

ARVIND LIFESTYLE APPAREL MANUFACTURING
PRIVATE LIMITED COMPANY
AUDIT REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

TIBEBE MENGISTU CERTIFIED AUDIT FIRM
CHARTERED CERTIFIED ACCOUNTANTS (UK)
AUTHORIZED AUDITORS (ETH.)
ADDIS ABABA
ETHIOPIA

ARVIND LIFESTYLE APPAREL MANUFACTURING PLC
AUDITORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

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ARVIND LIFESTYLE APPAREL MANUFACTURING PLC
CORPORATE INFORMATION

MANAGEMENT

Mr. Thevarvattath Hari Krishnan
Mr. Sundarrajan Iyer

CEO-Ethiopia
Chief Manger/Finance and Accounts

REGISTERED OFFICE

Bole Lemi Industry Park
Bole Sub City
Woreda 11
Addis Ababa Ethiopia

AUDITORS

Tibebe Mengistu & Co.
Chartered Certified Accountants (UK)
Authorized Auditors (ETH)

Bole Sub City
Abyssinia Plaza
P.O.Box 292 Code 1065
Addis Ababa
Ethiopia

COMPANY REGISTRATION NUMBERS

Tax Identification Number
VAT Registration Number

0039066383
9124570010



ARVIND LIFESTYLE APPAREL MANUFACTURING PLC
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Commercial Code of Ethiopia 1960 requires the management of the Company to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the entity as at the end of the financial year and of the operating results of the entity for that year. It also requires the management to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the entity. Management is also responsible for safeguarding the assets of the entity.

The management accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the entity and of its operating results. The management further accepts responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Signed on behalf of the Company by:

Chief Manager/Finance and Accounts

Chief Executive Officer



**AUDITORS' REPORT ON FINANCIAL STATEMENTS OF
ARVIND LIFESTYLE APPAREL MANUFACTURING PLC**

We have audited the accompanying financial statements of Arvind Lifestyle Apparel Manufacturing Private Limited Company, which comprise the balance sheet as of 31 March 2020, the profit and loss statement, statement of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of and fair presentation of these financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; 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 the financial statement based on our audit. As discussed in the following paragraphs, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

OPINION

In our opinion, the accompanying financial statements presents fairly, in all material respects the financial position of Arvind Lifestyle Apparel Manufacturing Private Limited Company as at 31 March 2020 and of its financial performance and cash flows for the year then ended.

Tibebe Mengistu Certified Audit Firm
Chartered Certified Accountants (UK)
Authorized Auditors (Eth.)



6/24/2020
Addis Ababa
Ethiopia

ARVIND LIFESTYLE APPAREL MANUFACTURING PLC
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 MARCH 2020

	<u>NOTES</u>	<u>Birr</u>	<u>31.03.2019</u> <u>Birr</u>
REVENUE	3	577,588,138	310,424,082
COST OF GOODS SOLD	4	<u>656,162,818</u>	<u>465,150,486</u>
GROSS LOSS		(78,574,681)	(154,726,403)
OTHER INCOME	5	<u>26,265,458</u>	<u>4,873,987</u>
EXPENSES		(52,309,223)	(149,852,416)
Selling and administrative	6	109,537,616	75,698,891
		<u>109,537,616</u>	<u>75,698,891</u>
LOSS FOR THE YEAR		<u>(161,846,839)</u>	<u>(225,551,308)</u>



ARVIND LIFESTYLE APPAREL MANUFACTURING PLC**STATEMENT OF FINANCIAL POSITION****AS AT 31 MARCH 2020**

	NOTES	Birr	31.03.2019 Birr
NON CURRENT ASSETS			
Property, plant and equipment	2.3a,b,7	285,564,610	318,833,743
Preoperating expenditure	2.4,8	-	2,334,343
		<u>285,564,610</u>	<u>321,168,086</u>
Loan due from related company		80,032,055	77,514,185
		<u>365,596,665</u>	<u>398,682,271</u>
CURRENT ASSETS			
Inventories	2.5,9	117,734,883	132,478,524
Trade and other receivables	2.6,10	125,422,794	200,808,983
Cash on hand and at bank	12	<u>30,335,385</u>	<u>62,658,012</u>
		<u>273,493,062</u>	<u>395,945,520</u>
TOTAL ASSETS		<u>639,089,727</u>	<u>794,627,790</u>
CAPITAL AND LIABILITIES			
Paid up capital		1,063,445,040	991,542,740
Profit and loss account		<u>(611,829,181)</u>	<u>(449,982,342)</u>
		<u>451,615,859</u>	<u>541,560,398</u>
NON CURRENT LIABILITIES			
Due to related parties	2.9,11	<u>78,697,710</u>	<u>-</u>
CURRENT LIABILITIES			
Trade and other payables	13	108,049,892	240,402,289
Bank Loan	2.10	-	11,830,000
Tax payables	14	<u>726,266</u>	<u>835,104</u>
		<u>187,473,868</u>	<u>253,067,392</u>
TOTAL EQUITIES AND LIABILITIES		<u>639,089,727</u>	<u>794,627,790</u>



