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**KADISCO PAINT AND ADHESIVE INDUSTRY S.C.**

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# Company's information

For the year ended 31<sup>st</sup> March, 2015

Registration No.	:	08/2/04286/96
Licence No.	:	08/2/4/4251/96
Tax Identification No. (TIN)	:	0000015683
Value Added Tax (VAT) No.	:	012658
Registered Office	:	Addis Ababa Ethiopia
Auditors	:	TSY Audit Services Chartered Certified Accountants P.O. Box 22848.Code 1000 Addis Ababa Ethiopia
Bankers	:	Commercial Bank of Ethiopia P.O. Box 255 Addis Ababa Ethiopia  Dashen Bank S.C. P.O. Box 12752 Addis Ababa Ethiopia

# Independent Auditors' Report

The Shareholders of Kadisco Paint and Adhesive Industry S.C.

We have audited the financial statements of "Kadisco Paint and Adhesive Industry S.C." set out on pages 4 & 5 which have been prepared under the historical cost convention and the accounting policies set out from pages 6 to 10.

## **Respective Responsibilities of Management and Auditors**

The company's management is responsible for the preparation of the financial statements. Based on our audit, it is our responsibility to form an independent opinion on those statements and to report our opinion to you.

## **Basis of opinion**

We conducted our audit in accordance with the International Standards on Auditing and accordingly included such tests of the financial records and other auditing procedures as we considered necessary under the circumstances. An audit includes examination, on a test basis, of evidences relevant to the amounts and disclosures in the financial statements. An audit also includes assessment of the significant estimates and judgements made by the management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances and adequately disclosed. We believe that our audit provides a reasonable basis for our opinion.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give a reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud, other irregularity

or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Unqualified opinion**

In our opinion, the financial statements, when read together with the notes set out from pages 6 to 17 thereon, give a true and fair view of the financial position of the company as at 31 March, 2015 and of the results of its operations for the period then ended, in conformity with the International Financial Reporting Standards (IFRS).

## **Basis of Accounting and Restriction on Distribution and Use**

Without modifying our opinion, we draw attention to the fact that the financial statements have been prepared in accordance with the International Financial Reporting Standards. The financial reports have been prepared to assist Kadisco Paint and Adhesive Industry S.C. to consolidate the said financial statements with its holding company. As a result, the financial statements may not be suitable for other purposes. Our report, therefore, is intended exclusively for Kadisco Paint and Adhesive Industry S.C. and the holding company and should, therefore, not be distributed to or used by any other party.

**TSY Audit Services**

Auditors of

Kadisco Paint and Adhesive Industry S.C.

Addis Ababa, Ethiopia

Date : 7 April, 2015

# Balance Sheet

as at 31<sup>st</sup> March, 2015

Currency: Birr

Assets employed :	Notes	31/03/15		30/06/14
Fixed assets - net	3		26,159,796.71	23,249,359.68
Leasehold land - net	4		3,696,806.72	3,751,591.81
Investment	5		2,500,000.00	2,500,000.00
<b>CURRENT ASSETS</b>				
Stock	6	131,827,546.89		118,486,260.88
Deferred tax asset		1,195,196.42		-
Debtors	7	21,954,822.76		27,617,446.06
Shareholder's account (Dr)		-		1,071,744.76
Cash	8	24,617,455.08		43,730,459.31
			179,595,021.15	190,905,911.01
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>				
Trade & other creditors	9	12,637,282.40		3,173,630.89
Provision for severance pay		1,179,162.00		-
Provision for leave pay		527,477.00		-
Proposed dividend		39,701,281.00		-
Taxation	10	26,881,930.37		11,343,954.55
Bank overdraft	11	4,253,940.99		15,798,923.23
			(85,181,073.76)	(30,316,508.67)
Net current assets			94,413,947.39	160,589,402.34
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>				
Long-term liability	12		(2,294,773.33)	(2,294,773.33)
Net assets			124,475,777.49	187,795,580.50
<b>CAPITAL &amp; RESERVES:</b>				
Capital	1.1 & 13	100,000,000.00		100,000,000.00
Legal reserve	14	16,553,792.55		10,000,000.00
Profit & loss account	15	7,921,984.94		77,795,580.50
			124,475,777.49	187,795,580.50

The notes set out from pages 7 to 17 form part of these accounts.

