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Office of the Federal Auditor General
Audit Service Corporation

13 October 2023

Ethiopian Investment Holdings
Addis Ababa

Dear Sirs/Madams,

DEVELOPMENT AND HOTEL COMPANY (SHARE COMPANY)
MANAGEMENT LETTER
FOR THE YEAR ENDED 30 JUNE 2022

We hereby submit our findings and recommendations on weaknesses in internal control and other matters which came to our attention during the audit of the financial statements of Development and Hotel Company SC. (hereinafter referred to as the Company) for the year ended 30 June 2022.

It must be appreciated that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily with a view to the expression of our opinion on the financial statements of the Company and therefore our examination cannot be expected to disclose all possible weaknesses in internal control and to uncover all other findings which a more extensive special examination might reveal.

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PROPERTY, PLANT AND EQUIPMENT

- 1.1. A fixed asset register, containing information such as identification number, location, acquisition date and serial number was not maintained. Besides, physical count of the assets was not carried out at the year-end.

Recommendation

Complete and informative register should be maintained for each asset and they should be fully counted at least at the year-end and the counts reconciled with the records for better control.

- 1.2 Included under property, plant and equipment account is construction in progress with aggregate balance of Birr 3,024,503 outstanding since 30 June 2011 and not cleared subsequently either.

Recommendation

These balances should be investigated with the view to take appropriate action and should not be carried forward for indefinite future.

- 1.3 Subsidiary ledger for details of expenditures incurred on imported goods were not maintained and this has made reconciliation of the book record with foreign purchase documents difficult. The total cost of Birr 1,170,333 for 190 of 'American standard Cardiff elongated closed toilet seat' purchased through JV number 010 was determined while the record shows Birr 1,177,210 with a difference of Birr 6,877.

Recommendation

All necessary documents of foreign purchases and the subsidiary ledger and the letter of credit files combining journal voucher raised should be maintained for proper control of procurement expenditures.

- 1.4 Vehicles with plate numbers 3-25891, 3-32386 and 3-47146 with respective cost of Birr 1,300,000, Birr 350,000 and Birr 180,000 respectively, were sold but have not yet been removed from the current recording.

Recommendation

Record balance should be reconciled and updated with vehicle register on timely basis.

TRADE AND OTHER RECEIVABLES

2.1. Trade receivable account includes long outstanding balances totalling Birr 19,779,675 as detailed below:

Description	Debit	Birr
-------------	-------	------

Associated Enterprises	17,994,458	
Sundry debtors	10,151	
Share of profit - AA Hillon	1,775,066	
		<u>19,779,675</u>

The total provision of Birr 18,004,609 held is inadequate to the extent of Birr 1,775,066 and the requirement of write off also has not been considered. Trade and other receivables should be written off when there is no reasonable expectation of recovery.

Recommendation

The long overdue receivables should be considered for provision and subsequently for write off if they are no more recoverable after proper evaluation particularly of the associated enterprises' case.

CREDITORS AND ACCRUALS

3.1 There were differences in recording accrued liabilities:

a) The accruals for audit fee of the period was not considered in full; and

b) Adjustment of Birr 119,000 following the rejection of audit fees arrears by tax office was not necessary as the expenditure is the correct charge of the period.

Recommendation

Accrued liabilities should be maintained correctly irrespective of the tax period.

GENERAL

4.1 Our request to the Lawyer's confirmation on the outcome of outstanding legal cases that may require provision has not been replied and assessment of cases, if any, that may result in contingent liabilities was not possible.

Recommendation

Lawyers letters with detail assessment of pending legal matters is an important source to determine provisions or otherwise for contingent liabilities.

CONCLUSION

We would like to express our appreciation to the management and staff of the Enterprise for the assistance and courtesy extended to our representatives during the course of the audit.

We have discussed this report with the management of the Enterprise who, in general, accept our findings and recommendations. We shall be pleased to provide any further explanations that may be required.

Yours faithfully,

Audit Service Corporation

DEVELOPMENT & HOTEL COMPANY (S.C.)
 REPORTS OF FINANCIAL STATEMENTS
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 FOR THE YEAR ENDED 30 JUNE 2022

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Corporation TIN number
0004936704

Executive management (as of June 30, 2022)

Name	Position
Teserra Kifetew	Head, Office of the Board of Directors
Shewangizaw Gutema	Finance Manager

Independent Auditors

Audit Service Corporation

Corporate Office

Head Office:
Addis Ababa, Sub city-Kirkos
Ethiopia
P.O.Box 1263

Principal bankers

Commercial Bank of Ethiopia

**DEVELOPMENT AND HOTEL COMPANY (S.C.)
REPORT OF THE MANAGEMENT
FOR THE YEAR ENDED 30 JUNE 2022**

Management has the pleasure of presenting its report on the affairs of Development and Hotel Company (DHC) ("The Company") together with the financial statements for the year ended June 30, 2022. This report discloses the financial performance and state of affairs of the Company.

Incorporation

Addis Ababa Ethiopia

Operating results

Development and Hotel Company (DHC) being the owner and lessor of Addis Ababa Hilton International Hotel leases its assets for the renowned hotel operator, Hilton International USA, for the whole supervision and management of the Hotel. By Virtue of this, DHC has been entrusted with the supervision and monitoring of the operations of the Hotel as a whole.

The Company's results for the year ended June 30, 2022 are set out on page 4. The summarized results are presented below.

