4 Operational risk**

Operational risk is the risk of loss or costs resulting form employee errors, inadequate internal control process and system and adverse market conditions. Operational risk is measured inconsideration of weakness in the internal control system, manpower/employees and inadequacies of procedural manual. Thus, the leasing sector is a new business phenomena in Ethiopia and thus the company is challenged by the inadequate leasing expertise and insufficient software.

**4.1.5 Capital risk management**

The Company monitors the return on equity which is defined as the profit for the year expressed as a percentage of average equity. The Company seeks to provide a higher return to the equity by improving on efficiencies to provide high quality services to meet its growth plans. The Company also monitors capital on the basis of a gearing ratio which is calculated as the ratio of non-current borrowings net of bank and cash balances to equity.

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**5 Property, plant and equipment**

| | | | | |
|---|---|---|---|---|
| COST | | | | |
| Motor vehicles | 10,698,255 | - | - | 10,698,255 |
| Computer & accessories | 1,299,673 | 2,002,200 | - | 3,301,873 |
| Office Furniture & Equipment | 788,426 | 1,525,689 | - | 2,314,115 |
| | 12,786,353.72 | 3,527,889.00 | | 16,314,242.72 |
| **DEPRECIATION** | | | | |
| Motor vehicles | 3,202,630 | 1,016,334 | - | 4,218,964 |
| Computer & accessories | 750,387 | 235,425 | - | 985,812 |
| Office Furniture & Equipment | 510,519 | 140,355 | - | 650,874 |
| | 4,463,536 | 1,392,115 | - | 5,855,651 |
| **Net book value** | **8,322,818** | **2,135,774** | - | **10,458,592** |

**6 Financial assets and liabilities**

**6.1 Financial assets**

**6.1(a) Lease receivables**

| | | |
|---|---|---|
| Lease receivables | 410,647,105 | 213,424,847 |
| Less :Impairment loss( see below) | (3,203,933) | (4,654,644) |
| Carrying value | **407,443,172** | **208,770,203** |
| **Less :Current portion** | **113,217,841** | - |
| **Non-Current** | **294,225,331** | **208,770,203** |

**Impairment loss movement**

| | | |
|---|---|---|
| Opening balance | 4,654,644 | 4,299,129 |
| Current year addition /reversal) (Seen note (i)below) | (1,450,710) | 355,515 |
| Closing balance | 3,203,934 | 4,654,644 |

i) Reversal of Birr 1,450,710 .26 is based on the National Bank of Ethiopia NPL annual report. During the year the company has wriiten off balance of Lease receivbale amount of Birr 605 ,937.81 maintained in the name of FHB following court decision.

**6.1(b) Government Bond**

The company has invested in government bond of five years maturity at 7.5% interest rate. The bond is measured at amortized cost using effective interest rate of 7.5%.

**6.1(c) Investment in share**

The Company has invested Birr 5 Million in share of ET Inclusive Finance Technology Share Company, a company which is agreed to equip Oromia Capital Goods Finance Business Share Company with MIS(Shared Core banking software). The investment is valued at fair value through Profit or loss account.

**6.1(d) Trade and other receivables**

| | | |
|---|---|---|
| Staff loan and advances | 2,830,765.62 | 7,304,131.25 |
| Advances | 18,167,203.85 | - |
| Sundry debtors | - | 5,997.47 |
| Receivable from Oromia Reginal State government | 1,425,974.59 | 1,425,974.59 |
| Interest Receivable | 138,097.95 | - |
| Deposits and prepayments | [illegible]724.68 | 3,215,366.70 |
| | **26,881,766.69** | **11,951,470.01** |

All trade and other receivables are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

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**6.1(d) Cash and cash equivalent**

| | | |
|---|---|---|
| Cash at bank | 124,443,604.63 | 30,068,306.91 |
| Cash in hand | 119.82 | (8,019.57) |
| | **124,443,724.45** | **30,060,287.34** |

Cash and cash equivalents represent cash at Banks in current account and on hand.

**6.2 Financial liabilities**

**6.2(a) Trade and other payable**

| | | |
|---|---|---|
| Trade Creditors | 225,000.00 | 11,927,207.33 |
| Retention | 4,116,764.42 | 2,882,728.91 |
| Accrued payable | 48,152.80 | 48,152.80 |
| Oromia SME | 22,084,868.75 | 22,084,868.75 |
| Matching fund(see note ( I)below) | 15,809,100.31 | 12,640,433.95 |
| Sundry creditors | 418,065.48 | 174,818.37 |
| Unearned income | 293,936.00 | 454,519.75 |
| | **42,995,887.76** | **50,212,729.86** |

I) The matching fund represents contract lease advance of 15% and or 20% paid by the lessee on the cost of 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 agreement.

