

**ARVIND LIFESTYLE APPAREL MANUFACTURING PLC**  
**AUDITORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED ON 31 DECEMBER 2017**

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**ARVIND LIFESTYLE APPAREL MANUFACTURING PLC**  
**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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, in conformity with the International Financial Reporting Standard (IFRS) and in the manner required by the Commercial Code of Ethiopia, 1960 and 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:



Finance Manager



General Manager



**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 December 2017, 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 in accordance with International Financial Reporting Standards. 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 December 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards for Small and Medium sized Entities (IFRS for SMEs) and the requirements of the Commercial code of Ethiopia.

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



01 March 2018  
Addis Ababa  
Ethiopia



**STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED ON 31 DECEMBER 2017**

	NOTES	Birr	2016 Birr
REVENUE	3	88,396,125	13,769,72
COST OF GOODS SOLD	4	155,929,526	50,408,12
GROSS PROFIT		(67,533,401)	(36,638,39)
OTHER INCOME	5	5,285,836	6,346,02
EXPENSES		(62,247,564)	(30,292,36)
Selling and administrative	6	36,904,427	32,323,85
		(99,151,991)	(62,616,21)
BALANCE BROUGHT FORWARD		(91,464,725)	(29,212,50)
Prior year adjustment		2,525	364,00
		(91,462,200)	(28,848,50)
BALANCE CARRIED FORWARD		(190,614,192)	(91,464,72)



**ARVIND LIFESTYLE APPAREL MANUFACTURING PLC**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

	NOTES	Birr	<u>2016</u> Birr
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	2.3a,b,7	283,425,710	90,104,166
Preoperating expenditure	2.4,8	3,181,121	3,779,682
		<u>286,606,832</u>	<u>93,883,849</u>
<b>CURRENT ASSETS</b>			
Inventories	2.5,9	90,027,438	45,124,878
Trade and other receivables	2.6,10	52,089,155	12,557,106
Due from related parties	2.9,11	9,006,806	-
Cash on hand and at bank	12	16,638,545	1,051,077
		<u>167,761,943</u>	<u>58,733,061</u>
<b>TOTAL ASSETS</b>		<u>454,368,775</u>	<u>152,616,910</u>
<b>CAPITAL AND LIABILITIES</b>			
Paid up capital	1	595,758,020	227,652,389
Retained earning		(190,619,241)	(91,464,725)
		<u>405,138,778</u>	<u>136,187,664</u>
<b>CURRENT LIABILITIES</b>			
Due to related parties	2.9,11	18,289,312	-
Trade and other payables	13	30,657,006	16,166,783
Tax payables	14	283,679	262,463
		<u>49,229,997</u>	<u>16,429,246</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>454,368,775</u>	<u>152,616,910</u>



**ARVIND LIFESTYLE APPAREL MANUFACTURING PLC**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED ON 31 DECEMBER 2017**

	<u>Paid up Capital Birr</u>	<u>Legal Reserve Birr</u>	<u>Retained Earning Birr</u>	<u>Total Birr</u>
Balance as at January 1,2016	62,230,000	-	(29,212,508)	33,017,492
Capital increment	165,422,389	-	-	165,422,389
Prior Period Adjustment	-	-	364,000	364,000
(Loss)/Profit for the year	-	-	(62,616,217)	(62,616,217)
Balance as at December 31,2016	<u>227,652,389</u>	<u>-</u>	<u>(91,464,725)</u>	<u>136,187,664</u>
Capital increment	368,105,631	-	-	368,105,631
Prior Period Adjustment	-	-	(2,525)	(2,525)
(Loss) for the year	-	-	(99,151,991)	(99,151,991)
Balance as at December 31,2017	<u>595,758,020</u>	<u>-</u>	<u>(190,619,241)</u>	<u>405,138,779</u>



**ARVIND LIFESTYLE APPAREL MANUFACTURING PLC**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED ON 31 DECEMBER 2017**