	June 30, 2022	June 30, 2021
Revenue	103,058,772	49,205,021
Profit (Loss) before income tax	54,913,469	(976,274)
Income tax expense	18,706,499	(1,648,982)
Deferred income	2,310,646	3,065,836
Profit (Loss) for the year	36,206,970	(2,625,256)
Total Comprehensive income	38,517,616	440,580

The Management who held office during the year and to date of this report are set out on page 1.

Shewangizaw Gutema
Finance Manager

Teserra Kiflew
Head, Office of Board of Directors

DEVELOPMENT & HOTEL COMPANY (S.C.)
STATEMENT OF MANAGEMENTS RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2022

In compliance with Article 14(8) of the Public Enterprises Proclamation No. 25/1992, the Management of the Company (hereinafter referred to as the Management) of Development and Hotel Company (hereinafter referred to as the Company) is responsible for the preparation of the annual financial statements that fairly present the state of affairs of the Company at the end of the financial year and of the profit or loss and cash flows for that year in accordance with International Financial Reporting Standards (IFRS), the Financial Reporting Proclamation No. 847/2014, and the requirements of Article 12(8) of the Public Enterprises Proclamation No. 25/1992. The Management is also responsible for safeguarding the assets of the Company.

The Management is also responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. To enable the Management to meet these responsibilities it set standards and implement systems of internal controls, accounting and information systems. Management is responsible for the assurance as to the reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatements and loss.

The Management is of the opinion that the Company has adequate resources to continue in operation for the foreseeable future based on forecasts and available cash resources and according to the annual financial statements have been prepared on a going concern basis.

It is the responsibility of the external auditors to express an opinion on the annual financial statements.

The financial statements on pages 4 to 35 were approved by the General Manager on behalf of the Management on.....

Signed on behalf of the Management by:

Teserra Kiflew
General manager

Shewangizaw Gutema
Finance Manager



Audit Service Corporation

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
DEVELOPMENT AND HOTEL COMPANY (SHARE COMPANY)**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Development and Hotel Company (the company), which comprise the statement of financial position as at 30 June 2022, and 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.

In our opinion, the accompanying financial statement present fairly, in all material respect, the financial position of the Company as at 30 June 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for 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 Enterprise in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together 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 of the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion, we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to communicate in our report.

Asc

Report on the Audit of the Financial Statements (continued)

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

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

In preparing the financial statements, 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 responsibility is 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 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.

- Obtain 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 Enterprise's internal control.

Asc

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
DEVELOPMENT AND HOTEL COMPANY (SHARE COMPANY) (continued)

Report on the Audit of the Financial Statements (continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude 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.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance 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 those charged with governance, 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.

The engagement partner on the audit resulting in this independent auditor's report is W/ro Kokeb Stime.

Audit Service Corporation

13 October 2023

DEVELOPMENT AND HOTEL COMPANY (S.C.)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2022

		Notes		2021	
				Birr	
INCOME		7	99,711,350	44,785,349	
Revenue				4,419,672	
Other income		8	3,347,423	49,205,021	
EXPENSES					
Administration expense		9	48,020,303	50,056,295	
Board fees			75,000	75,000	
Audit fee			50,000	50,000	
PROFIT BEFORE TAX					
Income tax expense		18	54,913,470	(976,274)	
			18,706,499	1,648,982	
(Loss)/profit after tax					
Add: Deferred tax income		16	36,206,971	(2,625,256)	
			2,310,646	3,065,836	
Total comprehensive income					
			38,517,617	440,580	

DEVELOPMENT AND HOTEL COMPANY (S.C.)
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2022

ASSETS	Notes	Birr	Birr	2021
NON-CURRENT ASSETS				
Property, Plant and Equipment	10	1,048,369,704	1,070,630,444	
Trade receivables - Long term	11	133,902,086	112,163,369	
Treasury notes	14	239,948,000	259,948,000	
Total non-current assets		1,442,219,790	1,442,741,813	
CURRENT ASSETS				
Trade receivables	12	41,789,475	20,616,501	
Deposit and prepayments	13	22,310	22,310	
Fixed Time Deposit	15	45,460,628	26	
Cash and bank balances		8,579,331	44,933,228	
Total current assets		95,851,764	65,594,065	
TOTAL ASSETS		1,538,071,554	1,508,335,878	
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Capital		20,228,479	20,228,479	
Legal reserve		4,043,696	4,043,696	
General reserve		970,194	970,194	
Revaluation reserve		102,695,040	102,695,040	
Retained earnings		590,993,426	588,977,860	
Total equity and reserves		718,934,835	716,917,269	
NON-CURRENT LIABILITY				
Deferred tax liability	16	230,011,821	236,504,796	
CURRENT LIABILITIES				
Creditors and accruals	17	810,919	637,128	
Current tax payable	18	18,722,739	1,649,029	
State dividend	19	134,434,633	132,276,485	
Industrial development fund	20	413,136,605	400,331,171	
Total current liabilities		589,124,898	554,913,813	
TOTAL LIABILITIES AND EQUITY		1,538,071,554	1,508,335,878	

DEVELOPMENT AND HOTEL COMPANY (S.C.)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2022