**6.2(b) Other current tax liabilities**

| | | |
|---|---|---|
| Employee Income Tax | 112,257.40 | 494,716.32 |
| Withholding Tax | 476,984.19 | 237,391.35 |
| | 589,241.59 | 732,107.67 |

**7 Non Current Asset held for sales**

| | | |
|---|---|---|
| Opening balance | | |
| Addition during the years | 1,088,591 | - |
| Sales during the year | - | - |
| | **1,088,591** | - |

## 8 Loan and Borrowing

The Company has obtained loan of Birr 200,000,000 from Development Bank of Ethiopia under Small and Medium Enterprise Credit Facility Scheme at annual interest rate of 9% per annum at bi annual repayment of Birr 16.7million with one year grace period. The loan is to be fully settled within seven years.

| | Birr | 2022 Birr |
|---|---|---|
| **Non-Current** | | |
| Opening balance | - | - |
| Addition during the year | 200,000,000 | - |
| Interest accrued | 7,446,525 | - |
| Repayment during the year | - | - |
| Current maturity | (33,333,332) | - |
| **Total loans & Borrowings** | 174,113,193 | - |
| **Current** | | |
| Current | 33,333,332 | - |
| **Total loans & Borrowings** | **207,446,525** | - |

## 9 Employee benefit obligation

The Company provides defined contributions components. This amount is managed by other independent body so there is no further payment to this fund. The Company's employees are also eligible for severance and compensation pays.

The termination benefits related to retirement are determined by management of the Company case by case while the termination benefits before normal retirement date are based on years of service and salary of the employee's immediately before termination/resignation per provisions of Ethiopian labor law. The contributions required to settle these benefit packages are entirely paid/provided for by the Company when the related services are received.

## 9,a Short term employee benefit obligation

| | Birr | 2022 Birr |
|---|---|---|
| Accrued annual leave | 550,322 | 758,299 |
| Bonus | - | 842,679 |
| Provident fund | 936,531 | 719,421 |
| Pension contribution | 64,209 | 69,968 |
| Cash indemnity | 37,300 | 21,500 |
| **Employee benefit obligation -Current** | **1,588,362** | **2,411,867** |

**9,b Defined benefit liability-Severance pay**

| | | |
|---|---|---|
| Opening balance | 938,030 | 685,939.94 |
| Current service cost | 1,210,596 | 260,774.27 |
| Paid during the year | (53,581) | (8,684.02) |
| Closing balance | **2,095,045** | **938,030.19** |

**9,c Severance pay**

The Company operates an unfunded severance pay plan for its employees who have served the Company for 5 years and above and are not yet reached the retirement age. The final pay-out is determined by reference to current benefit's level (monthly salary) and number of years in service and is calculated as 1 month salary for the first year in employment plus 1/3 of monthly salary for each subsequent years in employment to a maximum of 12 months final monthly salary. For those employees who leave the company through retirement, the company pays two months salary.

## 10 Taxation

**10.1 Provision for Tax**

| | | |
|---|---|---|
| Profit (Loss) before tax | 16,755,406 | 14,214,703 |
| Add: | | |
| Depreciation for accounting purpose | 1,392,115 | 1,908,432 |
| Entertainment | 87,607 | 158,860 |
| Penalty | - | 5,000 |
| bad debt | 606,928 | 12,053 |
| Annual leave expense | 289,646 | 556,236 |
| Severance expense | 1,210,596 | 260,774 |
| Impairment loss on lease receivable | - | 355,515 |
| Loss due to reprocess and default | 119,423 | 96,262 |
| Less: Interest Income taxed at source | (8,516,127) | (4,660,909) |
| Less: income due to reprocess | (1,501,153) | - |
| Less: severance paid | (53,581) | - |
| Less: Depreciation for tax purpose | 3,927,394 | (3,121,378) |
| Taxable profit | **14,318,254** | **9,785,548** |
| **Provision for tax** | **4,295,476** | **2,935,664** |

### 10.2 Deferred tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

### 10.2 (a Deferred and Current Income Tax

**Deferred tax assets and liabilities**

Deferred Tax as at 30 June 2023 is shown on the table below:

| Items | IFRS Carrying | GAAP" Book Value | Deductible/(Taxable) Temporary | Deferred Tax Asset/(liability) |
|---|---|---|---|---|
| Property, Plant and Equipme | 10,458,592 | 8,476,472 | (1,982,120) | (594,636) |
| Annual Leave Liability | 550,322 | - | 550,322 | 165,096 |
| Severance Pay Liability | 2,095,045 | - | 2,095,045 | 628,513 |
| **Deferred Tax Liability** | | 8,476,472 | 663,246 | 198,974 |

