ethio lease

ETHIO LEASE ETHIOPIAN CAPITAL GOODS FINANCE SHARE COMPANY
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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Accounting and auditing Board of Ethiopia
Original Copy Submitted to the board

A.A Bromhead
Certified Audit Firm

Company information

Directors

Name	Position
Girma Wake	Board Chairperson
Frans Van Schaik	Board Member
Ismael Dubale	Board Member

Principal place of business:

Bole Sub-city
Woreda 03
House No. 379
Addis Ababa, Ethiopia

Banks

Commercial Bank of Ethiopia
Addis Ababa, Ethiopia

United Bank S.C.
Addis Ababa, Ethiopia

Awash Bank S.C.
Addis Ababa, Ethiopia

Cooperative Bank of Oromia
Addis Ababa, Ethiopia

Abay Bank S.C.
Addis Ababa, Ethiopia

Zemen Bank S.C.
Addis Ababa, Ethiopia

Oromia Bank S.C.
Addis Ababa, Ethiopia

Nib International Bank S.C.
Addis Ababa, Ethiopia

Wegagen Bank S.C
Addis Ababa, Ethiopia

Dashen Bank S.C.
Addis Ababa, Ethiopia

Bank of Abyssinia S.C.
Addis Ababa, Ethiopia

Buna Bank S.C.
Addis Ababa, Ethiopia

Auditors

A.A. Bromhead Certified Audit Firm and
UK Registered Auditor
P.O. Box 709
Addis Ababa, Ethiopia

Lawyer
Fekadu Petros
Addis Ababa, Ethiopia

Accounting and auditing Board of Ethiopia
Original Copy Submited to the Board
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0111541

A.A Bromhead

Directors report

Directors are pleased to report to the shareholders of Ethio Lease Ethiopian Capital Goods Finance Share Company (the Company) on the affairs of the Company for the year ended 30 June 2023. This report discloses the financial performance and state of affairs of the Company for the year ended and as at 30 June 2023.

Incorporation and address

Ethio Lease Ethiopian Capital Goods Finance Share Company is incorporated under the laws of Ethiopia and registered with the National Bank of Ethiopia and obtained a license for Capital Goods Finance Business. The Company is engaged in lease financing business. The Company's head office is located in Addis Ababa, Bole sub-city, woreda 08, House No.379.

Share capital

The Company's registered and paid-up capital is ETB 400,000,000 (2022: ETB 400,000,000), represented by 400,000 ordinary shares of ETB 1,000, each.

Reserves

The Company's equity and reserves are presented on page 9 in the statement of changes in equity.

Operating results

Operating results for the year ended 30 June 2023 are set out on page 7. A loss for the year of ETB 198,130,088 (2022: ETB 113,923,980) has been transferred to retained earnings. The operating results for the year ended 30 June 2023 are summarised below:

	2023 ETB	2022 ETB
Revenue	46,188,843	90,446,018
Loss before income tax	(183,168,051)	(129,747,192)
Income tax (expense)/ credit	(14,962,037)	15,823,212
(Loss) for the year	**(198,130,088)**	**(113,923,980)**

Management

The General Manager who held the office during the year and to the date of this report is Degol Gossaye .

General Manager
31 October 2023

Statement of Directors' responsibilities

The Board of Directors are responsible for the preparation and presentation of the financial statements of Ethio Lease Ethiopian Capital Goods Finance Share Company set out on pages 7 to 40, which comprise the statement of financial position at 30 June 2023, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2023 and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 3 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Directors accept responsibility for the year's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards as determined by the Directors. The Directors are of the opinion that the financial statements present fairly, in all material respects, the state of the financial affairs of the Company and of its operating results.

The Directors further accept 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.

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 31 October 2023 and were signed on its behalf by:

Board Chairperson

31 October 2023

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ETHIO LEASE ETHIOPIAN CAPITAL GOODS FINANCE SHARE COMPANY

Opinion

We have audited the accompanying financial statements of Ethio Lease Ethiopian Capital Goods Finance Share Company set out on pages 7 to 39. These financial statements comprise the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ethio Lease Ethiopian Capital Goods Finance Share Company as at 30 June 2023 of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Directors are responsible for the other information, which comprises the Directors' report in accordance with Article 315 Sub-Article 6(c) of the Commercial Code of Ethiopia of 2021. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the audit work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Report on the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

i. Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

ii. Obtained an understanding of internal control relevant to the audit 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 Company's internal control.

iii. Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

iv. Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Report on the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

v. Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with management among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We have no comment to make on the report of your Directors so far as it relates to these financial statements and, pursuant to Article 349 sub-articles of the Commercial Code of Ethiopia of 2021, recommend approval of them.

A.A. Bromhead Certified Audit Firm and
UK Registered Auditor

1-November-2023
Addis Ababa

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

ETHIO LEASE ETHIOPIAN CAPITAL GOODS FINANCE SHARE COMPANY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 ETB	2022 ETB
Revenue			
Interest income from finance leases	6	33,403,655	68,972,241
Fees, charges and gain on lease modifications	7	12,785,188	21,473,777
		46,188,843	90,446,018
Other income	8	31,831	2,691,323
		46,220,674	93,137,341
Operating expenses:			
General and administrative expenses	9	(55,208,289)	(93,246,452)
Impairment provisions and write-offs	10	(145,952,721)	(109,410,958)
(Loss) before interest, foreign exchange gain and tax		**(154,940,336)**	**(109,520,069)**
Foreign exchange (loss) / gain, net	12	(2,183,669)	550,903
Finance costs, net	11	(26,044,046)	(20,778,026)
(Loss) before tax		**(183,168,051)**	**(129,747,192)**
Income tax (expenses) / credit	15 (ii)	(14,962,037)	15,823,212
(Loss) for the year		**(198,130,088)**	**(113,923,980)**
Other comprehensive income, net of tax:			
Currency translation reserve	29	15,753,750	52,636,180
Total comprehensive (loss) attributable to shareholders of the Company		**(182,376,338)**	**(61,287,800)**
Earnings per share (EPS):			
Basic earnings per share	13	**(495)**	**(285)**
Diluted earnings per share	13	**(495)**	**(285)**

The notes on pages 11 to 39 are an integral part of these financial statements.