	Capital ETB	Legal reserve ETB	General reserve ETB	Revaluation reserve ETB	Retained earnings ETB	Total ETB
Balance as of June 30, 2020	20,228,479	4,045,696	970,194	102,695,040	585,912,024	713,851,433
Loss for the year					(2,625,256)	(2,625,256)
Other comprehensive income					3,065,836	3,065,836
State dividend					1,575,154	1,575,154
Industrial development fund					1,050,103	1,050,103
Balance as of June 30, 2021	20,228,479	4,045,696	970,194	102,695,040	588,977,860	716,917,269
Profit for the year					36,206,971	36,206,971
Other comprehensive income					2,310,646	2,310,646
Correction					(293,080)	(293,080)
State dividend					(21,724,183)	(21,724,183)
Industrial development fund					(14,482,788)	(14,482,788)
Balance as of June 30, 2022	20,228,479	4,045,696	970,194	102,695,040	590,995,426	718,934,835

DEVELOPMENT AND HOTEL COMPANY (S.C.)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

	2021	2022
Cash Flows from Operating Activities		
(Loss)/profit before taxation	(976,274)	54,913,470
Adjustment for:		
Income tax paid	(41,351,135)	(1,648,982)
Profit tax adjustment - paid	-	(4,414,836)
Investment income	(3,746,572)	(2,639,641)
Gain on disposal of fixed asset	-	(707,783)
Depreciation of property, plant and equipment	46,605,053	40,660,505
Movement in working capital	531,072	86,162,733
Decrease in trade receivables	19,943,690	(21,172,974)
Increase in trade receivables - long term	(18,511,134)	(21,738,717)
Increase creditors and accruals	34,821	173,790
Cash generated from operations	1,467,377	(42,737,901)
Net Cash flows from operating Activities	1,998,449	43,424,832
Interest received	3,746,572	2,639,641
Payments for property and equipment	(6,849,336)	(21,289,750)
Proceeds from sale of property and equipment	693,380	4,310,002
Net Cash used in Investing Activities	(2,409,384)	(14,340,107)
Cash Flows from Financing Activities		
Dividend paid	(30,000,000)	(20,000,000)
Net Cash used in financing activities	(30,000,000)	(20,000,000)
(Decrease)/increase in cash and cash equivalents	(30,410,935)	9,084,725
Cash and cash equivalents at beginning of period	75,366,189	44,955,254
Cash and cash equivalents at end of period	44,955,254	54,039,979
Components of cash and cash equivalents		
Cash and bank balance	44,955,228	8,579,351
Fixed Time Deposit	26	45,460,628
	44,955,254	54,039,979

1 COMPANY INFORMATION

Development & Hotel Company S.Co. (DHC) is a fully government owned public enterprise established in the year 1961 EC to engage in hotel development and associated business. The Company is the owner of Hilton Addis Ababa which it leases to the renowned hotel operator, Hilton International (Lessee), under a lease agreement for 20 years with the right to extend the term for three successive periods of ten years. The initial agreement has expired as at 31 December 2019. The Company and the Lessee agreed to extend the rental period for additional three years till 31 December 2025. By virtue of this, the supervision and monitoring of the operations of the Hotel as a whole has been entrusted to the Company.

The Company is located in Addis Ababa Ethiopia.

2 BASIS OF PREPARATION AND COMPLIANCE

2.1 Statement of compliance

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

2.2 Basis of Preparation

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value and assets classified as held for sale, which are measured at fair value less cost to sell. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

2.3 Going Concern

The directors have reviewed the Company's operational and cash flow forecasts. On the basis of this review, after making enquiries, and in the light of the current financial position, the existing banking facilities and other funding arrangements, the directors confirm that they have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future.

2 BASIS OF PREPARATION AND COMPLIANCE (continued)

2.4 Fiscal year

The Company's fiscal year runs from July 1 to June 30. These financial statements are for the year 2021/2022 with comparative figures of 2020/2021.

2.5 Significant Accounting Judgments, Estimates, and Assumptions

The preparation of financial statements in conformity with IFRS requires the management to make judgments, estimates and assumptions which affect the reported amount of the assets, liabilities, income, expenses, and related disclosures. Judgments, assumptions and estimates are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the financial statements are prepared. Management reviews, on a regular basis, the accounting policies, assumptions, estimates and judgments in order to ensure that financial statements are presented fairly and in accordance with IFRS. Critical accounting estimates are those that have a significant risk of causing material adjustments and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustments. Judgments, estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful lives of property, plant, and equipment, useful-life of intangible assets, impairment of financial assets, the recoverability of the carrying value of retentions, recognition of revenues and allocation of transaction prices, the recognition and valuation of provisions for constructions and environmental liabilities, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and assumptions.

3 EARLY ADOPTION OF ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standard and amendments to standards and interpretations are effective for the accounting periods beyond the scope of these financial statements and none of these is expected to have a significant effect on the financial statements of the Company, except the following set out below.

3 EARLY ADOPTION OF ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

I IFRS 9: Financial Instruments

IFRS 9 replaced IAS 39. The new standard addresses the classification, measurement and de recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets.

The financial assets comprising operating lease receivables, other trade receivables (excluding prepayments). It has assessed that these financial assets meet the conditions for classification and measurement at amortized cost under IFRS 9.

Accordingly, there is no impact on the measurement of financial assets at amortized cost. Besides, there is no impact on financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the does not have such liabilities of significant value.

The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses, as is the case under IAS 39. It applies to trade receivables and other financial assets. For financial assets comprising of operating lease receivables and other trade receivables, it adopted the simplified approach allowed under IFRS 9, under which lifetime expected loss allowance is estimated to calculate provision. This change did not have any significant impact on the loss allowance for these financial assets compared to the previous methodology.

Prepayment features with negative compensation (Amendment)

The Amendment to IFRS 9- Financial Instruments is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The management is in the process of assessing the impact of the amendments of IFRS 9 to ensure the correct and consistent application of the Standard in conjunction with entry into force of IFRS 17, regarding the insurance contracts.

