

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 December 2014

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 2014, 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 2014, 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: 31 March 2015

Auditor

Hamdy Abdel Fattah
FESAA – FEST
(RAA. 5211)

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

Balance Sheet

For the Year Ended 31 December 2014

	Note	2014	2013
		LE	LE
Non current assets			
Fixed assets	(3)	26,089,284	14,799,561
Projects under construction		5,504,681	10,652,829
Total non current assets		<u>31,593,965</u>	<u>25,452,390</u>
Current assets			
Inventory		93,537,251	2,333,422
Accounts receivable		1,462,876	-
Prepayments and other receivable	(4)	16,484,263	2,985,676
Insurance for others-Electricity Company		3,000	3,000
Cash on hand and at banks	(5)	4,241,226	405,568
Total current assets		<u>115,728,616</u>	<u>5,727,666</u>
Current liabilities			
Accounts and notes payable	(6)	2,143,347	395,756
Advances to customers		2,073,139	-
Accrued expenses and other payables	(7)	96,357,064	122,000
Bank Facilities	(8)	1,266,095	-
Total current liabilities		<u>101,839,645</u>	<u>517,756</u>
Working capital		<u>13,888,971</u>	<u>5,209,910</u>
Total investment		<u>45,482,936</u>	<u>30,662,300</u>
Financed as follows:			
Equity			
Issued and paid up capital	(9)	6,112,500	6,112,500
Legal reserve		-	-
Shareholders payments under the capital increase		25,965,941	25,965,941
Retained (Loss) earnings		(1,416,141)	(996,621)
Profits (Loss) for the year		14,820,636	(419,520)
Total equity		<u>45,482,936</u>	<u>30,662,300</u>
Total finance of working capital and non current assets		<u>45,482,936</u>	<u>30,662,300</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 2014

	Note	2014 LE	2013 LE
Revenues			
Sales Export		117,220,088	199,305
Cost of sales	(10)	(100,043,474)	(194,250)
GROSS PROFIT		17,176,614	5,055
Marketing and sales expenses		(1,500,000)	-
Financing expenses		(148,517)	-
General and administrative expenses	(11)	(533,517)	(171,771)
Depreciation of fixed assets G&A		(167,244)	(252,804)
OPERATING PROFIT		14,827,336	419,520
Foreign exchange (loss)		(6,700)	-
PROFITS (Loss) BEFORE INCOME TAXES		14,820,636	(419,520)
Earnings (Loss) per Share	(12)	148.21	(4.2)

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 2014

	2014 LE	2013 LE
CASH FLOWS FROM OPERATING ACTIVITIES		
Profits for the year	14,820,636	(419,520)
Depreciation of fixed assets	1,638,229	252,804
Operating profits before changes in working capital	16,458,865	(166,717)
Change in inventory	(91,203,829)	(2,333,422)
Change in accounts receivable	(1,462,876)	-
Change in prepayments and other receivables	(13,498,587)	(43,124)
Change in accounts and notes payables	1,747,591	395,756
Change in prepaid customers	2,073,139	-
Change in accrued expenses and other payables	96,235,064	(7,018,993)
Change in bank facilities	1,266,095	-
NET CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES	11,615,462	(8,999,783)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in projects under construction	5,148,148	(9,622,091)
Payments to acquire fixed assets	(12,927,952)	(6,820,126)
Shareholders payments under the capital increase	-	25,965,941
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES	(7,779,804)	9,523,724
Net Increase in cash and cash equivalent during the year	(3,835,658)	357,225
Cash and cash equivalent - beginning of the year	405,568	48,344
CASH AND CASH EQUIVALENT – END OF THE YEAR	4,241,226	405,568

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

STATEMENT OF CHANGES IN EQUITY

As Of 31 December 2014

	Issued and paid up capital LE	Shareholders payments under the capital increase LE	Legal Reserve LE	Retained (Loss) earnings LE	Profits for the year LE	Total LE
Balance as of 1 January 2013	6,112,500	-	-	(721,138)	(275,483)	5,115,879
Profits for the year	-	-	-	(275,483)	275,483	-
Shareholders payments under the capital increase	-	25,965,941	-	-	-	25,965,941
Net Profit year ended 31/12/2013	-	-	-	-	(419,520)	(419,520)
Balance as of 31 December 2013	<u>6,112,500</u>	<u>25,965,941</u>	<u>-</u>	<u>(996,621)</u>	<u>(419,520)</u>	<u>30,662,300</u>
Retained (Loss) earnings	-	-	-	(419,520)	419,520	-
Profits for the year 31 December 2014	-	-	-	-	14,820,636	14,820,636
Balance as of 31 December 2014	<u>6,112,500</u>	<u>25,965,941</u>	<u>-</u>	<u>(1,416,141)</u>	<u>14,820,636</u>	<u>45,482,936</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2014

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2014

2-5 Provisions

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.

2-6 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

2-7 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.

2-8 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.

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.