ETHIO LEASE ETHIOPIAN CAPITAL GOODS FINANCE SHARE COMPANY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Notes	2023 ETB	2022 ETB
ASSETS			
Non-current assets			
Property, plant and equipment	16	541,706	1,189,095
Right-of-use assets	17	4,165,473	706,569
Deferred tax assets	15 (i)	13,344,346	23,299,705
Finance lease receivables - non-current portion	18	61,797,878	158,755,669
Total non-current assets		**79,849,403**	**183,951,038**
Current assets			
Inventories	19	63,258,356	514,921,278
Finance lease receivables - current portion	18	63,629,872	149,299,635
Advances, prepayments and deposits	20	954,967	1,281,286
Accounts receivable	21	7,504,272	30,655,564
Cash and cash equivalents	22	84,031,858	16,486,962
Total current assets		**219,379,325**	**712,644,725**
TOTAL ASSETS		**299,228,728**	**896,595,763**
EQUITY AND LIABILITIES			
Equity			
Share capital	27	400,000,000	400,000,000
Capital to be registered	28	6,067,801	6,067,801
Retained earnings	14	(493,775,193)	(295,645,105)
Currency translation reserve	29	224,956,973	209,203,223
Total equity		**137,249,581**	**319,625,919**
Non-current liabilities			
Long-term loan - non-current	23.3(i)	42,794,106	28,493,741
Lease security deposits - non-current	25	36,737,658	56,071,247
Lease liability	24(i)	1,150,612	-
Total non-current liabilities		**80,682,375**	**84,564,988**
Current liabilities			
Long-term loan - current	23.3(i)	37,401,812	281,026,086
Lease liabilities - current	24(i)	2,325,387	-
Payable to related parties	23.1	5,720,801	73,594,624
Debt service reserve account	23.2	-	104,976,581
Other liabilities	26	32,285,533	27,251,445
Provision for income tax	15(v)	3,563,238	5,556,120
Total current liabilities		**81,296,772**	**492,404,856**
Total liabilities		**161,979,147**	**576,969,844**
TOTAL EQUITY AND LIABILITIES		**299,228,728**	**896,595,763**

The financial statements on pages 7 to 39 were approved by the Board of Directors on 16 December 2023.

Board Chairperson

General Manager

The notes on pages 11 to 39 are an integral part of these financial statements.

A.A Bromhead
Certified Audit Firm

ETHIO LEASE ETHIOPIAN CAPITAL GOODS FINANCE SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	Share Capital ETB	Capital to be Registered ETB	Retained Earnings ETB	Currency Translation Reserve ETB	Total Equity ETB
As at 1 July 2021		400,000,000	6,067,801	(181,721,125)	156,567,043	380,913,719
Loss for the year		-	-	(113,923,980)		(113,923,980)
Other comprehensive income		-	-	-	52,636,180	52,636,180
Balance at 30 June 2022		**400,000,000**	**6,067,801**	**(295,645,105)**	**209,203,223**	**319,625,919**
As at 1 July 2022		400,000,000	6,067,801	(295,645,105)	209,203,223	319,625,919
Loss for the year		-	-	(198,130,088)	-	(198,130,088)
Other comprehensive income		-	-	-	15,753,750	15,753,750
Balance at 30 June 2023		**400,000,000**	**6,067,801**	**(493,775,193)**	**224,956,973**	**137,249,581**

The notes on pages 11 to 39 are an integral part of these financial statements.

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

ETHIO LEASE ETHIOPIAN CAPITAL GOODS FINANCE SHARE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 ETB	2022 ETB
Cash flows from operating activities			
Cash generated from operations	30	326,353,419	74,767,994
Finance costs, net		26,044,046	20,778,026
		352,397,465	**95,546,020**
Income tax paid		(6,999,560)	(6,037,843)
Net cash generated from operating activities		**345,397,905**	**89,508,177**
Cash flows from investing activities			
Purchases of plant and equipment	16	-	(347,306)
Currency translation differences on PPE	16	(253,699)	(709,054)
Currency translation differences on ROU		1,456,644	(830,434)
Net cash used in investing activities		**1,202,945**	**(1,886,794)**
Cash flows from financing activities			
Lease security deposits (settlements) collected	25	(19,333,589)	(24,578,050)
Finance lease liability paid	24	(1,501,430)	(1,486,775)
(Repayments of)/proceeds from borrowings	23.3	(229,323,909)	(162,377,894)
Interest paid on borrowings	11,23.1	(28,897,026)	(22,441,215)
Net cash (used in)/generated from financing activities		**(279,055,954)**	**(210,883,934)**
Net increase in cash and cash equivalents		**67,544,896**	**(123,262,551)**
Movement in cash and cash equivalents:			
At beginning of year		16,486,962	139,749,513
Net increase in cash and cash equivalents		67,544,896	(123,262,551)
Cash and Cash Equivalents as at 30 June	22	**84,031,858**	**16,486,962**

The notes on pages 11 to 39 are an integral part of these financial statements.

Notes to the financial statements

1 General information

Ethio Lease Ethiopian Capital Goods Finance Share Company ("the Company") obtained its license from the National Bank of Ethiopia on 10 July 2019. The Company is principally involved in the leasing of capital goods under finance lease agreements.

The registered office of the Company is:
Bole sub-city
Woreda 03
House No.: 379
Addis Ababa

2 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB). These financial statements were prepared under the historical cost convention.

The Company maintains its records in US Dollars (USD) and prepares financial statements in Ethiopian Birr (ETB) in accordance with International Financial Reporting Standards (IFRS) as required by Ethiopian legislation. The reporting period for the Company is from 1 July to 30 June.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Note 4.

3 Significant accounting policies

3.1 Leases

The Company's core business, which is leasing capital equipment via finance leases, is accounted for under *IFRS 16 Leases*.

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract transfers the right to control the use of an identified asset for a period of time in exchange for consideration. Lease contracts entered by the Company effectively transfer substantially all the risks and rewards incidental to the ownership of the asset to the customer.

At commencement date, the Company recognises assets held under finance leases in the statement of financial position and presents them as lease receivables at an amount equal to the net investment in the lease.

For a contract that is, or contains, a lease, the Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

At lease commencement, the Company accounts for a finance lease, as follows:

- Derecognises the carrying amount of the underlying asset.
- Recognises the net investment in the lease of the asset as a lease receivable.
- Determines the implicit interest rate in the lease.