3 EARLY ADOPTION OF ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

II IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Company's management is in the process of assessing the impact of the new standard on its financial statements.

III The Annual Improvements to IFRSs 2015 – 2017 Cycle

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.

IV IFRS 15 Revenue from Contract with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with the customers. Revenue is recognized when a customer obtains control of a good or service and that has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company chose to early adopt the standard. Since the main income generating Scheme of the company falls under the provision of IFRS 16, the impact of IFRS 15 on preparation and presentation of financial statement is quite minimal.

3 EARLY ADOPTION OF ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

V IFRS 16 Leases

This standard was issued in January 2016 (Effective 1 January 2019). It sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. It also substantially carries forward the lessor accounting requirements in IAS.

Early application option for the standard is available and the Company chose to early adopt the standard. Since almost all lease arrangements the Company has an operating leases and the requirement of the new standard when it comes to operating lease is quite similar to the previous practice of the Company, the impact of IFRS 16 on the preparation and presentation of financial statement is minimal.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in each of the individual notes to the financial statements and avoids repeating the text of the standard, unless this is considered relevant to the understanding of the note's content. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Revenue

Revenue is recognized to the extent that it is probable that the economic benefit arising from the ordinary activities of the Company will flow to the Company, that revenue can be measured reliably and that the recognition criteria, for each type of revenue-generating activity have been met. Revenue is measured at the fair value of the consideration received or receivable. Revenue is shown, exclusive of value added tax, rebates and discounts after eliminating effects of transactions within the branch.

In accordance with the lease agreement, DHC's share of profit currently is 75% of the Gross Operating Profit as per article #3 of the Amendment of Agreement dated May 20, 1991. The annual lease revenue is received in two installments, being at the end of August & February.

Revenue is recognized in accordance with IFRS 15. In this case revenue is recognized when the lessor (DHC) satisfies its performance obligation under the Operating lease for the year based on the price of the yearly annual lease (share of profit).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Operating expenses

As per the conceptual framework expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment). [F 4.49]. DHC Operating expenses are recognized in profit or loss as per this definition.

4.3 Property, plant, and equipment

Property, Plant, and equipment are a long term asset that is primarily held for use by Company for its ordinary operations. Property, Plant, and equipment are treated as non-current investments and are carried at cost less accumulated depreciation and any recognized impairment in value.

4.3.1 Component of costs of Property, plant and equipment

The cost of Property, plant and equipment includes expenditure that is directly attributable to the acquisition or construction of the items and subsequent costs incurred to replace parts that are eligible for capitalization. Dismantlement, removal or restoration costs are included as part of the cost of Property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

4.3.2 Transaction costs

Costs directly attributable to an acquisition or construction of an asset are included as part of the cost of acquisition.

4.3.3 Measurement

Property, plant and equipment of the Company are valued at acquisition or manufacturing costs less accumulated depreciation and impairment losses. However, Freehold land is stated at revalued amount less accumulated impairment losses.

4.3.4 Depreciation

Items of Property, plant and equipment are generally depreciated to its estimated residual value over its expected useful life on a straight-line basis. Depreciation commences when the asset is available for its intended use by management. The useful lives, depreciation method and residual values of Property, plant and equipment, if significant, are reviewed and adjusted annually. Changes resulting from the reassessment are accounted for prospectively as changes in estimates.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The residual values are estimated based on useful lives as well as other available information. The useful lives are estimated, by management, based on historic analysis and other available information. The useful life of an asset is the period in which the Company expects to utilize the benefits embodied in the assets, and not necessarily the assets' economic life. Useful lives of assets are reviewed annually.

The Company uses the following indicators to determine useful life: expected usage of assets, expected physical wear and tear, and technical and commercial obsolescence. An estimate is made of the amount the Company would expect to receive currently for the asset if the asset were already of the age and condition expected at the end of its useful life. Depreciation of Property, plant and equipment is allocated to the appropriate expenses account by function in the Statement of Comprehensive Income.

The useful life of assets for the purposes of depreciation at DHC is as follows:

Years	
50	Buildings
20	Water Well
10	Office Furniture and Fixtures
10	Special Auxiliary Equipment's
10	Motor Vehicles
5	Computer and Information Systems

4.3.5 Impairment

Property, plant, and equipment are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less direct costs to sell and the asset value in use (being the present value of the expected future cash flows of the asset). An impairment loss is recognized for the amount by which the carrying amount exceeds its recoverable amount.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs to.

Impairment losses recognized in prior periods for Property, plant, and equipment are assessed at each reporting date for any indications that the impairment loss has decreased or may no longer exist. The impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset and is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized. Impairment losses, and any subsequent reversals, are recognized in the statement of comprehensive income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3.6 Subsequent expenditure

Subsequent expenditure relating to Property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Company and the cost can be reliably measured. Other subsequent expenditure is recognized as an expense during the financial year in which it is incurred.

4.3.7 De-recognition/Disposal

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amount of the disposed asset and are recognized within other income in the income statement in the period the disposal occurs.

4.3.8 Development Asset (Asset under Construction)

Development asset (asset under construction) are property, plant and equipment being constructed or developed for future own use. They are stated at cost less accumulated impairment losses, until construction or development is completed, at which time they are reclassified to be accounted for as property, plant and equipment. Cost capitalized includes cost of land and other directly related development expenditure, including borrowing costs incurred in developing the properties.