# Profit and Loss Statement

## for the 9-month period ended 31<sup>st</sup> March, 2015

Currency: Birr

	Notes	for the 9-month period ended 31/03/15		for the 12-month period ended 30/06/14	
<b>SALES</b>	16		360,439,870.16		391,677,532.93
Less: cost of goods sold	17		(258,320,036.81)		(277,112,009.55)
Gross profit			102,119,833.35		114,565,523.38
Other income	18		998,007.19		2,625,802.07
			103,117,840.54		117,191,325.45
<b>EXPENSES:</b>					
Selling & administration	19	21,790,667.28		7,757,659.94	
Interest		516,125.91		875,144.19	
Audit fees & expenses		73,333.33		47,500.00	
			(22,380,126.52)		(8,680,304.13)
Profit for the peiod before profit tax			80,737,714.02		108,511,021.32
Provision for profit tax					
Current tax	10.3	27,755,851.95			
Deffered tax		(1,195,196.42)			
			(26,560,655.53)		(32,139,554.02)
Net profit for the period after profit tax			54,177,058.49		76,371,467.30
Provision for legal reserve	14		(6,553,792.55)		-
			47,623,265.94		76,371,467.30
Dividend payable			(39,701,281.00)		-
Net profit for the period	15		7,921,984.94		76,371,467.30

# Notes forming part of the Accounts

## at the 9-month period ended 31<sup>st</sup> March, 2015

### 1 Introduction

#### 1.1 Formation & status

- 1.1.1 During the previous year, as per Articles 536 & 547 of the Commercial Code of Ethiopia (1960), the former "KADISCO CHEMICAL INDUSTRY PLC." was converted into a company limited by shares. Moreover, the name of the former Private Limited Company was also changed to "KADISCO PAINT AND ADHESIVE INDUSTRY S.C.". The capital structure, however, remains unchanged.
- 1.1.2 During the period under review, a total No. of 51,000.00 shares i.e (51%) have been acquired by Berger International Limited registered in Singapore for a total consideration at present, the company manufactures adhesives, glue for the wood, shoe, leather etc. industries of BR 382,500,000.0 from the previous shareholders.

#### 1.2 Business activities

At present, the company manufactures adhesives, glue for the wood, shoe, leather etc. industries as well as paint for the decorative, industrial protective and automotive refinishing sectors.

### 2. Accounting policies

The major accounting policies adopted by the management are:

#### 2.1 Basis of preparation

The financial statements are prepared under the historical cost convention, except as disclosed in the accounting policies below, and are prepared in accordance with the International Financial Reporting Standards ("IFRS"). The reporting and functional currency is Birr.

#### 2.2 Financial instruments

Financial assets and financial liabilities are recognized in the company's financial statements when the company becomes a party to the contractual provisions of the instrument.

The carrying amount of the company's financial instruments approximate their fair values due to the short term nature of the balance involved. These instruments are measured as set out below:

##### 2.2.1 Trade and other receivables

Trade and other receivables are measured at amortized cost using the effective interest method less impairment.

##### 2.2.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and bank overdrafts and are subject to an insignificant risk of changes in value.

##### 2.2.3 Financial liabilities and equity

Financial liabilities and equity instruments issued by the company are classified according to the

substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

##### 2.2.4 Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### 2.2.5 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

##### 2.2.6 Available for sale

After initial measurement, "Available for Sale Financial Assets" are measured at the fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in the profit or loss statement and other comprehensive income.

##### 2.2.7 Held-to-Maturity

Held-to-Maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the company has the positive intention and ability to hold to maturity.

Subsequent to the initial measurement, Held-to-Maturity investments are measured at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

### 2.3 Inventories

Inventories are stated at the lower of cost (weighted average method) and net realisable value. Cost includes all costs of purchase, cost of conversion- and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling, and distribution.

The cost of raw materials is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

The cost of finished goods includes raw materials costs and other direct expenditure and production overheads at normal level of activity.