ARVIND LIFESTYLE APPAREL MANUFACTURING PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	<u>Paid up</u> <u>Capital</u> <u>Birr</u>	<u>Retained</u> <u>Earning</u> <u>Birr</u>	<u>Total</u> <u>Birr</u>
Balance as at April 1,2018	680,247,000	(224,401,599)	455,845,401
Capital increment	311,295,929		311,295,929
Loss for the year	<u>-</u>	<u>(225,580,743)</u>	<u>(225,580,743)</u>
Balance as at April 1,2019	<u>991,542,929</u>	<u>(449,982,342)</u>	<u>541,560,587</u>
Capital increment	71,902,111	-	71,902,111
(Loss) for the YEAR	<u>-</u>	<u>(161,846,839)</u>	<u>(161,846,839)</u>
Balance as at March 31, 2020	<u>1,063,445,040</u>	<u>(611,829,181)</u>	<u>451,615,859</u>



ARVIND LIFESTYLE APPAREL MANUFACTURING PLC
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 MARCH 2020

	<u>Notes</u>	<u>Birr</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the three months		(161,846,839)
Depreciation	7	67,908,537
Amortization	8	2,334,343
		(91,603,959)
(Increase) in inventory	9	14,743,641
(Increase) in trade and other receivables	10	75,386,189
Increase in trade and other payables	13	(132,352,397)
(Decrease) in due to related parties	11	78,697,710
(Decrease) in taxes payable	14	(108,837)
Net cash generated from (used in) operating activities		(55,237,653)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	7	(34,639,405)
Net cash generated from (used in) investing activities		(34,639,405)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital increment		71,902,300
Bank Loan		(14,347,870)
Net cash generated from (used in) financing activities		57,554,430
Increase in cash and cash equivalents		(32,322,627)
Cash and cash equivalents at the beginning of the year		62,658,012
Cash and cash equivalents at the end of the year		30,335,385
Represented by:		
Cash on hand and at banks		30,335,385



ARVIND LIFESTYLE APPAREL MANUFACTURING PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

1. COMPANY INFORMATION

Arvind Lifestyle Apparel Manufacturing Private Limited Company is registered in Ethiopia under commercial registration certificate no 01/004557/05 from the ministry of trade on August 05,2013. The company was established on July 24, 2013 in Ethiopia with authorized share capital of Birr 62,230,000 divided into 62,230 ordinary shares, each having a nominal value of one thousand birr (Birr 1,000). During the current year, the capital of the company has been raised again and stands at Birr1,063,445,040.84 through the capitalization of injected cash.

The principal activities of the company areas manufacturing and exporting of apparels. Arvind Lifestyle Apparel Manufacturing plc , is engaged in manufacturing and exporting apparels.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements are prepared under the historical cost basis of accounting. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

2.1. REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities.

i) Sales of goods

Sales of goods are recognized in the period in which company has delivered products to the customer, the buyer has got title over the goods dispatched, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery does not occur until the products have been accepted by the customers.

ii) Sales of services

Sales of services are recognized in the period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a percentage of the total services to be provided.



2.2. FOREIGN CURRENCY TRANSLATIONS

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are prepared in Ethiopian Birr which is the Company's functional currency.

Foreign currency transactions are translated into Ethiopian Birr using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss. Foreign currency monetary items are translated using the foreign currency rates published by Ethiopian banks. Foreign exchange differences arising on translations are recognized in the profit or loss and other comprehensive income in the same period. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the profit or loss within 'other income' or 'other expenses'.

2.3. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged in accordance with Income Tax Proclamation 286/2002, on the straight-line basis for buildings and on the written down value for other assets acquired before July 8, 2016, at the following rates per annum.