4.4 Borrowing costs

Borrowing costs incurred to finance the development of asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognized on a time-proportion basis in the income statement using the effective interest method. The amount of borrowing cost capitalized on that asset is the actual borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.

4.5 Investment property

Investment property assets are carried at cost less accumulated depreciation and any recognized impairment in value. The depreciation policies for investment property are consistent with those described for owner-occupied property.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Assets held-for-sale

Non-current assets are classified as held-for-sale when their carrying value will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The management of the Company must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held-for-sale, the assets are re-measured in accordance with the Company's applicable accounting policies. Thereafter, the assets are measured at the lower of the carrying amount and fair value less costs to sell.

Impairment losses recognized on initial classification as held-for-sale and subsequent profits and losses on re-measurement are recognized in profit or loss. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. Assets held for sale are no longer depreciated or amortized.

4.7 Leased Assets

All lease contracts entered by the Company (as a lessor or lessee) are accounted for as prescribed by IFRS 16.

A The Company as a lessee

A lease contract is assessed by the Company to identify whether a contract contains a lease, based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether: a) the contract involves the use of an identified asset- where the asset is explicitly and implicitly specified in the contract and either physically separate from others or represent substantially all of the capacity of physically distinct asset b) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and c) the Company has the right to direct the use of the asset.

At commencement or on modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Company recognizes a right-of-use of 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 any improvements made to branches or office premises.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, in addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement 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 the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Company's incremental borrowing rate. Generally, The Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following

- fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date;
- Amounts expected to be payable under a residual value guarantee; and

The lease liability is measured at amortized cost, it is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is revised in-substance fixed lease payment.

B Company as a lessor

When the Company acts as a lessor, it determines at lease inception whether the lease is a finance leases or operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic

All leases where the Company transfers risks and benefits of the asset, and are for periods longer than 75% of the asset's estimated useful life are accounted as financing leases. In this case the leased asset will be derecognized and a receivable is recognized. If none of the above criteria are fulfilled the lease is recognized as an operating lease in which only rental income is recognized.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company applies derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company has entered into a lease contract with Hilton International. According to the contract Hilton International uses all the assets building, infrastructure, equipment, furniture glassware and all the assets in return Hilton International pays 75% of its gross operating profit to the Company in two installments.

The lease agreement accounted as an operating lease in which all the assets records are kept with the Company. The Company accounts the depreciation expense. Even if, the lease agreement satisfies most of the conditions considered for finance lease under IFRS 16:63, the agreement also fails to satisfy the basic definition set for the finance leases. Substantial transfer of the risks and the rewards associated with the asset. This is because the rent amount is dependent on the operating gross profit of Hilton International which, in effect, leaves the risk and reward of the assets i.e. the possibility of losses from idle capacity or technological obsolescence and of variations, in the future economic benefits expected to flow to the entity due to changing conditions, with the Company. Besides, the agreement does not require transfer of title to Hilton International. Last but not least, accounting the lease as an operating lease keeps the property and equipment records within the Company which maintains the control of the assets.

C Operating Lease

Lease payments from operating leases recognized as income on a straight-line basis on monthly basis. The Company account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

D Short-term Leases and Leases of Low-value assets

It has elected not to recognize right-of-use assets and lease liabilities for lease of low value assets and short-term leases. The leases payments associated with these leases recognized as an expense on a straight-line basis over the lease term.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A Recognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instruments

B Classification

All financial instruments need to be classified as one of the following: those to be measured subsequently at fair value (either through OCI or through profit or loss), and those to be measured at amortized cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. Cash equivalent, short term receivables and payables are measured at their carrying values due to the short-term maturity of these instruments.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on de-recognition is recognized directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

All current financial assets the Company has are classified under amortized cost. The Company adopts the expected credit losses model of IFRS 9. The Company uses amortized cost to measure its financial assets along with providing for impairment allowance as per the requirement of IFRS 9. For its lease receivables and other financial assets, the Company measures the loss allowance at an amount equal to lifetime expected credit losses using provision matrix. The provision matrix is based on default rates in conjunction with more forward-looking information that is reasonably available without undue cost or effort. At every reporting date, the default rate is updated to reflect current and forecast credit conditions if there are conditions that indicate default rates have changed. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable, or when the instrument is derecognized.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) The Company has transferred substantially all the risks and rewards of the asset, or
 - (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

A financial liability is derecognized when the contractual obligations are discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as de-recognition of the original liability and the recognition of a New liability, and the difference in the respective carrying amounts is recognized in profit or loss.

D Impairment of financial instrument

DHC assesses at each reporting date financial asset or a group of financial assets impairment, which is calculated based on expected loss on the future those loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the balance aged more than a year, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

4.8.1 Financial Asset

Financial asset is any asset that is cash or a contractual right to receive cash or another financial asset from another entity. All financial assets except trade receivables are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Subsequently, the financial asset is measured at amortized cost. Investments in equity instruments are measured at fair value. However, if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements, the Company uses cost to measure the investments as it represents the best estimate of fair value within the available ranges.

A Cash and Cash Equivalent

Cash and cash equivalents include cash on hand, deposits with financial institutions and bank overdrafts. Bank overdrafts are included in borrowings on the statement of financial position. Cash equivalents also comprises short term liquid investment with maturity periods of three months or less, from the date of acquisition, including treasury bills when they are deemed payable within three months.