	Notes	Birr	2016 Birr
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss		(99,151,991)	(62,616,21)
Depreciation	7	21,002,564	21,780,43
Amortisation	8	697,046	272,49
Prior year adjustment		(2,525)	364,00
		(77,454,906)	(40,199,28
Decrease (Increase) in inventory	9	(44,902,560)	(43,667,55
Decrease (Increase) in trade and other receivables	10	(39,532,049)	(11,074,47
Decrease (Increase) in related party due from	11	(9,006,806)	-
Increase (Decrease) in trade and other payables	13	14,490,223	12,952,19
Increase (Decrease) in related party due to	11	18,289,312	-
Increase (decrease) in shareholders account		-	(1,656,93
Increase (decrease) in taxes payable	14	21,216	-
Net cash generated from (used in) operating activities		(138,095,569)	(83,646,05
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment	7	(214,324,109)	(79,536,15
Additional deferred expenditure	8	(98,486)	(1,599,71
Net cash generated from (used in) investing activities		(214,422,594)	(81,135,87
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital increment		368,105,631	165,422,38
Net cash generated from (used in) financing activities		368,105,631	165,422,38
Increase(decrease) in cash and cash equivalents		15,587,467	640,45
Cash and cash equivalents at the beginning of the year		1,051,077	410,61
Cash and cash equivalents at the end of the year		16,638,544	1,051,07
Represented by:			
Cash on hand and at banks		16,638,545	1,051,07
		16,638,545	1,051,07



**ARVIND LIFESTYLE APPAREL MANUFACTURING PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED ON 31 DECEMBER 2017**

**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 birr 572,643,375through the capitalisation 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 in conformity with IFRS for SMEs 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.

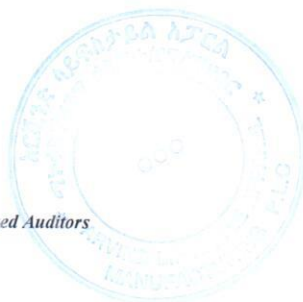
**2.1. REVENUE RECOGNITION**

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 recognised in the period in which the company has delivered products to the customer,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 recognised 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 recognised 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 recognised 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 writtendown value for other assets acquired before July 8,2016, at the following rates per annum.

	%
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, as the following rate per annum:

	%
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 amortised 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 realisable 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 realisable 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 recognised initially at fair value and subsequently measured at amortised 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 recognised 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 recognised initially at fair value and subsequently measured at amortised 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 recognised 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.

## 2.10. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



## 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.

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Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



## 2.9. RELATED PARTY BALANCES AND TRANSACTIONS

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  - 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.

## 2.10. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



### 3. REVENUE

	<u>Birr</u>	<u>2016 Birr</u>
Export sales of Denim	46,326,335	7,722,96
Export sales of Knits	30,604,517	2,197,43
Export sales of Shirts	11,465,273	3,849,33
	<u>88,396,125</u>	<u>13,769,72</u>

### 4. COST OF GOODS SOLD

Direct materials consumed	74,437,727	28,552,899
Direct Labour used	37,408,946	10,116,986
Overhead cost('a' below)	61,026,824	35,560,046
	<u>172,873,497</u>	<u>74,229,931</u>
Less: Work in process-ending	(268,270)	(17,614,018)
	<u>172,605,227</u>	<u>56,615,913</u>
Decrease/Increase/ in finished goods stocks	(16,675,701)	(5,392,514)
	<u>155,929,526</u>	<u>51,223,399</u>

#### Overhead costs

Factory rent	15,752,543	5,007,935
Depreciation	19,016,242	19,812,168
Car rent for factory workers	11,589,982	3,400,775
Canteen	8,362,383	2,757,665
Import freight	-	3,283,110
Utility	3,150,713	815,277
Spareparts	1,504,219	483,116
Repair and maintaiance	1,078,616	-
Medical	395,400	-
Insurance	91,877	-
Entertainment	84,849	-
	<u>61,026,824</u>	<u>35,560,046</u>

### 5. OTHER INCOME

Exchange rate gain (loss)	4,899,428	6,318,803
Sales of scrap fabric materials	111,373	-
Miscellaneous	275,035	27,225
	<u>5,285,836</u>	<u>6,346,028</u>