Esperanza for ready clothes (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2014

3 Fixed Assets

Fixed Assets	Land	Buildings and constructions	Air conditioner	Stitching machines	Machinery for textile ring	Other Machinery	Telephones Furniture Computers	Industrial tools	Elevator & Generators	Motor Vehicles	Total
	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE
Cost											
As of 1 January 2014	1,749,961	6,980,589	144,061	299,041	4,949,148	1,080,007	70,614	50,465	356,386	134,200	15,814,472
Additions	-	7,452,054	154,000	45,774	2,833,833	1,201,528	642,456	301,397	143,000	153,910	12,927,952
As of 31 December 2014	<u>1,749,961</u>	<u>14,432,643</u>	<u>298,061</u>	<u>344,815</u>	<u>7,782,981</u>	<u>2,281,535</u>	<u>713,070</u>	<u>351,862</u>	<u>499,386</u>	<u>288,110</u>	<u>28,742,424</u>
Accumulated depreciation											
As of 1 January 2014	-	778,711	116,500	84,500	-	-	18,200	-	-	17,000	1,014,911
Depreciation for the year	-	196,945	23,100	4,242	216,576	46,218	60,416	39,641	26,217	20,224	633,579
As of 31 December 2014	<u>-</u>	<u>1,212,783</u>	<u>145,112</u>	<u>110,196</u>	<u>711,491</u>	<u>154,219</u>	<u>92,907</u>	<u>64,874</u>	<u>97,494</u>	<u>64,064</u>	<u>2,653,140</u>
Net book value as of 31 December 2014	<u>1,749,961</u>	<u>13,219,860</u>	<u>152,949</u>	<u>234,619</u>	<u>7,071,490</u>	<u>2,127,316</u>	<u>620,163</u>	<u>286,988</u>	<u>401,892</u>	<u>224,046</u>	<u>26,089,284</u>
Net book value as of 31 December 2013	<u>1,749,961</u>	<u>6,201,878</u>	<u>27,561</u>	<u>214,541</u>	<u>4,949,148</u>	<u>1,080,007</u>	<u>52,414</u>	<u>50,465</u>	<u>356,386</u>	<u>117,200</u>	<u>14,799,561</u>
Depreciation percentage		3%	20%	10%	10%	10%	20%:25%	25%:50%	20%	20%	
Operating Depreciation			1,470,985								
General and administration Depreciation			167,244								

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2014

4 PREPAYMENTS AND OTHER RECEIVABLES

	2014 EGP	2013 EGP
Tax authority - Sales Tax	16,475,022	346,046
Additional tax	9,241	-
Sundry receivables	-	2,359,920
Advance Payment Contractors	-	235,210
On account – Employees	-	33,500
insurance for others	-	11,000
Total	<u>16,484,263</u>	<u>2,985,676</u>

5 CASH ON HAND AND AT BANKS

	2014 EGP	2013 EGP
Blom Bank – Egypt	1,479,362	-
Blom Bank Egypt – deposit	1,092,221	-
Alex Bank	874,373	-
QNB Bank	524,859	-
Suez canal Bank	209,379	25,269
Cash on hand - Egyptian pound	50,000	36,464
CIB Bank – Egypt	11,032	9,835
Suez canal Bank deposit	-	334,000
Total	<u>4,241,226</u>	<u>405,,568</u>

6 Accounts and notes payable

	2014 EGP	2013 EGP
Import suppliers	2,143,347	-
Notes payable	-	347,039
Local suppliers	-	48,717
Total	<u>2,143,347</u>	<u>395,756</u>

7 Accrued expenses and other payables

	2014 EGP	2013 EGP
Shareholders payments	96,238,531	-
Tax Authority - Withholding tax	83,533	-
Accrued expenses	35,000	26,500
Sundry Contractors	-	95,500
Total	<u>96,357,064</u>	<u>122,000</u>

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 31 December 2014

8 Bank Facilities

	2014 EGP	2013 EGP
QNB Bank	1,265,965	-
Blom Bank – Egypt	130	-
Total	<u><u>1,266,095</u></u>	<u><u>-</u></u>

9 Issued and paid up capital

Member name	Number of shares	Ratio	U.S.D	Egyptian pound
MOHANAD ZAHED ISTANBOLI	46,325	46.33%	463,250	2,831,616
KHIR ALLAH GHEATH RAJJOUR	13,510	13.51%	135,100	825,799
SAMER MARWAN	6,745	6.75%	67,450	412,288
IBRAHIM ATA SAMAKIE	12,710	12.71%	127,100	776,899
WAEEL FARHAN RAJOUR	7,010	7.01 %	70,100	428,486
MOHAMAD WAJIH FARHAN RAJOUR	7,010	7.01%	70,100	428,486
HASSAN ABDALLH	6,690	6.69%	66,900	408,926
Total	100,000	100%	1,000,000	6,112,500

10 Cost of Sales

	2014 EGP	2013 EGP
Purchases	180,398,627	2,450,922
Operating Expenses	9,377,691	76,750
Operating Depreciation	1,470,985	-
Cost of production	191,247,303	2,527,672
Add		
Inventory - Beginning	2,333,422	-
Deduct		
End of Inventory	(93,537,251)	(2,333,422)
Total	<u><u>100,043,474</u></u>	<u><u>194,250</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2014

* Operating Expenses

	2014 EGP
Export cost	5,188,942
Fuel and oil	2,120,151
Salary and wages	1,728,000
Electricity and water	166,975
Tools	76,773
Air compressors and Maintenance	54,996
Car Expenses	40,889
Telephone and mail	965
Total	<u>9,337,691</u>

11 General and administrative expenses

	2014 EGP
Salary and wages	240,000
Social Insurance	54,985
Stationary	47,610
Fees and subscriptions	46,872
Electricity and water	41,743
Professional fees	40,000
Entertainment	21,499
General maintenance	19,765
Telephone and mail	13,963
Transport expenses	4,389
Car Expenses	1,693
Maintenance	998
Total	<u>533,517</u>

12 Earnings (Loss) per Share

	2014 EGP	2013 EGP
Year net profit E.G.P	14,820,636	(419,520)
Weighted average number of shares	100,000	100,000
Earnings (Loss) per Share	<u>148.21</u>	<u>(4.2)</u>