	<u>%</u>
Motor Vehicles	20
Computer and accessories	25
Office furniture and equipment	20
Plant and machinery	20
Others	20

b) Property, plant and equipment acquired on or after July 8, 2016 are depreciated on a declining balance method on individual assets in accordance with Income Tax Proclamation No.979/2016, at the following rate per annum:

	<u>%</u>
Motor Vehicles	20
Computer and accessories	25
Office furniture and equipment	20
Plant and machinery	20
Others	20

2.4. PREOPERATING EXPENDITURE

Preoperating expenditures are amortized at the rate of 10% per annum. However, starting from July 8, 2016 any preoperating expenditures are amortized by 25% per annum according to proclamation 979/2008.



2.5. INVENTORIES AND GOODS IN TRANSIT

Inventories are stated at the lower of cost and net realizable value. Cost is based on the weighted average method and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.6. TRADE AND OTHER RECEIVABLES

Trade debtors are amounts due from customers for products sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less 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 amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the profit or loss.

2.7. TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.8. EMPLOYEE BENEFITS

(i) Retirement benefit obligations

The Company makes contributions to a statutory defined contribution pension scheme. The employer and employee make contributions of percentages of the employee's basic salary as determined by the statute.

(i) Other entitlements

The estimated monetary liability for employees' accrued annual leave at the reporting date are recognized as an expense accrual.

2.9. RELATED PARTY BALANCES AND TRANSACTIONS

A party is related to an entity if, inter alia;

(i) directly, or indirectly through one or more intermediaries, the party:

- a) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
- b) has an interest in the entity that gives it significant influence over the entity; or
- c) has joint control over the entity;

(ii) the party is an associate of the entity.



3. REVENUE

	31.03.2020	31.03.2019
	<u>Birr</u>	<u>Birr</u>
Export sales of garments	556,622,861	305,426,821
Export sales of fabrics	5,042,042	-
Export sales Processing Income	23,677,106	-
	<u>585,342,009</u>	<u>305,426,821</u>
Claim Export sales	5,979,205	(5,579,033)
Trade discount	1,774,667	581,771
	<u>7,753,872</u>	<u>(4,997,261)</u>
	<u>577,588,138</u>	<u>310,424,082</u>

4. COST OF GOODS SOLD

Direct materials consumed	358,701,606	294,209,835
Direct Labour used	122,329,226	86,441,682
Overhead cost('a' below)	144,269,066	107,230,464
	<u>625,299,897</u>	<u>487,881,981</u>
Work in process (Increase) / Decrease	39,801,992	(10,449,734)
	<u>665,101,889</u>	<u>477,432,247</u>
Decrease / Increase in finished goods stocks	(8,939,071)	(12,281,762)
	<u>656,162,818</u>	<u>465,150,486</u>
<u>Overhead costs</u>		
Factory rent	28,708,797	30,623,565
Depreciation	69,233,787	37,898,312
Car rent for factory workers	16,637,760	13,782,367
Canteen	15,320,719	11,836,244
Utility	12,813,060	4,684,380
Worker Welfare Exp	186,354	94,356
Repair and maintenance	965,551	8,001,544
Medical	321,305	293,144
Insurance	81,732	16,558
Other	-	(5)
	<u>144,269,066</u>	<u>107,230,464</u>



5. OTHER INCOME

Sales of scrap fabric materials
Other

Gain on foreign exchange rate

31.03.2020	31.03.2019
Birr	Birr
1,147,353	604,382
208,501	(97)
1,355,854	604,286
24,909,603	4,269,701
26,265,458	4,873,987

6. SELLING AND ADMINISTRATIVE EXPENSES

Salary, wage and benefits
Office supplies and stationary
Cleaning and sanitation
Travel, per diem and accommodation
Interest expenses
Residence rent
Repair and maintenance
Transportation
Security service
Fuel and lubricant
Advertisement
Communication
Insurance
Bank service charge
License and registration
Professional fee
Export cost
DHL service charge
Loading and unloading
IPDC Management fee
Guest house meal
Entertainment
Rejected VAT
Penalty
Bad debt
Prior period expense
(Excess)/Short Provision For Tax Of Ear
Miscellaneous