The net investment in the lease is measured as the sum of the present value of the lease payments.

3.2 Revenue recognition

Revenue from the Company's main line of business is governed by the standards set forth under IFRS 16 Leases.

Finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the Company's net investment in the lease. Finance income is recognised at the rate implicit in the lease on the total net investment.

The interest rate implicit in the lease is the discount rate at which the sum of the present value of the lease payments and the unguaranteed residual value equals the sum of the fair value of the underlying asset and any initial direct cost of the lessor.

The Company also applies IFRS 15, *Revenue Recognition,* to revenue sources other than its main line of business. Under the standard, the Company recognises revenue when or as a performance obligation is satisfied.

3.3 Finance income and finance costs

For all financial instruments measured at amortised cost, interest income or costs are recognised using the effective interest rate (EIR), except for interest income from savings accounts which is recognised at the agreed rate with the bank. Interest income and interest costs are included in finance income and finance costs, respectively, in the statement of profit or loss.

Interest costs on borrowings for the construction of qualifying assets is capitalised.

3.4 Foreign currency translation

The Company's functional currency is US Dollars. The presentation currency is Ethiopian Birr. In preparing the financial statements using the presentation currency:

(a) assets and liabilities for each statement of financial position presented (including comparatives) were translated at the closing rate at the dates of that statement of financial position and all resulting exchange differences were recognised in other comprehensive income.

(b) income and expenses for each statement of profit or loss presented (including comparatives) were translated at exchange rates at the dates of the transactions.

3.5 Income taxes

Income tax expense consists of current and deferred tax. Current tax and deferred tax are recognised in net income except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

3.5 Income taxes (continued)

Current income taxes are recognised for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted by the year-end date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability differs from its tax base. Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted and are expected to apply when the liabilities / (assets) are settled / (recovered).

3.6 Property, plant and equipment

Recognition and measurement

Property, plant and equipment are initially recorded at cost being the purchase price and directly attributable cost of acquisition required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs.

Property, plant and equipment are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses.

Where an item of property, plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Major maintenance and repairs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Gains and losses

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognised net within gain or loss from disposal of property, plant and equipment in profit or loss.

3.6 Property, plant and equipment (continued)
Depreciation

Depreciation is recognised in profit or loss and other comprehensive income and begins when the asset is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

	Useful life Years	Residual value %
Leasehold improvements (office partitions)	3	10
Computers, software and communication devices	2	5
Office furniture and equipment	4	10

Depreciation methods, useful lives and residual values are reviewed annually and adjusted, if necessary.

3.7 Inventory

Inventory is carried at the lower of cost or net realisable value. The value of inventory includes costs incurred to bring equipment to its present location and condition, excluding borrowing costs. Costs also include any gains or losses on foreign currency purchases for inventory that have accumulated until the inventory is ready for lease.

At the year end, the Company looks out for any indicators of impairment of inventories as stated in the standard governing inventories, IAS 2 Inventories.

The following are the main indicators of inventory impairment stated in the standard:

- Inventory becoming obsolete
- Damaged
- Prices for inventory showing a major decline
- A general trend in macro-economic condition

If at the year-end inventory values are found to be impaired, then the value of those inventories will be written down immediately and the loss in value is charged to profit or loss.

IAS 2 permits subsequent revaluation of inventory to the original cost if circumstances have improved. The Company objectively assesses whether circumstances have improved for inventories that have previously been impaired at each year end.

3.8 Leases - as a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any incentives received.

A.A Bromhead
Certified Audit Firm

3.8 Leases - as a lessee (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using an implicit interest rate in the lease or the Company's incremental borrowing rate, whichever is readily available. The lease payments included in the measurement of the lease liability is the fixed payments of the outstanding lease liability.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment and machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.9 Financial assets

Financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset.

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

Financial assets at amortised cost

Financial assets of the Company are measured at amortised cost if the assets meet the following conditions:

i) they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;

ii) the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and other receivables, trade and other payables and borrowings fall into this category of financial instruments.

A.A Bromhead
Certified Audit Firm

3.9 Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the Company intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial instruments

IFRS 9 impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements include loans and other debt-type financial assets, trade and other receivables, contract assets recognised and measured under IFRS 15 and loan commitments.

The Company applies the simplified approach for trade and other receivables as well as contract assets and recognises the loss allowance as lifetime expected credit loss. The loss allowance is the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating loss allowances, the Company assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and they are grouped based on the days past due.

3.10 Classification and measurement of financial liabilities

The Company's financial liabilities mainly include borrowings and trade and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. All interest-related charges reported in profit or loss are included within finance costs or finance income.

3.11 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.12 Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits at call with banks and other short-term highly liquid investments with original maturities of three months or less. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

3.14 Share capital

Share capital represents shares that have been issued by the Company measured at the proceeds received, net of direct issue costs.

The Company's ordinary shares are classified as equity instruments.

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

3.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Financing costs are capitalised at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of Company borrowings is utilised. Capitalisation of borrowing costs ceases when the asset is substantially complete. Borrowing costs are expensed in the period in which they are incurred and reported in 'finance costs'.

3.16 Salaries and other employee benefits

Wages, salaries, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Company.

The Company operates a state regulated defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The actuarial risk of such plan falls 'in substance' on the employee and the Company is under no obligation to cover any unfunded benefits.

The pension scheme is in line with the provisions of the Private Organisation Employees Pension Proclamation No. 1268/2022. Funding under the scheme is 7% by employees and 11% by the Company.

The Company also provides a long-term savings for its current employees contributing 4% of their basic salary to an account opened in the employees' name but is fully operated by the Company. Employees are entitled to cash in the long-term savings only when they leave the Company.

3.17 Subsequent events

Events after the reporting period but before the date of the financial statements authorisation for issue that provide additional information about the Company's financial statements are reported in the financial statements. When material, post-statement of financial position date events that do not affect the financial position of the Company at the statement of financial position date are disclosed in the notes to the financial statements.

3.18 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders, after considering the prior years' adjustments, by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options. The Company does not have dilutive shares in the current period.

