

Esperanza Company for ready clothes (S.A.E)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 December 2016

TOGETHER WITH THE AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF Esperanza Company for ready clothes (S.A.E)

Report on the Financial Statements

We have audited the accompanying financial statements of **Esperanza Company for ready clothes (S.A.E)**, represented in the balance sheet as of 31 December 2016, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

These financial statements are the responsibility of the Company's Management, as Management is responsible for the preparation and fair presentation of the financial statements in accordance with Egyptian Accounting Standards and applicable Egyptian laws. Management responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Egyptian Standards on Auditing and applicable Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above, give a true and fair view, in all material respects, of the financial position of **Esperanza Company for ready clothes (S.A.E)**, as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Egyptian Accounting Standards and the related applicable Egyptian laws and regulations.

Report on Other Legal and Regulatory Requirements

The Company maintains proper accounting records that comply with the laws and the Company's articles of association and the financial statements agree with the Company's records. The Company's Management in accordance with the proper norms undertook the physical inventory count.

The financial information included in the Board of Directors' Report, prepared in accordance with Law No. 159 of 1981 and its executive regulation, is in agreement with the books of the Company insofar as such information is recorded therein.

Cairo: 5 April 2017

Auditor

Reda Said
FESAA – FEST
(RAA. 19755)

Esperanza Company for ready clothes (S.A.E)

Balance Sheet

For the Year Ended 31 December 2016

	Note	2016	2015
		LE	LE
Non current assets			
Fixed assets- Net	(3)	36,278,976	37,417,333
Projects under construction		2,366,141	319,157
Total non current assets		<u>38,645,117</u>	<u>37,736,490</u>
Current assets			
Inventory- Net		16,490,769	26,288,383
Accounts receivable		127,388,045	118,344,393
Prepayments and other receivable	(4)	39,240,216	24,411,481
Insurance for others-Electricity Company		3,000	3,000
Insurance for others- GAS Company		1,569,665	1,569,665
Cash on hand and at banks	(5)	10,735,431	304,289
Total current assets		<u>195,427,126</u>	<u>170,921,211</u>
Current liabilities			
Accounts and notes payable	(6)	690,757	181,045
Accrued expenses and other payables	(7)	143,108,345	137,811,092
Bank Facilities	(8)	2,274,851	1,277,795
Total current liabilities		<u>146,073,954</u>	<u>139,269,932</u>
Working capital		<u>49,353,173</u>	<u>31,651,279</u>
Total investment		<u>87,998,289</u>	<u>69,387,768</u>
Financed as follows:			
Equity			
Issued and paid up capital	(9)	37,072,900	37,072,900
Shareholders payments under the capital increase		2,745,641	2,745,641
Retained (Loss) earnings		29,569,226	13,404,495
Profits for the year		18,610,521	16,164,731
Total equity		<u>87,998,289</u>	<u>69,387,768</u>
Total finance of working capital and non current assets		<u>87,998,289</u>	<u>69,387,768</u>

Chairman

Mohaned Istanbouli

- The accompanying notes from (1) to (12) are an integral part of these financial statements.
- Auditor's report attached.

Esperanza Company for ready clothes (S.A.E)**STATEMENT OF INCOME**

For the Year Ended 31 December 2016

	Note	2016 LE	2015 LE
Revenues			
Sales Export		253,688,918	196,672,536
Cost of sales	(10)	(231,560,193)	(175,785,953)
GROSS PROFIT		22,128,726	20,886,584
Marketing and sales expenses		(3,295,660)	(2,252,500)
Financing expenses		(474,489)	(383,619)
General and administrative expenses	(11)	(3,478,911)	(3,064,519)
Depreciation of fixed assets G&A		(358,041)	(305,682)
OPERATING PROFIT		14,521,625	14,880,263
Add (Deduct)			
Other Revenues			
Exports Subsidies – Revenue		4,422,801	1,395,843
Exports Subsidies – Expenses		(333,905)	(111,375)
Net other Profit		4,088,896	1,284,468
NET PROFITS BEFORE INCOME TAXES		18,610,521	16,164,731
Earnings Per Share	(12)	37.22	32,33

Chairman**Mohaned Istanbuli**

- The accompanying notes from (1) to (12) are an integral part of these financial statements.
- Auditor's report attached.