B Trade receivables

Trade receivables are recognized initially at transaction price and subsequently measured at amortized cost, less allowance for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the estimated future cash flows. The amount of the allowance is recognized in the income

C Prepayment

Prepayments are payments made in advance for services to be enjoyed in future. The amount is initially capitalized in the reporting period in which the payment is made and subsequently amortized over the period in which the service is to be enjoyed.

D Other Receivables

Other receivables are recognized upon the occurrence of event or transaction as they arise and cancelled when payment is received. The Corporation's other receivables are sundry receivables and other receivables from debtors.

4.8.2 Financial Liability

Financial liabilities are initially measured at fair value (the transaction price) using effective interest rate. After initial recognition, all financial liabilities of the Company are measured at amortized cost. The fair values of trade payables of the Company are similar with their transaction price.

A Trade payables

Trade payables are initially measured at fair value, and subsequently measured at amortized

B Accruals

Accruals are liabilities to pay for goods or services that the Company received but not yet

C Contract liability

Contract liability is obligation of the Company to transfer goods or services to its customer for which the Company has received consideration (or the amount is due) from the customer. Upon receipt of prepayment from a customer, the Company recognizes a contract liability in the amount of the prepayment for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. The Company derecognizes the contract liability (and recognizes revenue) when it transfers the promised goods or services, thus, satisfies its performance obligation.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Provisions, Contingent Assets and Contingent Liabilities

Provisions comprise liabilities of uncertain timing or amount that arise from construction, environmental, litigation and other risks. Provisions are recognized when the DHC has a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated.

Contingent assets and liabilities are possible rights and obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully within the control of the Corporation. The type and treatment of provisions and contingencies are described hereunder.

Legal contingencies

The Company is party to litigations related to a number of matters. The outcome of these matters may have a material effect on the financial position, results of operations or cash flows of the Company.

Management regularly analyses current information about these matters and provides provisions for probable cash outflows, including the estimate of legal expenses to resolve the matters. Internal and external lawyers are used for these assessments. In making the decision regarding the need for provisions, management considers the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss. The filing of a suit or formal assertion of a claim against the Company or the disclosure of any such suit or assertion, does not automatically indicate that a provision, may be appropriate.

4.10 Inventories

Inventories are generally measured at the lower of cost (acquisition cost or manufacturing cost to bring each inventory item to its present location and condition) and net realizable value. Cost is determined on a weighted average basis. The cost of purchased goods includes purchase price and any other cost to make ready for its intended use.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net realizable value is the estimated selling price in the ordinary course of the business less the estimated costs to complete the sale. As a Company aims at stabilizing the company, given the current inflation the country is in and the ever weakening performance of the birr, the costs of inventories are generally assumed to be lower than their NRV.

4.11 Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses. Cost is usually determined as the amount paid by the Group. Amortization is recognized together with depreciation in profit or loss. Intangible assets with indefinite lives are not amortized.

4.12 Employee benefits

4.12.1 Defined contribution benefits

The Company has an employee benefit scheme which follows the Labor Proclamation No. 377/2003. The Company has a defined Contribution plan post-employment scheme in line with the provisions of Ethiopian pension of private organization employee's proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Company respectively. The pension scheme is based on employees' monthly salary which needs to be submitted to pension fund administered by the federal government. This pension scheme is defined contribution plans where the Company's legal or constructive obligation is limited to the amount contributed to the fund. Contributions to the pension fund in respect of the services rendered in a particular month are recognized as an expense in that period.

4.12.2 Severance:

The Company effects severance payment as per the proclamation mentioned above for employees which leave the organization on will after five and plus years of experience. The Company treats the benefit scheme as other long term employee benefit. The Company uses estimates, averages and computational short cuts to provide a reliable approximation of the liability incurred on each year in relation to severance pay.

4.12.3 Leave pay

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

4.12.4 Bonus plans

A liability for employee benefits in the form of bonus plans is recognized as a provision as past practice has created a valid expectation by employees that they will receive a bonus and amounts can be determined before the time of issuing the financial statements. The annual bonus is calculated based on the profit performance of the Company. The actual bonus is approved by the board and is settled within a period of 12 months.

4.12.5 Termination benefits

Termination benefits are payable to employees as per proclamation 715/2011 when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Employer's contributions to this scheme are charged to profit or loss and other comprehensive income in the period in which they relate.

4.13 Income Taxes**4.13.1 Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authority, Ethiopian Revenues and Customs Authority.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in Ethiopia. During the reporting period, the Company didn't operate and generate taxable income in a foreign country. Management periodically evaluates positions taken in the tax returns with respect to disputable situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13.2 Deferred income tax

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets, if any, is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rate that has been enacted or substantively enacted by the end of the reporting period.

4.13.3 Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax except: where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

4.14 Presentation Currency, Function currency and Foreign Currency Translation

Items included in the financial statements of the Companies are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'), which is determined in accordance with the requirement of IAS 21. The Company's functional and presentation currency is the Ethiopian Birr.

The accounts recorded in foreign currencies have been translated into Ethiopian Birr on the following basis:

- financial assets and liabilities at the rate of exchange in effect at the balance sheet date;
 - non-financial assets and liabilities at the rates of exchange in effect on the respective dates of transactions; and
 - revenue and expenses at the exchange rates prevailing on the date of the transaction
- Foreign exchange gains and losses resulting from the settlement of such transactions as well as the translation of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the period in which they occur.