4 Critical accounting estimates and judgments

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements on lease classification

The Company is a party to leasing arrangements both as a lessor and as a lessee. The treatment of leasing transactions in the financial statements is mainly determined by whether the lease is considered to be an operating lease or a finance lease. In making this assessment, management considers the substance of the lease, as well as the legal form, and makes a judgement about whether substantially all of the risks and rewards of ownership are transferred.

Components

In applying IAS 16 for the recognition of property, plant and equipment, management applies judgment to determine aggregation of assets. The Standard does not prescribe the unit of measure for recognition, or what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to the Company's specific circumstances. The Company aggregates individually insignificant items. Management has determined that there are no significant components to property, plant, and equipment that should be segregated.

Estimates and assumptions

Warranty

As the Company offers no warranties on the products it leases (either legal or constructive), no provision is necessary in the financial statements.

4 Critical accounting estimates and judgments (continued)

Impairment

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets including property, plant and equipment and intangible assets at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence. Details of the property, plant and equipment useful lives are indicated in Note 3.6.

Income taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities. The details of the income tax expense are provided in Note 15.

5 New Standards and Interpretations adopted in the current year

5.1 New or amended standards or interpretations that are effective for the current year

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning	Impact on the financial statements
Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12	1-Jan-23	The impact of the amendments is not material.
Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2	1-Jan-23	The impact of the amendments is not material.
Definition of accounting estimates: Amendments to IAS 8	1-Jan-23	The impact of the amendments is not material.
Classification of liabilities as current or non-current - Amendment to IAS 1	1-Jan-23	The impact of the amendments is not material.

5 New Standards and Interpretations adopted in the current year (continued)

5.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after January 1, 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Anticipated impact on the financial statements
Amendments regarding the classification of debt with covenants (Amendment to IAS 1)	1-Jan-24	Not to be material
Amendments regarding supplier finance arrangements (Amendment to IFRS 7)	1-Jan-24	Not to be material
Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions (Amendment to IFRS 16)	1-Jan-24	Not to be material

i. Amendments regarding the classification of debt with covenants (Amendments to IAS 1)

The International Accounting Standards Board (IASB) has published 'Non-current Liabilities with Covenants (Amendments to IAS 1)' to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments are effective for reporting periods beginning on or after 1 January 2024.

ii. Amendments regarding supplier finance arrangements (Amendment to IFRS 7)

The International Accounting Standards Board (IASB) has published 'Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)' to add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements. The amendments are effective for reporting periods beginning on or after 1 January 2024.

iii. Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions (Amendment to IFRS 16)

The International Accounting Standards Board (IASB) has issued 'Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)' with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments are effective for reporting periods beginning on or after 1 January 2024.

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6 Interest income from finance leases

	2023 ETB	2022 ETB
Interest on agricultural equipment leased	12,537,662	41,500,728
Interest on medical equipment leased	16,625,451	19,671,147
Interest on lease of back-up power generators	2,240,364	4,897,150
Interest on construction equipment leased	2,000,178	2,903,216
	33,403,655	**68,972,241**

Interest income from finance leases is recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the lease to the gross carrying amount of the lease.

7 Fees, charges and gain on lease modifications

	2023 ETB	2022 ETB
Contract termination fees	12,371,204	13,394,461
Early termination fees	678,099	5,832,711
Risk premium	570,395	570,400
Lease processing fees	-	182,839
(Loss) / gain on lease modifications	(834,510)	1,493,366
	12,785,188	**21,473,777**

8 Other income

	2023 ETB	2022 ETB
Interest income from savings accounts	31,831	2,356,652
Miscellaneous income	-	334,671
	31,831	**2,691,323**

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9 General and administrative expenses

	2023 ETB	2022 ETB
Salaries and benefits (Note 9.1)	16,887,784	18,701,561
Technical assistance fees	16,141,821	58,932,479
Loss on disposal of equipment (Note 9.2)	5,736,634	(1,876,319)
Repairs and maintenance	2,879,252	287,226
Insurance	2,792,613	2,069,234
Professional and legal fees	2,673,751	2,567,538
Rents	2,575,301	1,094,139
Travel, per diems and accommodation	1,310,282	329,659
Board fees	1,285,714	1,285,714
Vehicle running costs	912,607	971,755
Telephone and internet	732,995	985,311
Depreciation	469,164	1,061,867
Security services	323,351	-
Stationery and printing	213,527	171,693
Miscellaneous	205,562	94,437
Tax and penalties	177,868	4,798,047
Entertainment	57,268	98,699
Bank charges	15,392	27,778
License and registration	10,697	18,252
Donations	-	14,984
Recruitment and training	-	10,350
Advertising	(193,294)	1,602,047
	55,208,289	**93,246,452**

9.1 Salaries and benefits

	2023	2022
Salaries	11,604,451	12,401,172
Other staff benefits	3,030,278	4,695,488
Pension - defined contribution plan	1,201,144	1,129,138
Annual leave expenses	1,051,911	475,763
	16,887,784	**18,701,561**

9.2 During the reporting period, the company disposed of equipment repossessed from lessees.

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10 Impairment provisions and write-offs

	2023 ETB	2022 ETB
Leased assets written-off	200,540,819	78,189,265
Expected credit loss on lease receivables	4,827,116	(3,591,167)
Provision for early termination of contracts	(59,415,214)	34,812,860
	145,952,721	**109,410,958**

Leased assets written-off of ETB 200,540,819 represent non-performing lease contracts of agricultural equipment that the Company terminated.

Provision for early termination of lease contracts is determined on the basis of estimated costs of refurbishment, storage, remarketing and redeployment that the Company expects to incur in relation to machinery and equipment repossessed from lessees. Part of this provision relates to the value of leased assets which are significantly damaged when repossessed and no economic benefit is expected to flow to the Company from their future use and assets that the Company could not repossess for various reasons.

11 Finance costs, net

	2023 ETB	2022 ETB
Interest expense on long-term loan	25,673,866	20,350,490
Interest expense on lease liability	370,180	427,536
	26,044,046	**20,778,026**

12 Foreign exchange gain / (loss)

Realised net (loss)	(592,078)	(341,327)
Unrealised (loss)/ gain , net	(1,591,591)	892,230
	(2,183,669)	**550,903**

13 Earnings per share

	2023 ETB	2022 ETB
(Loss) attributable to ordinary shareholders	(198,130,088)	(113,923,980)
Weighted average number of ordinary shares	400,000	400,000
Basic earnings per share	**(495)**	**(285)**
Diluted earnings per share	**(495)**	**(285)**

Basic earnings per share (EPS) is calculated by dividing the profit/(loss) after tax to the weighted average number of ordinary shares in issue during the year. No convertible instruments are converted or issued, or options or warrants are exercised, or ordinary shares are issued, upon the satisfaction of specified conditions, hence no dilution of shares has occurred.