**Deferred income tax charge/(credit) in profit or loss (P/L) for the year ended 30 June 2023:**

| Figures in Birr | 30 June 2023 | Credit/ (Charge) to profit or loss | 30 June 2022 |
|---|---|---|---|
| **The balance comprises temporary differences attributable to:** | | | |
| Property, Plant and Equipment | (594,636) | (201,119) | (393,517) |
| Annual Leave Liability | 165,096 | (62,393) | 227,490 |
| Severance Pay Liability | 628,513 | 347,104 | 281,409 |
| **Total deferred tax assets/(liabilities)** | 198,974 | 83,592 | 115,382 |

Deferred Tax as at 30 June 2022 is shown on the table below:

| Items | IFRS Carrying Amount | GAAP" Book Value (Tax Base) | Deductible/(Taxable) Temporary Difference | Deferred Tax Asset/(liability) |
|---|---|---|---|---|
| Property, Plant and Equipme | 8,322,818 | 7,011,094 | (1,311,724) | (393,517) |
| Annual Leave Liability | 758,299 | - | 758,299 | 227,490 |
| Severance Pay Liability | 938,030 | - | 938,030 | 281,409 |
| **Deferred Tax Liability** | | | **384,606** | **115,382** |

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**Deferred income tax charge/(credit) in profit or loss (P/L) for the year ended 30 June 2022:**

| | | | |
|---|---|---|---|
| **The balance comprises temporary differences attributable to:** | | | |
| Property, Plant and Equipment | (393,517) | (393,517) | - |
| Annual Leave Liability | 227,490 | (5,994) | 233,484 |
| Severance Pay Liability | 281,409 | 75,687 | 205,782 |
| **Total deferred tax assets/(liabilities)** | **115,382** | **323,824** | **439,266** |

## 10.2(b) Income tax expense

| | | |
|---|---|---|
| **Current Income tax:** | | |
| Income tax Provision for the current year (note 9(a)) | 4,295,476 | 2,935,664 |
| (Decrease)/increase in deferred tax liabilities (note 10.1 ) | (83,592) | 323,824 |
| **Income tax expense charged to the statement of profi** | **4,211,884** | **3,259,488** |

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## 11 Paid up-capital and earning per share

### 11,a Paid up-capital

| | 2023 Birr | No of Shares |
|---|---|---|
| Oromia Credit and Saving Instituti | 100,000,000 | 100,000 |
| Oromia National Regional Governm | 360,000,000 | 360,000 |
| Asella Town Administration | 12,000,000 | 12,000 |
| Adama Town Administration | 12,000,000 | 12,000 |
| Dukem Town Administration | 8,000,000 | 8,000 |
| Sululta Town Administration | 7,999,000 | 7,999 |
| Umer Hussien | 1,000 | 1 |
| | **500,000,000** | **500,000** |

### 11,b Earnings per Share

Basic Earnings per share (EPS) is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

| | Birr | 2022 Birr |
|---|---|---|
| Profit attributed to shareholders | 12,543,521 | 10,955,215 |
| Weighted average number of ordinary shares in issue | 500,000 | 200,000 |
| Basic & diluted earnings per share (Birr) | **25** | **55** |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date. Hence, the basic and diluted earning per share have the same value.

### 11,c Retained Earnings

| | Birr | 2022 Birr |
|---|---|---|
| Balance as at 1 July 2022 | (5,181,883) | (12,949,975) |
| Profit (loss) for the year | 12,543,521 | 10,955,215 |
| Transfer to legal reserve | (627,176) | (547,761) |
| Interest income | - | (688,949) |
| Depreciation expense | - | (2,118) |
| Prior period adjustment | 1,994,964 | 653,569 |
| Transfer to general reserve | (2,979,086) | (2,601,864) |

| | | |
|---|---|---|
| Balance as at 30 June 2023 | | |
| | 5,750,340 | (5,181,883) |

## 12 Legal Reserve

As per the Commercial code of Ethiopia ,companies are required

| | Birr | 2022 Birr |
|---|---|---|
| Opening balance | 1,086,553 | 538,792 |
| Current year addition | 627,176 | 547,761 |
| Closing balance | **1,713,729** | **1,086,553** |

## 13 General reserve

As per the Article 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.

| | Birr | 2022 Birr |
|---|---|---|
| Opening balance | 5,161,127 | 2,559,263 |
| Current year addition | 2,979,086 | 2,601,864 |
| Closing balance | **8,140,213** | **5,161,127** |

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## 14 Income

| | | |
|---|---|---|
| Interest income from lease finance | 38,621,826 | 18,276,433 |
| | 38,621,826 | 18,276,433 |

14,a Income represents interest income earned from a contract entered with customers for capital goods lease at annual interest rate of 15%.