4.15 Cash Flow Statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as depreciation charges and other non-cash items are adjusted to come up with cash flow from operating activities.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Government grants

Grants from the government are recognized when there is reasonable assurance that:
1. The Company will comply with the conditions attached to them; and 2. The grant will be received.
Government grants related to revenue are recognized on a systematic basis in the statement of profit and loss over the periods necessary to match them with the related costs which they are intended to compensate. Such grants are deducted in reporting the related expense. Where the Company receives non-monetary grants, the asset is accounted for on the basis of its acquisition cost. In case a non-monetary asset is given free of cost it is recognized at a nominal value.

4.17 Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. This definition includes subsidiaries, associates, and joint ventures. The Company does not have subsidiary, associates or joint venture with which it enters into a number of transactions.
The company does not have related party transactions in which it has done business that requires disclosures.

Key management personnel

The Company's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company (directly or indirectly) and comprise of the board members, chief executive officer, and the Finance Manager. Salaries & related benefits for its three employees are indicated below.

Years	Salary	Incentives (Bonus)	Total (Birr)
2022	612,000	249,000	861,000
2021	612,000	=	612,000

4.18 Events after Reporting Period

No adjusting or significant non-adjusting events have occurred between the 30 June reporting date and the date of authorization.

5 CAPITAL AND OTHER RESERVE

5.1 Capital

The company is wholly owned by the Federal Democratic Republic of Ethiopia. There are no shares.

5.2 Legal Reserve

The legal reserve is a statutory reserve. No further transfer need to be made to its fund has reached its obligatory level of one fifth of the capital.

5.3 General Reserve

The general reserve is a free reserve available for distribution to the owner.

5.4 Revaluation reserve

This reserve is not part of the other reserves and thus a non-distributable to the owners as it represents incremental revaluation value related to land which is not subject to depreciation as well.

5.5 Retained earnings

It represents the previous accumulated profit available for distribution and the revaluation adjustment of assets made upon conversion to IFRS.

6 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Company's overall risk management program seeks to minimize potential adverse effects of these risks on the Company's financial performance. Risk management is carried out under policies approved by the Company's board.

A Capital Management

The Company's objectives in the managing the liquidity and capital structure are to safeguard the Company's ability to continue as a going concern and provide financial capacity to meet its strategic objectives. Generally speaking, in order to maintain or adjust the capital structure, an entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The legal requirements imposed on the Company puts restriction on the management to freely manage the capital structure of the Company. It follows a conservative approach to its statement of financial position assuming low levels of debt and maintaining substantial cash balances.

6 FINANCIAL RISK MANAGEMENT (continued)

B 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 long-term receivables, trade and other receivables and cash and cash equivalents maintained with financial institutions. The Company places its cash and cash equivalents with Commercial Bank of Ethiopia, the biggest bank in the country. The maximum exposure of the Company to credit risk at the reporting date is the carrying value of cash and cash equivalents and other receivables.

C Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by the delivery of 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 under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. The Company manages liquidity by maintaining adequate cash balances and tracking the due dates of its operating and financing obligations. In addition, the Company regularly monitors and reviews both actual and forecasted cash flows. It also deters certain discretionary expenditures and measures to reduce operating costs in order to preserve working capital.

D Foreign exchange risk

The Company's operations are located in Ethiopia only and it is not as such exposed to significant foreign exchange risk. However, it imports equipment and other materials from abroad purchasing foreign currency from domestic banks mainly through letter of credit arrangement. The letter of credit is settled at the exchange rate that prevails on the settlement (clearance) date than on the date the letter of credit is opened. The Company is not legally allowed to enter into any foreign currency contracts or other derivatives to establish a foreign currency protection program.

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DEVELOPMENT AND HOTEL COMPANY (S.C.)
NOTES TO THE FINANCIAL STATEMENTS (continued)

10 PROPERTY, PLANT AND EQUIPMENT

Account Description	Balance at 30 June 2021	Additions	Transfers/ Disposals	Balance at 30 June 2022
	ETB	ETB	ETB	ETB
COST:				
PPE at Hilton:				
Buildings	1,003,392,997	2,628,095	(202,203)	1,005,818,889
Water Well	3,006,919	-	-	3,006,919
Office Furniture & Fixture	77,843,601	10,491,835	(293,454)	88,041,982
Special Auxiliary Equipment	116,225,118	6,419,390	(3,814,346)	118,830,162
Computer & Accessories	37,443,861	1,703,940	-	39,147,801
Operating Equipment	3,813,240	-	-	3,813,240
Motor Vehicle	34,003,287	-	-	34,003,287
Work in Progress	3,024,503	-	-	3,024,503
PPE at D.H.C.				
Office Furniture & Equipment	7,678	46,490	-	54,168
Computer & Accessories	12,095	-	-	12,095
PPE without movement				
Office Furniture & Equipment	1	-	-	1
Motor vehicle owned by DHC	50	-	-	50
	<u>1,278,773,350</u>	<u>21,289,750</u>	<u>(4,310,003)</u>	<u>1,295,753,097</u>
DEPRECIATION				
Buildings	70,841,601	15,016,492	-	85,858,093
Water Well	751,730	150,346	-	902,076
Office Furniture & Fixture	30,690,424	9,597,131	-	40,287,555
Special Auxiliary Equipment	47,717,643	10,906,101	(1,420,018)	57,203,726
Computer & Accessories	27,356,252	3,640,601	-	30,996,853
Motor Vehicle	30,776,241	1,347,471	-	32,123,712
PPE at DHC				
Office Furniture & Equipment	5,162	484	-	5,646
Computer & Accessories	3,852	1,880	-	5,732
	<u>208,142,905</u>	<u>40,660,506</u>	<u>(1,420,018)</u>	<u>247,383,393</u>
	<u>1,070,630,445</u>	<u>(19,370,756)</u>	<u>(2,889,985)</u>	<u>1,048,369,704</u>

DEVELOPMENT AND HOTEL COMPANY (S.C.)
NOTES TO THE FINANCIAL STATEMENTS (continued)

10.1 The title of land is held in the name of Hilton Addis Ababa International Hotel under certificate No.cks 17/43/3228/00 dated 06/03/98 E.C, Kirkos sub city, kebele, 17, block 7, only have the right to use land, as land legally belongs to the government and the public. we objectively valued the asset using the current fair market value and determined its value attached to the buildings at Birr 102,695,040. For this DHC uses comparable recent lease transactions used by Addis Ababa City Administration as a measure of fair value.