14 Retained earnings

	2023 ETB	2022 ETB
At the beginning of the year	(295,645,105)	(181,721,125)
Loss for the year	(183,168,051)	(129,747,192)
Profit tax (expense)/credit	(14,962,037)	15,823,212
At 30 June	**(493,775,193)**	**(295,645,105)**

15 Income tax

i. Deferred tax assets

	2023 ETB	2022 ETB
Deferred tax assets	**13,344,346**	**23,299,705**

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

ii. Income tax expense/(credit)

	2023	2022
Income tax expense - current (Note 15 (iii)	5,006,678	5,572,635
Income tax expense/(credit) - deferred (Note 15 (iv)	9,955,359	(21,395,847)
	14,962,037	**(15,823,212)**

15 Income tax (continued)

iii. Income tax expense/(credit) - current tax

	2023 ETB	2022 ETB
Loss before tax	**(183,168,051)**	**(129,747,192)**
Add:		
Gross payment received from lessees	162,944,416	233,504,771
Gain on disposal of equipment	155,545,680	-
Provision for early termination of contracts	(59,415,214)	34,812,860
Other non-allowable expense	16,141,821	58,932,479
Unrealised loss on foreign exchange gain, net	2,183,669	(550,903)
Leased assets written-off	200,540,819	78,189,265
Tax and penalties	177,868	4,798,047
Depreciation as per the Company's policy	469,164	1,061,867
Lease amortisation	1,384,187	999,248
Annual leave expenses	1,051,911	475,763
Interest on lease liabilities	370,180	427,536
Entertainment	57,268	98,699
Default interest	4,611,861	-
Loss on disposal of equipment	5,736,634	-
Donations	-	14,984
Provision for impairment of lease receivables	4,827,116	(3,591,167)
Less:		
Realised exchange loss on borrowings	(105,965,771)	(85,428,772)
Technical assistance fee	(77,344,588)	-
Interest income and risk premiums recognised	(33,974,050)	(69,542,641)
Depreciation as per the tax law - Assets leased to customers	(37,610,086)	(57,909,443)
Maintenances fees paid	(3,270,682)	(16,840,804)
Contract termination fees	(12,371,204)	(13,394,461)
Gain on insurance recovered on damaged equipment	1,772,830	-
Insurance expenses	(4,785,098)	(6,858,942)
Income taxed at source	(31,831)	(2,356,652)
Amortisation -pre-operational expenditures	(2,255,078)	(2,255,079)
Loss on disposal_Purchase option exercise	(19,530,106)	(1,994,459)
Rent expense	(1,644,807)	(1,514,511)
Gain / (loss) on lease modifications	834,510	(1,493,366)
Depreciation per tax law fixed assets	(419,529)	(629,766)
Gain purchase option exercise	-	(315,947)
Annual leave paid	(174,913)	(315,965)
Net taxable Profit/(loss)	**16,688,926**	**18,575,450**
Income tax expense at 30% - current	**5,006,678**	**5,572,635**

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15 Income tax (continued)

For local tax purposes, the "rent" received by the Company according to a lease agreement is treated as income in compliance with Article 16(2) of the Capital Goods Leasing Business Proclamation No.103/1998.

A depreciation allowance on leased capital goods is calculated at an annual rate of 15% of the original value of the assets on a straight line basis. As the lease assets will not be fully depreciated in the standard lease periods of 2 to 5 years, it is assumed that the difference between the carrying amounts of the leased assets at the end of their lease periods and their purchase option exercise prices will be available for tax relief.

iv) Deferred income tax credit/(expense)

	Deferred tax asset at 1 July 2022	Current year's deferred tax income/ (expense)	Deferred tax asset at 30 June 2023
Property, plant and equipment	53,146	68,358	121,504
Provision for employee benefits	455,681	263,321	719,002
Pre-operational expenditures	676,523	(676,523)	-
Deferred tax on technical service fee	22,114,355	(19,665,524)	2,448,831
Deferred tax on unrealised foreign currency exchange loss	-	7,573,862	7,573,862
Deferred tax on temporary differences between net book value of leased asset and lease receivable	-	2,481,147	2,481,147
	23,299,705	**(9,955,359)**	**13,344,346**

	Deferred tax asset at 1 July 2021	Current year's deferred tax income/ (expense)	Deferred tax asset at 30 June 2022
Property, plant and equipment	143,070	(89,924)	53,146
Provision for employee benefits	407,741	47,940	455,681
Pre-operational expenditures	1,353,047	(676,524)	676,523
Deferred tax on technical service fee	-	22,114,355	22,114,355
	1,903,858	**21,395,847**	**23,299,705**

v) Provision for income tax

	2023 ETB	2022 ETB
Balance at the beginning of the year	5,556,120	6,021,328
Charge for the year (Note 15 (iii))	5,006,678	5,572,635
Less: withholding tax receivable	(1,443,440)	(16,515)
Payment during the year	(5,556,120)	(6,021,328)
Balance at the end of the year	**3,563,238**	**5,556,120**

16 Property, plant and equipment

	Leasehold Improvements - Office Partition	Computers, Software and communication devices	Office Furniture and Equipment	Total
Cost:				
At 01 July 2021	1,382,899	1,063,156	1,040,184	3,486,239
Additions	-	347,306	-	347,306
Currency translation differences	269,776	236,359	202,919	709,054
At 30 June 2022	1,652,675	1,646,821	1,243,103	4,542,599
At 01 July 2022	1,652,675	1,646,821	1,243,103	4,542,599
Additions	-	-	-	-
Currency translation differences	92,300	91,973	69,426	253,699
At 30 June 2023	1,744,975	1,738,794	1,312,529	4,796,298
Accumulated depreciation:				
At 01 July 2021	742,870	442,194	319,776	1,504,840
Charge for the Year	278,759	613,091	170,020	1,061,870
Currency translation differences	348,842	276,562	161,390	786,794
At 30 June 2022	1,370,471	1,331,847	651,186	3,353,504
At 01 July 2022	1,370,471	1,331,847	651,186	3,353,504
Charge for the year	55,202	242,653	171,309	469,164
Currency translation differences	144,804	117,480	169,640	431,924
At 30 June 2023	1,570,477	1,691,980	992,135	4,254,592
Net book values:				
At 30 June 2022	**282,204**	**314,974**	**591,917**	**1,189,095**
At 30 June 2023	**174,498**	**46,814**	**320,394**	**541,706**