### 2.4 Property, plant and equipment

Property, plant and equipment are stated at cost or deemed

# Notes forming part of the Accounts

## at the 9-month period ended 31<sup>st</sup> March, 2015

cost less accumulated depreciation and any accumulated impairment losses.

Free hold buildings are stated at cost less accumulated depreciation; and depreciation is provided on the straight line method at the rate of 2% per annum.

Depreciation on other fixed assets is provided over their useful life using the straight line method, at following rates:

Leasehold land and building	–	2% to 20%
Plant & equipment	–	8 to 25%
Motor vehicles	–	20 to 25%
Furniture & fittings	–	8 to 20%
Office equipment	–	8 to 20%
Computers & Information Systems	–	8 to 25%

Depreciation is not provided on freehold land and capital work in progress.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the assets and is recognized in the profit & loss statements.

### 2.5 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

### 2.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

#### Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### 2.7 Employee benefits

#### Defined benefit post retirement plan

##### (i) Severance pay and compensation

The company provides benefits of severance pay and compensation to qualifying employees upon retirement. The entitlement to these benefits is usually based on last drawn salary at the time of retirement in accordance with the local laws. The expected cost of these benefits are accrued over the period of employment, using an accounting methodology similar to that for the defined benefit pension plans.

##### (ii) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

### 2.8 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

#### Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

##### (i) Allowances for doubtful debts

The company makes allowances for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed.

# Notes forming part of the Accounts

at the 9-month period ended 31<sup>st</sup> March, 2015

## 3. FIXED ASSETS-NET

These are:

Description:	Cost/ valuation			At 31/03/15
	At 01/07/14	Additions	Adjustment	
Buildings	18,487,105.51	-	-	18,487,105.51
Machinery	19,354,291.28	5,259,331.45	-	24,613,622.73
Motor vehicles	6,479,873.40	756,521.74	(762,600.00)	6,473,795.14
Furniture & fixtures	646,840.50	60,961.92	-	707,802.42
Kquipment	205,410.50	5,000.00	-	210,410.50
Computers & Info, Systems	773,708.72	94,299.17	-	868,007.89
Others	593,927.29	213,616.00	-	807,543.29
	46.541,157.20	6.389,730.28	(762,600.00)	52,168.287.48
Description:	Depreciation			At 31/03/15
	At 01/07/14	Current period	Adjustment	
Buildings	6,594,596.96	693,336.27	-	7,287,933.23
Machinery	12,322,995.56	1,533,263.47	-	13,856,259.03
Motor vehicles	3,127,397.22	773,823.27	(558,768.00)	3,342,452.49
Furniture & fixtures	459,891.24	. 45,532.25	-	505,423.49
Kquipment	151,121.92	20,342.32	-	171,464.24
Computers Sc Info. Systems	491,264.49	125,142.16	-	616,406.65
Others	144,530.13	84,021.51	-	228,551.64
	(23,291,797.52)	(3,275,461.25)	558,768.00	(26,008,490.77)
Net book value	23,249,359.68			26,159,796.71