**7. PROPERTY, PLANT AND EQUIPMENT**

**a) Pooling Depereciation Method**

	<u>Balance at</u> <u>01.01.2017</u> <u>Birr</u>	<u>Addition</u> <u>Birr</u>	<u>Balance at</u> <u>31.12.2017</u> <u>Birr</u>
<b><u>COST</u></b>			
Building	4,595,024	-	4,595,024
Plant and Machinery	103,413,628	-	103,413,628
Motor vehicles	1,819,454	-	1,819,454
Furniture, Fixture and Equipment	7,236,328	-	7,236,328
Water Tanker	188,100	-	188,100
Computer and Related	1,708,387	-	1,708,387
Others	1,330,547	-	1,330,547
Capital goods in transit	-	146,774,112	146,774,112
	<u>120,291,467</u>	<u>146,774,112</u>	<u>267,065,580</u>
<b><u>DEPRECIATION</u></b>			
Building	351,391	229,751	581,142
Plant and Machinery	26,191,838	15,444,358	41,636,196
Motor vehicles	625,381	238,814	864,196
Furniture, Fixture and Equipment	1,926,160	1,062,034	2,988,194
Water Tanker	91,793	19,261	111,054
Computer and Related	681,760	256,657	938,417
Others	318,978	202,314	521,292
	<u>30,187,301</u>	<u>17,453,189</u>	<u>47,640,490</u>
SUB NET BOOK VALUE	<u>90,104,166</u>		<u>219,425,089</u>

**b) Declining Balance Depereciation Method**

**COST**

Building	-	17,783	17,783
Plant and Machinery	-	61,763,306	61,763,306
Motor vehicles	-	46,792	46,792
Furniture, Fixture and Equipment	-	499,076	499,076
Computer and Related	-	2,030,774	2,030,774
Water Tanker	-	3,192,265	3,192,265
	<u>-</u>	<u>67,549,996</u>	<u>67,549,996</u>

**DEPRECIATION**

Building	-	360	360
Plant and Machinery	-	2,941,066	2,941,066
Motor vehicles	-	3,000	3,000
Furniture and Fixture and Equipment	-	28,039	28,039
Computer and Related	-	195,466	195,466
Water Tanker	-	381,445	381,445
	<u>-</u>	<u>3,549,375</u>	<u>3,549,375</u>

SUB NET BOOK VALUE

GROSS NET BOOK VALUE

<u>-</u>	<u>64,000,621</u>
<u>90,104,166</u>	<u>283,425,710</u>



## 8. PREOPERATIONAL EXPENDITURE

### COST

	<u>Balance at</u> 01.01.2017	<u>Addition</u>	<u>Balance at</u> 31.12.2017
Hawassa Project	1,599,716	98,486	1,698,202
Bole Lemi project	2,724,958	-	2,724,958
	<u>4,324,674</u>	<u>98,486</u>	<u>4,423,160</u>

### AMORTIZATION

Hawassa Project	-	424,550	424,550
Bole Lemi project	544,992	272,496	817,488
	<u>544,992</u>	<u>697,046</u>	<u>1,242,038</u>
	<u>3,779,682</u>		<u>3,181,121</u>

## 9. INVENTORY

The details are stated below:

	<u>Birr</u>	<u>2016</u> <u>Birr</u>
Finished goods	22,490,252	5,814,551
Raw material	31,731,070	12,883,819
Accessories	18,644,812	4,568,554
Work in process	14,384,361	17,614,018
Spareparts	70,742	-
Chemicals and other consumables	465,196	-
	<u>87,786,432</u>	<u>40,880,942</u>
Add: Capital goods in transits	2,241,006	4,243,936
	<u>90,027,438</u>	<u>45,124,878</u>

## 10. TRADE AND OTHER RECEIVABLES

Trade receivable	14,560,198	2,292,451
Advance payment	31,319,508	4,921,242
Security Deposit	-	1,186,756
VAT receivable	5,571,704	3,343,022
Prepayment	637,744	132,319
Work advance	-	126,098
Sundry receivable	-	191,738
Hawassa tenant association	-	363,481
	<u>2,089,155</u>	<u>12,557,106</u>





## 11. RELATED PARTIES

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

Amount due from related party:-

PVH CORPORATION

Birr

9,006,806

2016  
Birr

-

Amount due to related party:-

ARVIND LIMITED

Birr

18,289,312

2016  
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.

## 13. TRADE AND OTHER PAYABLES

Trade creditors

Birr

22,631,002

Birr

11,821,924

Salary and wage payable

4,381,022

2,084,418

Pension fund payable

291,269

289,800

Accruals

3,353,714

1,970,641

30,657,006

16,166,783

## 14. TAX PAYABLES

Income tax payable

Birr

218,500

2016

Birr

219,758

Withholding tax payable

65,179

42,705

283,679

262,463

## 15. CONTINGENT LIABILITIES

At 31 December 2017 the Company had no material contingent liabilities.

## 16. SUBSEQUENT EVENTS

There are no subsequent events that have occurred after the reporting period which are either to be disclosed or to be adjusted in the financial statements that could materially affect the financial statements.