Esperanza Company for ready clothes (S.A.E)

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2016

	2016	2015
	LE	LE
CASH FLOWS FROM OPERATING ACTIVITIES		
Profits for the year	18,610,521	16,164,731
Modifications to matching Net Profit with cash flows from Operating Activities		
Depreciation of fixed assets	<u>2,993,308</u>	<u>2,468,085</u>
Net Operating profits before changes in working capital	21,603,829	18,632,816
Changing in Working capital		
Change in inventory	9,797,613	67,248,868
Change in accounts receivable	(9,043,652)	(116,881,517)
Change in prepayments and other receivables	(14,828,735)	(7,927,218)
Change in Insurance for others	-	(1,569,665)
Change in accounts and notes payables	509,712	(1,962,302)
Change in prepaid customers	-	(2,073,139)
Change in accrued expenses and other payables	5,297,253	41,454,028
Change in bank facilities	<u>997,056</u>	<u>11,700</u>
NET CASH FLOWS (Used in) PROVIDED FROM OPERATING ACTIVITIES	14,333,077	(3,066,429)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in projects under construction	(2,046,984)	5,185,525
Payments to acquire fixed assets	(1,854,950)	(13,796,133)
Increase of working capital	-	30,960,400
Shareholders payments under the capital increase	-	(23,220,300)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES	<u>(3,901,935)</u>	<u>(870,508)</u>
Net Increase in cash and cash equivalent during the year	10,431,142	(3,936,937)
Cash and cash equivalent - beginning of the year	<u>304,289</u>	<u>4,241,226</u>
CASH AND CASH EQUIVALENT – END OF THE YEAR	<u><u>10,735,431</u></u>	<u><u>304,289</u></u>

Esperanza Company for ready clothes (S.A.E)

STATEMENT OF CHANGES IN EQUITY

As Of 31 December 2016

	Issued and paid up capital	Shareholders payments under the capital increase	Legal Reserve	Retained (Loss) earnings	Profits for the year	Total
	LE	LE	LE	LE	LE	LE
Balance as of 1 January 2016	37,072,900	2,745,641	-	(1,416,141)	14,820,636	53,223,036
Retained earnings	-	-	-	-	-	-
Shareholders payments under the capital increase	-	-	-	-	-	-
Net Profit year ended 31/12/2015	-	-	-	-	16,164,732	16,164,732
Balance as of 31 December 2016	37,072,900	2,745,641	-	(1,416,141)	30,985,368	69,387,768
Retained (Loss) earnings	-	-	-	-	-	-
Profits for the year 31 December 2016	-	-	-	-	18,610,521	18,610,521
Balance as of 31 December 2016	37,072,900	2,745,641	-	(1,416,141)	49,595,889	87,998,290

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2016

1 BACKGROUND

Esperanza Company for ready clothes (S.A.E) was established under Law 8 of 1997.

Esperanza was registered in the commercial registry under no 5778 on 11/10/2004.

The registered office located at B3, 13007, first Industrial Zone, Obour City.

The main objective of the Company is processing of fabric, dyeing and manufacturing all the ready clothes. (Woman, Men, Kids).

2 SIGNIFICANT ACCOUNTING POLICIES

2 – 1 Basis of preparation

The financial statements have been prepared under the going concern assumption on a historical cost basis.

Statement of compliance

The financial statements of the company have been prepared in accordance with the Egyptian accounting standards and the applicable laws and regulations.

2 – 2 Changes in accounting policies

The accounting policies adopted this year are consistent with those of the previous year.

2 – 3 Foreign currency translation

The financial statements are prepared and presented in Egyptian pound, which is the company's functional currency.

Transactions in foreign currencies are initially recorded using the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated using the exchange rate prevailing at the balance sheet date. All differences are recognized in the statement of income.

Nonmonetary items that are measured at historical cost in foreign currency are translated using the exchange rates prevailing at the dates of the initial recognition.

Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value is determined.

2 – 4 Fixed assets and depreciation

Fixed assets are stated at historical cost net of accumulated depreciation and accumulated impairment losses. such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation of an asset begins when it is in the location and condition necessary for it to be capable of operating in the manner intended by management , and is computed using the straight-line method according to the estimated useful life of the asset.

2 – 5 Projects under construction

Projects under construction represent the amounts that are incurred for the purpose of constructing or purchasing fixed assets until it is ready to be used in the operation, upon which it is transferred to fixed assets. Projects under construction are valued at cost less impairment.