## 15 Other income

| | | |
|---|---|---|
| Lease receivable written off | 2,503,889 | 6,430,317 |
| Other income due to reprocess | 1,501,153 | - |
| Penalty | 1,183,640 | 2,196,770 |
| Sale of capital goods | - | 123,278 |
| Donated equity | 160,584 | 160,584 |
| Others | 396,489 | 1,462,129 |
| | **5,745,754** | **10,373,078** |

## 16 Personnel expense

| | | |
|---|---|---|
| Salaries, wages & related | 7,345,087 | 7,315,684 |
| Pension expense | 779,853 | 789,356 |
| Provident fund | 130,715 | 143,801 |
| Bonus expense | - | 1,220,112 |
| Allowances | 976,122 | 750,820 |
| Employee insurance | 164,894 | 66,140 |
| Annual leave | 289,646 | 556,236 |
| Severance pay | 1,210,596 | 260,774 |
| Cash indemnity | 15,700 | 17,300 |
| Reward and motivation | 85,614 | 35,940 |
| | **10,998,228** | **11,156,163** |

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## 17 Other operating and general expenses

| | | |
|---|---:|---:|
| Transport expense | 752,883 | 333,711 |
| Board allowances | 190,800 | - |
| Depreciation | 1,392,115 | 1,908,432 |
| Insurance | 224,841 | 89,838 |
| Repair and maintenance | 859,917 | 653,191 |
| Professional fee | 466,102 | 178,631 |
| License and Registration | 200,895 | 14,355 |
| Entertainment | 87,607 | 158,860 |
| Uniform | 5,500 | 22,232 |
| labor cost | 164,560 | - |
| Training | 468,880 | 364,569 |
| Utilities | 2,182 | 4,791 |
| Bank Service Charge | 13,260 | 16,031 |
| Advertisement and Promotion | 85,085 | 310,231 |
| Stationery, printing and supplies | 728,493 | 371,797 |
| Network configuration | 341,880 | - |
| Rent | 1,151,641 | 726,422 |
| Per dime and travelling | 1,602,554 | 1,391,525 |
| Fuel and lubricants | 853,524 | 390,702 |
| Loss due to re-process & machine default | 119,423 | 96,262 |
| Communication | 195,710 | 186,341 |
| Bad debt | 990 | 12,053 |
| Donation | 1,615,298 | 234,885 |
| Cleaning and sanitation | 79,759 | 79,131 |
| Penalty | - | 5,000 |
| Miscellaneous | 18,958 | 35,049 |
| | **11,622,855** | **7,584,038** |

## 18 Finance income and cost

| | | |
|---|---:|---:|
| Interest income from time deposit | 8,516,127 | 4,660,909 |
| Interest on DBE loan | (12,901,281) | - |
| | (4,385,154) | 4,660,909 |

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## 19 Provision

Currently the Company does not have claims and legal proceedings brought against it in the normal course of business. However, there is possibility that it may receive claims relating to its past activities. The timing of claims and corresponding settlement of these claims is to a large extent dependent on the occurrence of future events and pace of negotiation with the various counterparties and legal authorities. The Company cannot reliably estimate the timing of settlement of these claims. However, the ultimate resolution of those matters is not expected to have a significant adverse effect on the financial position of the Company.

## 20 Related party transactions

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both.

### 20.1 Entities that have significant influence over the company

The following are entities with significant influence over the company:

| | [illegible] | [illegible] |
|---|---|---|
| Oromia Credit and Saving Institution S.C | 20% | 50% |
| Oromia National Regional State government | 72% | 45% |

### 20.2 Key management compensation and other transactions

Key management has been determined to be the higher officials of the company. The compensation paid or payable to key management shown below. There were no sales of goods and services between the company and key management personnel as at 30 June 2022 and 2023 as shown below. Key management includes Board of Directors & key management members.

#### a) Key management compensation

| | [illegible] | [illegible] |
|---|---|---|
| Salaries for key management | | |
| Bonus and incentives key management | | |
| Board of Directors remuneration | | |
| | - | - |

**b) Outstanding receivable balance from key management**

| | | |
|---|---|---|
| Outstanding receivable | - | - |
| | - | - |

## 21 Events after reporting period

In the opinion of the Management, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Company at 30 June 2023 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

## 22 Date of Authorization

The Management of the Company authorized the issue of these financial statements on 24/10/2023

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