17 Right-of-use assets

	2023 ETB	2022 ETB
Cost:		
At the beginning of the year	5,087,325	4,256,891
Elapsed lease contracts	(3,443,672)	-
Lease contract extension	4,977,429	-
Currency translation differences	(1,456,644)	830,434
	5,164,438	5,087,325
Amortisation:		
At the beginning of the year	4,380,756	2,246,694
Current year amortization	1,384,187	999,248
Elapsed lease contracts	(3,443,672)	-
Currency translation differences	(1,322,306)	1,134,814
	998,965	4,380,756
Net book value	**4,165,473**	**706,569**

18 Finance lease receivables

The main line of business of the Company is leasing capital equipment. Outstanding lease contracts values are presented in the statement of financial position at an amount equal to the net investment in the lease.

i. Maturity Analysis

	2023 ETB	2022 ETB
Non-current portion	63,548,574	160,413,756
Less : expected credit loss	(1,750,696)	(1,658,087)
Non-current portion, net	**61,797,878**	**158,755,669**
Current portion	63,629,872	149,299,635
	125,427,750	**308,055,304**

Movements of finance lease receivables for the year ended 30 June 2023 are as follows:

	2023 ETB	2022 ETB
Balance at 1 July	308,055,304	498,598,528
Add: New leases commenced in the year	-	33,916,946
Less: Collections made during the year	(106,058,576)	(139,275,818)
Contracts terminated in the year	(93,072,736)	(162,581,377)
Write-offs and modifications	2,142,581	205,682
Currency translation differences	16,111,873	78,849,430
Gross balance at 30 June	**127,178,446**	**309,713,391**
Allowance for impairment losses	(1,750,696)	(1,658,087)
	125,427,750	**308,055,304**

The following are the remaining contractual maturities of finance lease receivables at the reporting date. The amounts below are contractual discounted cash flows.

At 30 June 2023	**Less than 1 year**	**from 1 year to 2 years**	**from 2 years to 3 years**	**from 3 years to 4 years**
Discounted lease payments	**63,629,872**	**33,664,838**	**29,883,736**	**-**

18 Finance lease receivables (continued)

i. Maturity Analysis (continued)

At 30 June 2023	Less than 1 year	from 1 year to 2 years	from 2 years to 3 years	from 3 years to 4 years
Net investment in the lease	63,629,872	33,664,838	29,883,736	-
Unearned finance income	15,552,511	7,879,800	2,321,244	-
Discounted lease payments	**79,182,383**	**41,544,638**	**32,204,980**	**-**

During the reporting year lease contracts amounting to ETB 93m were terminated. Contracts are terminated due to the customers' inability to fulfill their contractual obligation under the lease contract.

ii. Expected credit loss on lease receivables

	As at 1 July 2022 ETB	Charge for the Year ETB	Currency translation differences ETB	As at 30 June 2023 ETB
Expected credit loss	**1,658,087**	**-**	**92,609**	**1,750,696**

19 Inventories

	2023 ETB	2022 ETB
Inventories on hand	74,408,722	441,540,894
Inventories yet to be collected from lessees	-	140,677,208
Provision for early termination of contracts	(11,150,366)	(67,296,824)
	63,258,356	**514,921,278**

Inventories yet to be collected from lessees represent the value of leased assets, the contracts of which were terminated and the Company has yet to repossess. In the reporting period, Inventories yet to be collected from lessees are written off from the company account as the management deemed the recoverability of those assets to be remote.

Provision for early termination of leases is based on estimates associated with refurbishment, storage, remarketing and redeployment costs to be incurred on assets repossessed from lessees. Part of this provision is related to the value of leased assets which are significantly damaged when repossessed or non-recoverable and no economic benefit is expected to flow to the Company from their future use.

19 Inventories (continued)

Inventories on hand consist of the following

	2023 ETB	2022 ETB
Assets repossessed from customers	57,560,281	385,210,338
New assets to be leased to customers	16,848,440	56,330,556
	74,408,722	**441,540,894**

As at the contract termination date, the outstanding lease receivable balance represents the value of repossessed assets. It is on this value that the Company estimates and accounts for impairment losses, on the basis of the assumptions used to determine early termination provisions.

The Company has assessed the value of purchased inventories that are available for lease and found them to be unimpaired. As a result, no provision or write-down was made in connection with these items.

20 Advances, prepayments and deposits

	2023 ETB	2022 ETB
Prepayments	839,575	1,159,004
Advances	62,692	69,582
Deposits	52,700	52,700
	954,967	**1,281,286**

21 Accounts receivable

	2023 ETB	2022 ETB
Receivable under lease contracts (Note 22.1)	5,167,867	27,737,322
Insurance recoverable (Note 22.2)	2,336,405	2,918,242
	7,504,272	**30,655,564**

21.1 Receivable under lease contracts

Principal, interest, maintenance and risk premiums that are due for collection are reported as receivable from lease contracts.

21.2 Insurance recoverable

Insurance recoverable represents insurance paid on behalf of lessees.