# Notes forming part of the Accounts

at the 9-month period ended 31<sup>st</sup> March, 2015

	31/03/15	30/06/14
<b>4. LEASEHOLD LAND - NET</b>		
This is:		
Leasehold land - First lease		
Opening balance - 01/07/14	985,091.81	1,007,838.60
Less: amortization for the period (Note 19)	(17,060.09)	(22,746.79)
	968,031.72	985,091.81
Leasehold land - Second lease		
Opening balance - 01/07/14	2,766,500.00	2,816,800.00
Less: amortization for the period (Note 19)	(37,725.00)	(50,300.00)
	2,728,775.00	2,766,500.00
Ending balance - 31/03/15	3,696,806.72	3,751,591.81
<b>5. INVESTMENT - Br. 2,500,000.00</b>		
5.1 This is:		
Bond - Abay Dam (Note 5.2)	2,500,000.00	2,500,000.00
5.2 The above indicated Br.2,500,000.00 is the value of the investment bond in the Grand Ethiopian Renaissance Dam (Abay Dam) purchased during the year ended 30th June, 2012.		
<b>6. STOCK</b>		
This is:		
Raw materials	88,999,104.40	91,778,949.04
Finished products	17,567,345.93	12,965,411.35
Packing materials	3,456,167.01	2,595,737.23
Inventory overages/ (shortages) - (net)	789,052.34	92,354.56
	110,811,669.68	107,432,452.18
Goods in transit	23,605,850.30	13,643,781.79
	134,417,519.98	121,076,233.97
Less: provision for stock obsolescence	(2,589,973.09)	(2,589,973.09)
	131,827,546.89	118,486,260.88
<b>7. DEBTORS</b>		
7.1 These are :		
Trade	20,130,719.01	17,913,355.86
Associated companies (Note 7.2)	41,464.80	41,464.80
Staff	178,397.49	158,998.79
Pre-payments & deposits	1,491,741.46	9,500,002.93
Sundry	112,500.00	3,623.68
	21,954,822.76	27,617,446.06
7.2 The detail of the Br.41,464.80 balance due from the Associated company is as follows:		
Kadisco General Hospital Ptc. (Note 7.1)	41,464.80	41,464.80
<b>8. CASH</b>		
This is;		
in Hand	596,649.85	4,197.96
at bank	24,020,805.23	43,726,261.35
	24,617,455.08	43,730,459.31

# Notes forming part of the Accounts

at the 9-month period ended 31<sup>st</sup> March, 2015

	31/03/15	30/06/14
<b>9. TRADE &amp; OTHER CREDITORS</b>		
9.1 These are :		
Trade	10,783,782.90	8,059.34
Associated companies (Note 9.2)	1,312,510.17	964,333.65
Sundry	106,232.64	1,667,183.84
Accrued expenses	370,546.02	475,330.38
Pension contributions	64,210.67	58,723.68
	<b>12,637,282.40</b>	<b>3,173,630.89</b>
9.2 The details of the amounts owed to the Associated companies are as follows:		
Samatra Plc.	1,306,828.11	964,333.65
Kadisco General Hospital Plc.	5,682.06	–
(Note 9.1)	<b>1,312,510.17</b>	<b>964,333.65</b>
<b>10. TAXATION</b>		
10.1 This is on account of:		
<b>Personnel Income</b>	364,594.05	109,108.03
Withholding	211,301.19	181,185.46
Value Added Tax (VAT)	166,514.62	650,384.66
Profit (Note 10.2)	26,139,520.51	10,403,276.40
	<b>26,881,930.37</b>	<b>11,343,954.55</b>
10.2 The make-up of the profit tax account is as follows:		
Provision for profit tax (Note 10.3)	27,755,851.95	
Less: withholding tax deducted at source during the period	(1,616,331.44)	
Ending balance - 31/03/15 (Note 10.1)	<b>26,139,520.51</b>	
10.3 The current year's profit tax is arrived at as follows:		
Profit for the period before profit tax	80,737,714.02	
Add: depreciation as per co. Policy	3,275,461.25	
Less: depreciation as per tax laws	(3,254,991.55)	
	20,469.70	
Less: gain on sale of fixed assets (Note 18)	(66,880.83)	
Add: provision for employee benefits	1,706,639.00	
Add back: penalties (Note 19)	11,413.40	
provision for doubtful debts (Note 19)	10,606,577.41	
	<b>93,015,932.70</b>	
Less: interest income- non taxable (Note 19)	(496,426.30)	
Taxable profit	<b>92,519,506.40</b>	
Provision for profit tax		
(Br. 92,519,506.40@30%)	<b>27,755,851.95</b>	

# Notes forming part of the Accounts

## at the 9-month period ended 31<sup>st</sup> March, 2015

### 11. BANK OVERDRAFT - Br,4,253,940.99

The above bank overdraft, and with an upper limit Br. 16,000,000.00, has been obtained from the Yoseph Branch of the Commercial Bank of Ethiopia, The loan is secured by the entire buildings of the company,

### 12 LONG-TERM LIABILITY - Br.2,294,773.33

The above balance is payable to the former Region 14 Administration Lease Board Office and the Akaki Sub-City Land Administration Office.

