

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 December 2015

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 2015, 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 2015, 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: 25 April 2016

Auditor

Reda Said
FESAA – FEST
(RAA. 19755)

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

Balance Sheet

For the Year Ended 31 December 2015

	Note	2015	2014
		LE	LE
Non current assets			
Fixed assets	(3)	37,417,333	26,089,284
Projects under construction		319,157	5,504,681
Total non current assets		<u>37,736,489</u>	<u>31,593,965</u>
Current assets			
Inventory		26,288,383	93,537,251
Accounts receivable		118,344,393	1,462,876
Prepayments and other receivable	(4)	24,411,481	16,484,263
Insurance for others-Electricity Company		3,000	3,000
Insurance for others- GAS Company		1,569,665	-
Cash on hand and at banks	(5)	304,289	4,241,226
Total current assets		<u>170,921,211</u>	<u>115,728,616</u>
Current liabilities			
Accounts and notes payable	(6)	181,045	2,143,347
Advances to customers		-	2,073,139
Accrued expenses and other payables	(7)	137,811,092	96,357,064
Bank Facilities	(8)	1,277,795	1,266,095
Total current liabilities		<u>139,269,932</u>	<u>101,839,645</u>
Working capital		<u>31,651,279</u>	<u>13,888,971</u>
Total investment		<u>69,387,768</u>	<u>45,482,936</u>
Financed as follows:			
Equity			
Issued and paid up capital	(9)	37,072,900	6,112,500
Legal reserve		-	-
Shareholders payments under the capital increase		2,745,641	25,965,941
Retained (Loss) earnings		13,404,495	(1,416,141)
Profits for the year		16,164,731	14,820,636
Total equity		<u>69,387,768</u>	<u>45,482,936</u>
Total finance of working capital and non current assets		<u>69,387,768</u>	<u>45,482,936</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 2015

	Note	2015 LE	2014 LE
Revenues			
Sales Export		196,672,536	117,220,088
Cost of sales	(10)	<u>(175,785,953)</u>	<u>(100,043,474)</u>
GROSS PROFIT		20,886,584	17,176,614
Marketing and sales expenses		(2,252,500)	(1,500,000)
Financing expenses		(383,619)	(148,517)
General and administrative expenses	(11)	(3,064,519)	(533,517)
Depreciation of fixed assets G&A		<u>(305,682)</u>	<u>(167,244)</u>
OPERATING PROFIT		14,880,263	14,827,336
Add (Deduct)			
Other Revenues			
Exports Subsidies – Revenue		1,395,843	-
Exports Subsidies – Expenses		(111,375)	-
Foreign exchange (loss)		<u>-</u>	<u>(6,700)</u>
Net other Profit		<u>1,284,468</u>	<u>(6,700)</u>
PROFITS (Loss) BEFORE INCOME TAXES		<u>16,164,731</u>	<u>14,820,636</u>
Earnings (Loss) per Share	(12)	<u>32,33</u>	<u>148.21</u>

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 2015

	2015 LE	2014 LE
CASH FLOWS FROM OPERATING ACTIVITIES		
Profits for the year	16,164,731	14,820,636
Depreciation of fixed assets	<u>2,468,085</u>	<u>1,638,229</u>
Operating profits before changes in working capital	18,632,816	16,458,865
Change in inventory	67,248,868	(91,203,829)
Change in accounts receivable	(116,881,517)	(1,462,876)
Change in prepayments and other receivables	(7,927,218)	(13,498,587)
Change in Insurance for others	(1,569,665)	-
Change in accounts and notes payables	(1,962,302)	1,747,591
Change in prepaid customers	(2,073,139)	2,073,139
Change in accrued expenses and other payables	41,454,028	96,235,064
Change in bank facilities	<u>11,700</u>	<u>1,266,095</u>
NET CASH FLOWS (Used in) PROVIDED FROM OPERATING ACTIVITIES	(3,066,429)	11,615,462
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in projects under construction	5,185,525	5,148,148
Payments to acquire fixed assets	(13,796,133)	(12,927,952)
Increase of working capital	30,960,400	-
Shareholders payments under the capital increase	<u>(23,220,300)</u>	<u>-</u>
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES	(870,508)	(7,779,804)
Net Increase in cash and cash equivalent during the year	(3,936,937)	(3,835,658)
Cash and cash equivalent - beginning of the year	<u>4,241,226</u>	<u>405,568</u>
CASH AND CASH EQUIVALENT – END OF THE YEAR	<u>304,289</u>	<u>4,241,226</u>

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

STATEMENT OF CHANGES IN EQUITY

As Of 31 December 2015

	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 2015	6,112,500	25,965,941	-	(1,416,141)	-	30,662,300
Retained earnings	-	-	-	-	-	-
Shareholders payments under the capital increase	30,960,400	(23,220,300)	-	-	-	7,740,100
Net Profit year ended 31/12/2014	-	-	-	-	14,820,636	14,820,636
Balance as of 31 December 2015	37,072,900	2,745,641	-	(1,416,141)	14,820,636	53,223,036
Retained (Loss) earnings	-	-	-	-	-	-
Profits for the year 31 December 2015	-	-	-	-	16,164,731	16,164,731
Balance as of 31 December 2015	37,072,900	2,745,641	-	(1,416,141)	30,985,767	69,387,767

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2015

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2015

2-6 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.