10,276,130	7,982,667
771,186	774,147
3,464,426	3,816,064
6,008,333	3,226,680
2,229,272	1,042,230
4,053,857	2,305,000
109,829	148,477
13,852,916	6,756,877
2,885,791	2,724,000
847,104	642,508
591,407	88,783
744,479	1,318,839
262,139	28,678
4,228,016	2,563,177
718,619	567,654
4,040,041	2,014,072
38,032,169	32,558,092
3,465,952	1,753,255
689,484	255,453
794,543	1,394,520
2,037,160	727,535
39,815	88,696
835,683	-
73,457	16,596
4,804,241	-
1,432,517	-
(13,806)	-
2,262,855	2,904,890
109,537,616	75,698,891



7. PROPERTY, PLANT AND EQUIPMENT

	<u>Balance at</u> <u>31.03.2019</u> <u>Birr</u>	<u>Addition</u> <u>Birr</u>	<u>Balance at</u> <u>31.03.2020</u> <u>Birr</u>
COST			
Building	8,843,225	-	8,843,225
Plant and Machinery	368,030,204	23,533,408	391,563,613
Motor vehicles	6,821,224	(648,002)	6,173,222
Furniture, Fixture and Equipment	21,800,245	1,626,868	23,427,113
Computer and Related	8,601,824	3,041,637	11,643,461
Fixed asset in transit/store	-	7,085,494	7,085,494
	<u>414,096,723</u>	<u>34,639,405</u>	<u>448,736,127</u>
DEPRECIATION			
Building	1,422,576	447,100	1,869,676
Plant and Machinery	85,305,276	61,931,017	147,236,293
Motor vehicles	1,358,760	932,318	2,291,078
Computer and Related	2,129,798	723,599	2,853,397
Furniture, Fixture and Equipment	5,046,570	3,874,504	8,921,073
	<u>95,262,980</u>	<u>67,908,537</u>	<u>163,171,517</u>
SUB NET BOOK VALUE	<u>318,833,743</u>		<u>285,564,610</u>

8. PREOPERATIONAL EXPENDITURE

COST

Hawassa Project	1,698,202	-	1,698,202
Bole Lemi project	2,724,958	-	2,724,958
	<u>4,423,160</u>	<u>-</u>	<u>4,423,160</u>

AMORTIZATION

Hawassa Project	930,709	767,493	1,698,202
Bole Lemi project	1,158,108	1,566,850	2,724,958
	<u>2,088,817</u>	<u>2,334,343</u>	<u>4,423,160</u>
	<u>2,334,343</u>		<u>-</u>



9. INVENTORY

The details are stated below:

	<u>Birr</u>	<u>31.03.2019</u> <u>Birr</u>
Finished goods	35,099,085	26,160,014
Raw material	72,571,078	79,987,895
Accessories	6,459,194	-
Fuel	39,233	-
Chemicals & Consumables	-	2,154,800
Work in process	3,566,294	24,175,815
	<u>117,734,883</u>	<u>132,478,524</u>
Add: Goods in transit	<u>-</u>	<u>-</u>
	<u>117,734,883</u>	<u>132,478,524</u>

10. TRADE AND OTHER RECEIVABLES

Trade receivable	60,701,688	77,798,056
Advance payment	48,741,249	111,557,911
VAT receivable	20,784,099	11,453,016
	<u>130,227,036</u>	<u>200,808,983</u>
Provision for bad debt	<u>(4,804,241)</u>	<u>-</u>
	<u>125,422,794</u>	<u>200,808,983</u>

11. RELATED PARTIES

Related parties with which the Company has had transactions during the year were as follows:

Amount due to related party:-

ARVIND LIMITED

Birr

78,697,710

31.03.2019

Birr

-



12. CASH AND BANK BALANCES

Cash and cash equivalents comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less and are available to the company without any restriction.

		31.03.2019
	<u>Birr</u>	<u>Birr</u>
Cash at bank	30,170,470	30,162,816
Cash on hand	164,915	-
Fund in transit	-	32,495,196
	<u>30,335,385</u>	<u>62,658,012</u>

13. TRADE AND OTHER PAYABLES

Trade creditors	69,533,806	221,080,008
Salary and wage payable	9,175,700	10,605,616
Unearned revenue	1,143,122	-
Accruals	28,197,265	8,716,665
	<u>108,049,892</u>	<u>240,402,289</u>

14. TAX PAYABLES

Pension fund payable	716,687	789,668
Withholding tax payables	9,579	45,435
	<u>726,266</u>	<u>835,104</u>