22 Cash and cash equivalents

	2022 ETB	2022 ETB
Cash at bank - USD account	1,529,743	1,448,828
Cash at bank - ETB account	82,502,115	15,038,134
	84,031,858	**16,486,962**

23 Payable to related parties

	2023 ETB	2022 ETB

23.1 Payables to related parties

	2023 ETB	2022 ETB
Due to AAFC Inc (Note 24.1 (i))	5,720,801	73,594,634
Due to AEPC	-	(10)
	5,720,801	**73,594,624**

(i) Due to AAFC Inc

	2023 ETB	2022 ETB
Accounts payable	5,720,801	70,741,644
Interest accrued on long-term loan	-	2,852,980
	5,720,801	**73,594,624**

23.2 Debt service reserve account

	2023 ETB	2022 ETB
Debt service reserve account	-	**104,976,581**

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Certified Audit Firm

23.3 Long-term loan

i. Maturity analysis

	2023 ETB	2022 ETB
Current	37,401,812	281,026,086
Non-current	42,794,106	28,493,741
	80,195,918	**309,519,827**

ii. Movements during the year

Opening balance	309,519,827	327,919,426
Accrued interest	-	14,152,804
Repayments	(239,018,033)	(248,504,652)
Currency translation differences	(9,694,123)	215,952,249
Ending balance	**80,195,918**	**309,519,827**

The Company borrows at least 60% of the cost of equipment for lease from its parent company AAFC Inc at interest of LIBOR + relevant spread. The repayment term of the long term loan coincides with the lease term of the equipment to be leased out which in turn determines the relevant spread of the interest. The long term loan has been approved by the National Bank of Ethiopia and is repayable quarterly

24 Lease liabilities

i. Maturity analysis

	2023 ETB	2022 ETB
Expected to be settled with in one year	2,325,387	-
Expected to be settled after one year before two years	1,150,612	-
	3,475,999	**-**

ii. Movements during the year

Opening balance	-	1,486,776
Additions	4,977,429	-
Principal repayment	(1,911,400)	(1,486,776)
Interest accrued	370,180	-
	39,790	
Balance as at 30 June	3,475,999	-

Amount recognised in the statement of cash flows

Finance lease liability paid	1,911,400	1,486,776

Amount recognised in the statement of profit and loss

Finance cost	370,180	427,536
Amortisation expense - right-of-use assets (Note 17)	1,384,187	999,248
	1,754,367	**1,426,784**

25 Lease security deposits

Maturity analysis	2023 ETB	2022 ETB
Current	-	-
Non-current	36,737,658	56,071,247
	36,737,658	**56,071,247**

Lease security deposits are collected from customers upon signing of lease contracts to serve as security to the lease agreements. Provided that the customer has not made any default, the Company will refund the deposit to the customer in full, with no interest calculated on the deposit. Any time that the customer is in default, the security deposit of that customer will be used for settlement of any outstanding claim the Company may have from the customer at the time of contract default. Any excess deposit after settlement of a claim will be transferred to profit or loss.

26 Other liabilities

	2023 ETB	2022 ETB
Other liabilities	10,354,793	24,888,291
Accruals	2,656,755	1,518,937
Employee income tax payable	416,275	350,188
Contract liabilities	18,610,391	274,450
Pension contribution	180,490	153,193
Withholding tax	66,829	66,386
	32,285,533	**27,251,445**

27 Share capital

	2023 ETB	2022 ETB
Subscribed and fully paid 400,000 shares of Birr 1,000 each	400,000,000	400,000,000

28 Capital to be registered

	2023 ETB	2022 ETB
	6,067,801	**6,067,801**

Capital to be registered represents the excess capital contribution made by the shareholders by remitting USD 14,000,069 which was converted at ETB 406,067,800, while the registered capital of the Company was ETB 400,000,000.

29 Currency translation reserve

	2023 ETB	Charged to profit or loss	2022 ETB
Currency translation reserve	224,956,973	15,753,750	209,203,223

Currency translation reserve results from translating the financial statements of the Company from its functional currency of the United States Dollar (USD) to its presentation currency of Ethiopian Birr (ETB). This amount is recognised in the equity section as 'Currency Translation Reserve'.

30 Cash generated from operations

Reconciliation of (loss) before income tax to cash	Notes	2023 ETB	2022 ETB
(Loss) before tax		(183,168,051)	(129,747,192)
Adjusted for:			
Currency translation reserve	29	15,753,750	52,636,180
Depreciation and amortisation	16,17	962,969	3,982,726
Provision for early termination of contracts	19	(56,146,458)	34,197,437
Expected credit loss on lease receivables	18	92,609	(2,862,051)
		(222,505,181)	(41,792,900)
Changes in :			
Goods in transit		-	28,615,426
Inventories	19	507,809,380	(157,415,545)
Advances, prepayments and deposits	20	326,319	(46,940)
Accounts receivable	21	23,151,292	(18,767,351)
Debt service reserve account	23.2	(104,976,581)	17,135,935
Payable to related parties	23.1	(65,020,843)	49,699,993
Other liabilities	26	5,034,088	8,454,239
Finance lease receivables	18	182,534,945	188,885,137
		548,858,600	116,560,894
Cash generated from/(used in) operations		326,353,419	74,767,994

31 Related party transactions

The following transactions were entered into during the year with related parties that the Company had during the year. All transactions the Company made with its related parties were on arm's length basis.

Nature of transactions	2023 ETB	2022 ETB
Technical assistance and management fees payable	(5,720,801)	(70,741,644)
Loans from related parties	(80,195,918)	(309,519,827)
Debt service reserve account	-	(104,976,581)
Interest accrued on loans	-	(2,852,980)

The following amounts were recognised in profit or loss for the year

	2023 ETB	2022 ETB
Technical assistance and management fee	16,141,821	58,932,479
Interest expense	25,673,866	20,350,490

Key management compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Company. The compensation paid or payable to key management is shown below. There were no sales or purchase of goods and services between the Company and the key management personnel in the year ended 30 June 2023.

	2023 ETB	2022 ETB
Board of Directors related expenses	1,643,220.11	1,475,569.35
Short-term employee benefits	7,524,388.34	7,049,300.00
Post-employment benefits	736,222.50	742,500.00

AAFV BV, a Company incorporated in the Netherlands, is the parent company of Ethio Lease.

32 Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

33 Financial risk management

The Company has exposure to the following risks arising from financial instruments:

i. Credit risk
ii. Liquidity risk
iii. Market risk

i. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's finance lease receivables from lessees. Receivables arising from transactions other than its core business of finance lease are insignificant and carry an immaterial risk to the Company.

The carrying amounts of financial assets represent the maximum credit exposure.