2 – 6 Provisions

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2016

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at the financial position date and adjusted to reflect the current best estimate.

2 –7 Revenue recognition

It is recognized as revenue from export sales when the risks and benefits transferred under the terms of freight and when the invoice was issued.

2 –8 Expenses

All expenses including operating expenses, general and administrative expenses and other expenses are recognized and charged to the statement of income in the financial year in which these expenses were incurred.

2 – 9 Cash and cash equivalent

For preparing the cash flow statement, the cash and cash equivalent comprise cash on hand, current accounts with banks and time deposits maturing within three months less bank credit balance.

2 – 10 Accounts receivable and other receivables

Accounts receivable and other receivables are stated at original invoice amount net of any impairment.

2 – 11 Impairment of assets

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

2 – 12 Related party transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the boards of directors

3-FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) The Company's financial instruments are represented in financial assets and financial liabilities. The financial assets include cash on hand and at banks, accounts receivable. The financial liabilities include provisions, accounts and notes payable, miscellaneous creditors and other payables.

b) Interest rate risk

The Company monitors the maturity structure of assets and liabilities with the related interest rates.

c) Foreign Currency Risk

The foreign currency risk is the risk that the value of the financial assets and liabilities and the related cash inflows and outflows in foreign currencies will fluctuate due to changes in foreign currency exchange rate.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2016

4- **TAX SITUATION:**

4-1 **Income Tax:**

The Company exempt from commercial and industrial tax profit until 2018.
The Company submits its tax return on a regular basis.

4-2 **Sales Tax:**

The Company registered for Sales tax authority.
The Company submit its sales tax return on a regular basis.
The tax inspection took place until the year 2015.

4-3 **Payroll tax:**

The tax inspection took place until the year 2013 and all due taxes paid.

4-4 **Stamp duty tax:**

The tax inspection took place until the year 2015 and all due taxes paid.

Esperanza for ready clothes (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2016

3 Fixed Assets

Fixed Assets	Land	Buildings and constructions	Air conditioner	Stitching machines	Machinery for textile ring	Grille	Other Machinery	Telephones Furniture Computers	Industrial tools	Elevator & Generates	Motor Vehicles	Total
	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE
Cost												
As of 1 January 2016	2,084,870	21,150,252	298,061	582,315	7,782,981	7,600,703	393,583	1,316,519	541,778	499,386	288,110	42,538,557
Additions	-	-	-	-	-	1,748,551	-	106,399	-	-	-	1,854,950
As of 31 December 2016	2,084,870	21,150,252	298,061	582,315	7,782,981	9,349,254	393,583	1,422,918	541,778	499,386	288,110	44,393,508
Accumulated depreciation												
As of 1 January 2016	-	1,821,952	181,424	162,569	1,489,789	572,131	63,456	313,639	169,707	197,371	149,186	5,121,224
Depreciation for the year	-	658,423	36,312	54,325	778,298	760,070	39,358	259,971	115,328	99,877	57,622	2,859,612
Depreciation – Additions	-	-	-	-	-	119,800	-	13,896	-	-	-	133,696
Depreciation 2016	-	658,423	36,312	54,325	778,298	879,870	39,358	273,867	115,328	99,877	57,622	2,993,308
Accumulated depreciation 31 /12/ 2016	-	2,480,375	217,736	216,921	2,268,087	1,452,001	102,814	578,506	285,035	297,248	206,808	8,114,532
Net book value as of 31 12/2016	2,084,870	18,669,878	80,325	365,394	5,514,894	7,897,253	290,769	835,412	256,743	202,138	81,302	36,278,976
Net book value as of 31 /12/2015	2,084,870	19,328,301	116,637	419,746	6,293,192	7,028,572	330,127	1,002,879	372,071	302,051	138,924	37,417,333
Depreciation percentage	-	3%	20%	10%	10%	10%	10%	20%:25%	25%:50%	20%	20%	
				Operating Depreciation	2,635,267							
				General and administration Depreciation	358,041							

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 31 December 2016

4 PREPAYMENTS AND OTHER RECEIVABLES

	2016 EGP	2015 EGP
Tax authority - Sales Tax	20,510,819	22,192,448
Taxes from source	460,247	37,481
Advance Payment	21,294	-
Advance Payment - Suppliers	18,247,857	2,181,552
Total	<u>39,240,216</u>	<u>24,411,481</u>