### 13. CAPITAL

The authorized and paid-up capital of the company is Br. 100,000,000.00 made up of 100,000 shares with par value of Of. 1,000.00 each and is held as follows:

	No. of Shares	Par value	Amount
Berger International Limited	51,000	1,000	51,000,000.00
Khalifa Abdulkadir (Dr.)	23,000	1,000	23,000,000.00
Ato Salahadin Khalifa	7,000	1,000	7,000,000.00
Seifudin Khalifa (Engineer)	14,000	1,000	14,000,000.01
Fozia Khalifa (Dr.)	5,000	1,000	5,000,000.00
	100,000		100,000,000.00

	31/03/15	30/06/14
<b>14. LEGAL RESERVE</b>		
The make-up of the above account is as follows:		
Opening balance - 01/07/14	10,000,000.00	10,000,000.00
Add: current period's provision	6,553,792.55	-
Ending balance - 31/03/15	16,553,792.55	10,000,000.00
<b>15. PROFIT &amp; LOSS ACCOUNT</b>		
The make-up of the above account is as follows:		
Opening balance - 01/07/14	77,795,580.50	
Less: dividend declared	(77,795,580.50)	
Add: net profit for the period	7,921,984.94	
Ending balance - 31/03/15	7,921,984.94	

# Notes forming part of the Accounts

at the 9-month period ended 31<sup>st</sup> March, 2015

	31/03/15	30/06/14
<b>16. SALES</b>		
These are;		
Adhesive products	22,030,838.90	26,390,583.37
Construction products	209,859,572.69	207,525,578.56
Automotive products	67,145,814.20	81,153,615.44
Industrial products	60,316,790.72	68,767,319.58
Wood work products	17,602,445.81	24,187,036.60
	376,955,462.32	408,024,133.55
Less: sales discounts (Note 2.6)	(16,515,592.16)	(16,346,600.62)
	360,439,870.16	391,677,532.93
<b>17. COST OF GOODS SOLD</b>		
These are:		
Adhesive products	16,790,510.94	20,859,921.37
Construction products	147,865,340.08	145,666,922.93
Automotive products	36,458,323.53	43,997,560.54
Industrial products	43,922,365.66	48,302,869.64
Wood work products	13,283,496.60	18,284,735.07
	258,320,036.81	277,112,009.55
<b>18. OTHER INCOME</b>		
These are:		
Fines	429,494.99	8,009.60
Gain on sales of fixed assets	72,086.00	172,712.79
Interest income from bond	187,500.00	-
Interest income from savings accounts Hint	308,926.20	1,548,904.26
Creditors account written off		691,039.28
Sundry	-	205,136.14
	998,007.19	2,625,802.07

# Notes forming part of the Accounts

at the 9-month period ended 31<sup>st</sup> March, 2015

	31/03/15	30/06/14
<b>19. SELLING &amp; ADMINISTRATION EXPENSES</b>		
These are:		
Salaries & wages	2,305,510.49	2,267,385.89
Employees benefits	3,514,883.54	922,657.07
Repairs & maintenance	455,545.74	422,989.35
Insurance	198,617.06	110,204.25
Communications	110,191.07	93,988.22
Stationery & office supplies	362,346.43	138,790.52
License & registration fees	28,545.54	957.00
Vehicle up-keep	279,315.21	371,107.33
Advertisements & promotions	832,714.35	393,449.75
Traveling and per-diem	283,344.71	443,903.67
Bank charges	11,610.00	12,502.20
Penalties (Note 10.3)	11,413.40	991.77
Professional fees	150,619.64	47,850.00
Commissions	3,025.00	1,175.00
Property tax	14,010.86	14,010.86
Bad debts provision & written off (Note 10.3)	10,606,577.41	136,743.12
Amortization (Note 4)	54,785.09	73,046.79
Donations	-	31,994.79
Entertainments	43,981.64	-
Development fund	30,000.00	-
Security	230,755.36	307,140.48
Canteen	208,430.54	97,837.44
Demurrage	-	99,364.00
System development	103,965.79	148,147.83
Depreciation	1,742,197.78	1,389,654.00
Sundry	252,262.27	231,768.61
	<b>21,790,667.28</b>	<b>7,757,659.94</b>