The Company collects advances from its lessees; thus, limiting its exposure to credit risk. The Company further requires each lessee to make an upfront security deposit, which is fully refundable at the end of the lease contract given the lessee meets all his contractual obligations.

a. Expected credit loss (ECL) assessment

The Company measures the loss allowance at an amount equal to lifetime expected credit losses using the simplified approach prescribed by IFRS 9 Financial Instruments. The Company uses the probability of default approach to measure the life time expected credit losses from the outstanding lease receivables. The approach adopted by the Company is based on the historically observed default rates adopted from other similar industries, adjusted for forward looking estimates. The approach also stresses the following points as prescribed by the standard:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money.
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The life time expected credit loss is thus the result of the following three factors:

1. Probability of default (PD) – this is the likelihood that a debtor will default on its debts (goes bankrupt or so) within certain period of time;
2. Loss given default (LGD) – this is the percentage that the entity can lose when the debtor defaults; and
3. Exposure at default (EAD) – this is the amount that the debtor owes the entity at the time of default.

33 Financial risk management (continued)

b. Cash and cash equivalents

The Company held cash and cash equivalents of ETB 84 million at 30 June 2023 (2022: ETB 16.49million). The cash and cash equivalents are held with banks.

Impairment on cash and cash equivalents has been measured on a 12-months expected credit loss basis.

Based on the assessment of ECLs for cash and cash equivalents, the exposure to credit risk for this financial instrument is low. Thus, no impairment loss is recognised with respect to this financial instrument.

ii. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities. The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts disclosed below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

At 30 June 2023	Less than 6 months ETB	From 6 to 12 months ETB	More than 12 months ETB	Total ETB
Other liabilities	32,285,533	-	-	32,285,533
Security deposits	-	-	36,737,658	36,737,658
Inter-company payables	-	37,401,812	48,514,907	85,916,719
Lease liabilities		2,325,387	1,150,612	3,475,999
	32,285,533	**39,727,200**	**86,403,176**	**158,415,909**

At 30 June 2022	Less than 6 months ETB	From 6 to 12 months ETB	More than 12 months ETB	Total ETB
Other liabilities	27,251,445	-	-	27,251,445
Security deposits	-	-	56,071,247	56,071,247
Inter-company payables	-	281,026,086	102,088,365	383,114,451
Debt service reserve account	-	-	104,976,581	104,976,581
	27,251,445	**281,026,086**	**263,136,193**	**571,413,724**

34 Financial risk management (continued)

iii. Market risk

Market risk is the risk that changes in market prices, e.g., foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

a. Exchange rate risk

The following are the monetary assets and liabilities denominated in Ethiopian Birr as at the year end:

	2023 ETB	2022 ETB
ETB denominated financial assets		
Accounts receivable	2,336,405	2,918,242
Cash and cash equivalents	82,502,115	15,038,134
ETB denominated financial liabilities		
Security deposits	36,737,658	56,071,247
Other liabilities	32,285,533	27,251,445

The following table details the Company's sensitivity to a 20% increase and decrease in the exchange rate of the Ethiopian Birr against the US Dollar. The Ethiopian Birr has devalued on average at 20% between 1 July 2022 and 30 June 2023. The sensitivity analysis reflects this trend. The sensitivity analysis is based on the outstanding foreign currency denominated monetary items only and adjusts their translation at the period end for a 20% change in foreign currency rates. The positive number below indicates an increase in profit or equity for a 20% change in the exchange rates and a negative number indicates a decrease in profit or equity for a 20% change in the exchange rates.

	2023 ETB	2022 ETB
Effect on profit or loss and other comprehensive income, equity for a 20% appreciation	3,163,066	(13,073,263)
Effect on profit or loss and other comprehensive income, equity for a 20% depreciation	(3,163,066)	13,073,263

b. Interest rate risk

The Company faces interest rate risk as the borrowing rate depends typically on the three months LIBOR rate.

	2023 ETB	2022 ETB
Financial liabilities:		
Inter-company borrowings	80,195,918	309,519,827

34 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The gearing ratio is calculated as net debt divided by equity. Net debt comprises total current and non-current borrowings, security deposits and lease liabilities. Equity comprises paid up capital, capital to be registered, legal and currency translation reserves, and retained earnings.

The National Bank of Ethiopia, the Company's regulatory body, requires the Company to maintain at least a 10% capital adequacy ratio, which is the ratio of the risk weighted assets of the Company divided by the total capital. As of the reporting date, the Company has fully complied with this requirement.

The Company's gearing ratio at period end;

	2023 ETB	2022 ETB
Equity	137,249,581	319,625,919
Net debt	120,409,575	365,591,074
Total investment	257,659,156	685,216,993
Gearing ratio	**47%**	**53%**

35 Contingent liabilities

The Company is under a comprehensive tax audit for the years ended 30 June 2022. The assessment result is unknown at the time of the financial statement approval.

36 Subsequent events

In the opinion of the Management of the Company, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Company as at the reporting date and on the profit or loss for the period ended on that date.

Annex 1 Property, plant and equipment_ tax base

	Leasehold Improvements - Office Partition ETB	Computers, Software and communication devices ETB	Office Furniture and Equipment ETB	Total ETB
Cost:				
At 01 July 2021	920,335	872,766	761,376	2,554,477
Additions/(Disposals)	-	347,306	-	347,306
At 30 June 2022	**920,335**	**1,220,072**	**761,376**	**2,901,783**
At 01 July 2022	920,335	1,220,072	761,376	2,901,783
Additions/(Disposals)	-	-	-	-
At 30 June 2023	**920,335**	**1,220,072**	**761,376**	**2,901,783**
Accumulated depreciation:				
At 01 July 2021	550,120	205,374	150,275	905,769
Charge for the period	306,778	208,782	114,206	629,766
At 30 June 2022	**856,898**	**414,156**	**264,481**	**1,535,535**
At 01 July 2022	856,898	414,156	264,481	1,535,535
Charge for the period	63,436	241,886	114,206	419,529
At 30 June 2023	**920,334**	**656,042**	**378,687**	**1,955,064**
Carrying amounts:				
At 30 June 2022	**63,437**	**805,916**	**496,895**	**1,366,248**
At 30 June 2023	**-**	**564,030**	**382,689**	**946,719**

Annex 2 Pre-operational expenditures _ tax base

	Balance at 1July 2022 ETB	Additions ETB	Balance at 30 June 2023 ETB
Cost:			
Pre-operational expenditures	9,020,315	-	9,020,315
Amortisation:			
Charge for the year	6,765,237	2,255,078	9,020,315
Net book value	**2,255,078**		-