5 CASH ON HAND AND AT BANKS

	2016 EGP	2015 EGP
Blom Bank – Egypt	21,769	145,396
Alex Bank	160,175	20,500
QNB Bank	954,944	3,701
Suez canal Bank	1,443,891	12,745
Cash on hand - Egyptian pound	115,650	66,890
Misr Bank	1,877,938	6,785
CIB Bank – Egypt	22,136	33,626
Export Development Bank of Egypt	6,138,928	14,646
Total	<u>10,735,431</u>	<u>304,289</u>

6 Accounts and notes payable

	2016 EGP	2015 EGP
Notes Payable	157,963	-
Local suppliers	532,794	181,045
Total	<u>690,757</u>	<u>181,045</u>

7 Accrued expenses and other payables

	2016 EGP	2014 EGP
Shareholders payments	142,633,308	137,569,287
Tax Authority - Withholding tax	60,436	60,436
Accrued expenses	414,601	181,368
Total	<u>143,108,345</u>	<u>137,811,092</u>

Esperanza for ready clothes (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2016

8 Bank Facilities

	2016 EGP	2015 EGP
QNB Bank	-	802,195
Blom Bank " Letter of guaranty"	2,274,851	475,600
Total	2,274,851	1,277,795

9 Issued and paid up capital

Member name	Number of shares	Ratio	U.S.D	Egyptian pound
MOHANAD ZAHED ISTANBOLI	251,300	50.26%	2,513,000	18,632,840
KHIR ALLAH GHEATH RAJJOUB	43,650	8.73%	436,500	3,236,464
Bassam Karom	51,850	10.37%	518,500	3,844,460
IBRAHIM ATA SAMAKIE	51,850	10.37%	518,500	3,844,460
WAEEL FARHAN RAJJOUB	24,750	4.95%	247,500	1,835,109
MOHAMAD WAJIH FARHAN RAJJOUB	24,750	4.95%	247,500	1,835,109
Mahmoued Kharsh	51,850	10.37%	518,500	3,844,460
Total	500,000	100%	5,000,000	37,072,900

10 Cost of Sales

	2016 EGP	2015 EGP
Purchases - Import	111,750,444	50,497,216
Purchases - Local	37,604,458	-
Cost of Purchases	45,366,589	39,192,400
Operating Expenses	27,051,758	20,620,917
Retrieve Customs Fees	(2,645,938)	(3,935,851)
Operating Depreciation	2,635,268	2,162,402
Cost of production	221,762,579	108,537,084
Add		
Inventory - Beginning	26,288,383	93,537,251
Deduct		
End of Inventory		
Raw Material	(16,177,314)	(25,714,269)
Chemicals	(313,455)	(574,114)
Total	231,560,193	175,785,953

Esperanza for ready clothes (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2016

* Operating Expenses

	2016 EGP	2015 EGP
Export cost	14,457,208	8,598,221
Fuel and oil	623,000	2,384,670
Salary and wages	5,295,930	5,063,874
Electricity, water & natural gas	2,862,983	675,758
Tools & Spare parts	1,724,277	2,438,197
Air compressors and Maintenance	456,300	149,788
Car Expenses	93,251	55,199
Transportation of goods	1,102,620	1,206,756
Production Expenses	73,216	47,249
Telephone and mail	19,501	1,205
Stationary & Computers	69,817	-
Medical expenses	77,668	-
Miscellaneous	145,437	-
Cleaning and Security	50,551	-
Total	<u>27,051,758</u>	<u>20,620,917</u>

11 General and Administrative Expenses

	2016 EGP	2015 EGP
Salary and wages	2,546,720	2,491,333
Social Insurance	181,730	100,623
Stationary	73,290	77,510
Fees and subscriptions	205,591	55,000
Electricity and water	54,644	98,668
Professional fees	11,878	57,500
Entertainment	108,603	80,058
General maintenance	34,206	14,250
Telephone and mail	32,133	58,323
Software	10,000	-
Transport expenses	36,435	6,605
Car Expenses	9,586	6,569
Medical Insurance	15,368	3,560
Tips	42,050	14,520
Miscellaneous	116,677	-
Total	<u>3,478,911</u>	<u>3,064,519</u>

12 Earnings (Loss) per Share

	2016 EGP	2015 EGP
Year net profit E.G.P	18,610,521	16,164,731
Weighted average number of shares	500,000	500,000
Earnings (Loss) per Share	<u>37.22</u>	<u>32.33</u>