2-7 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 2015

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.

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 2013 and all due taxes paid.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2015

4 PREPAYMENTS AND OTHER RECEIVABLES

	2015 EGP	2014 EGP
Tax authority - Sales Tax	22,192,448	16,475,022
Additional tax	37,481	9,241
Advance Payment Suppliers	2,181,552	-
Total	<u>24,411,481</u>	<u>16,484,263</u>

5 CASH ON HAND AND AT BANKS

	2015 EGP	2014 EGP
Blom Bank – Egypt	145,396	1,479,362
Blom Bank Egypt – deposit	-	1,092,221
Alex Bank	20,500	874,373
QNB Bank	3,701	524,859
Suez canal Bank	12,745	209,379
Cash on hand - Egyptian pound	66,890	50,000
Misr Bank	6,785	-
CIB Bank – Egypt	33,626	11,032
Export Development Bank of Egypt	14,646	-
Total	<u>304,289</u>	<u>4,241,226</u>

6 Accounts and notes payable

	2015 EGP	2014 EGP
Import suppliers	-	2,143,347
Local suppliers	181,045	-
Total	<u>181,045</u>	<u>2,143,347</u>

7 Accrued expenses and other payables

	2015 EGP	2014 EGP
Shareholders payments	137,569,287	96,238,531
Tax Authority - Withholding tax	60,436	83,533
Accrued expenses	181,368	35,000
Total	<u>137,811,092</u>	<u>96,357,064</u>

Esperanza for ready clothes (S.A.E)

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2015

8 Bank Facilities

	2015 EGP	2014 EGP
QNB Bank	802,195	1,265,965
Blom Bank " Letter of guaranty"	475,600	-
Blom Bank – Egypt	-	130
Total	<u>1,277,795</u>	<u>1,266,095</u>

9 Issued and paid up capital

Member name	Number of shares	Ratio	U.S.D	Egyptian pound
MOHANAD ZAHED ISTANBOLI	219,500	43.90%	2,195,000	16,275,003
KHIR ALLAH GHEATH RAJJOUB	55,550	11.11%	555,500	4,118,799
Bassam Karom	55,550	11.11%	555,500	4,118,799
IBRAHIM ATA SAMAKIE	55,550	11.11%	555,500	4,118,799
Wael Farhan Rajoub	29,150	5.83%	291,500	2,161,350
MOHAMAD WAJIH FARHAN RAJJOUB	29,150	5.83%	291,500	2,161,350
Mahmoued Kharsh	55,550	11.11%	555,500	4,118,799
Total	500,000	100%	5,000,000	37,072,900

10 Cost of Sales

	2015 EGP	2014 EGP
Purchases	50,497,216	134,607,759
Cost of Purchases	39,192,400	45,790,868
Operating Expenses	20,620,917	9,377,691
Retrieve Customs Fees	(3,935,851)	-
Operating Depreciation	2,162,402	1,470,985
Cost of production	<u>108,537,084</u>	<u>191,247,303</u>
Add		
Inventory - Beginning	93,537,251	2,333,422
Deduct		
End of Inventory		
Raw Material	(25,714,269)	(93,537,251)
Chemicals	(574,114)	-
Total	<u>175,785,953</u>	<u>100,043,474</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2015

* Operating Expenses

	2015 EGP	2014 EGP
Export cost	8,598,221	5,188,942
Fuel and oil	2,384,670	2,120,151
Salary and wages	5,063,874	1,728,000
Electricity and water	675,758	166,975
Tools	2,438,197	76,773
Air compressors and Maintenance	149,788	54,996
Car Expenses	55,199	40,889
Transportation of goods	1,206,756	-
Production Expenses	47,249	-
Telephone and mail	1,205	965
Total	<u>20,620,917</u>	<u>9,337,691</u>

11 General and Administrative Expenses

	2015 EGP	2014 EGP
Salary and wages	2,491,333	240,000
Social Insurance	100,623	54,985
Stationary	77,510	47,610
Fees and subscriptions	55,000	46,872
Electricity and water	98,668	41,743
Professional fees	57,500	40,000
Entertainment	80,058	21,499
General maintenance	14,250	19,765
Telephone and mail	58,323	13,963
Transport expenses	6,605	4,389
Car Expenses	6,569	1,693
Maintenance	3,560	998
Tips	14,520	-
Total	<u>3,064,519</u>	<u>533,517</u>

12 Earnings (Loss) per Share

	2015 EGP	2014 EGP
Year net profit E.G.P	16,164,731	14,820,636
Weighted average number of shares	500,000	100,000
Earnings (Loss) per Share	<u>32,33</u>	<u>148.21</u>