11 Trade Receivables - Long Term

This receivable arises from the reserve fund set aside for the replacement of and additions to furnishings and equipment in the hotel leased to Hilton International Co. It is to be used for those purposes and any remaining balance, if any, shall be paid only at the end of the lease period. The amount provided on account of the reserve of furniture, fixture and equipment represents 10% of the revenue in accordance with article 5 of the amendment agreement made on 20 May 1991.

Addis Ababa Hilton - Provision for replacement of furniture, fixture and equipment - Long term	Birr	133,902,086
	2021	Birr
		112,163,369

12 TRADE AND OTHER RECEIVABLES

The share of profit from Addis Ababa Hilton represents the percentage share (75%) of the gross operating profit which is settled by Hilton in two installments, on or before August 31 and end of February of each fiscal year.

Addis Ababa Hilton - Share of profit	41,480,320	Birr
Interest receivable-Ministry of Finance	309,155	
Sundry debtors	10,151	
Less: provision for sundary debtors	(10,151)	
	<u>41,789,475</u>	
</		

13 DEPOSITS AND PREPAYMENT

Utility deposit	Birr	22,310	22,310
14 INVESTMENT ON TREASURY NOTES	Birr	22,310	22,310
	2021	Birr	22,310

The Ministry of Finance of Federal Democratic Republic of Ethiopia has restructured the treasury bill into a three year Treasury Note with effect from February 19, 2020 at interest rates of 0.321% per annum, the interest being paid semi-annually. The maturity date of this treasury note is February 19, 2023. From restructuring date onwards a reclassification was made to long term investment. Hence for practical purpose amortizing was not done since the interest is being paid semi annually and the default risk is 0% and it is under the government ownership.

Investment on Treasury Note

Birr	259,948,000	259,948,000
2021	Birr	259,948,000
	259,948,000	259,948,000

15 FIXED TIME DEPOSIT

The Company accounts its time deposit on amortized cost since it is a financial asset and more specifically an investment that is held for collection of contractual cash flows that solely represent payments of principal and interest on the principal amounts outstanding. As the market rate and contractual rate is assumed to be equal and most importantly since the asset is typically a short term one, amortizing the deposit is not necessary for logical and practical reasons, respectively.

CBE- Andinet Branch

45,460,628	45,460,628
2021	Birr
26	26

16 DEFERRED TAX LIABILITY

2021	Birr	2020	Birr
193,527,184	178,968,595.36	945,674,664	(766,706,069)
967,935,405		(774,408,221)	
		(232,322,466)	
(4,182,330)	-	(4,182,330)	
(236,504,796)	-	(236,504,796)	
(1,116,494)	-	(1,116,494)	
4,182,330	-	4,182,330	
3,065,836	2,310,646		

Deprecation base carried for tax purpose
Deprecation base carried for report purpose
Temporary difference
(Liability)
Correction of effect of depreciation overcharge
2018 through 2020
(Liability)
Deferred tax income
Compensating effect on income tax liability
Deferred tax income

17 CREDITORS AND ACCRUALS

2021	Birr	2020	Birr
169,000	100,000	590,000	
341,000		95,399	
101,534		17,520	
17,594		8,000	
8,000			
637,128	810,919		

Audit fee
Incentives
Annual leave pay
Tax payables
Sundry creditors

18 TAX LIABILITY

Profit before tax	54,913,470	2021
Add: Dep per IFRS	40,660,505	
Less: Dep per tax law	32,958,353	
Tax at the applicable rate of 30%	62,615,622	
Tax effect of income not subject to taxation	18,784,686	
Tax effect of income subject to taxation	(791,892)	
Tax Expense of the Year	713,705	
Tax Payable at the Beginning of the year	18,706,498.98	
Adjustment	16,193	
Paid during the year	(1,648,982)	
Current year Tax Payable	18,722,739	
	1,648,982	
	41,351,183	
	2,772,954	
	(1,123,972)	
	9,243,179	
	36,385,600	
	46,605,053	
	(976,274)	
2021		
2021		

STATE DIVIDEND AND INDUSTRIAL DEVELOPMENT FUND

As per public Enterprises Council of Ministers Regulation No. 107/2004, net profit after tax is allocated 60% to dividend payable to Government and 40% to industrial development fund.

19 STATE DIVIDEND

At the beginning of the year	152,276,485	
Effect of depreciation overcharge	453,968	
As restated	152,730,453	
Settlement during the year	(20,000,000)	
Current year payable (60%)	132,730,453	
	21,724,182	
	154,454,635	
	153,851,638	
	(1,575,154)	
	152,276,485	

20 INDUSTRIAL DEVELOPMENT FUND

At the beginning of the year	400,351,171	
Effect of depreciation overcharge	302,646	
As restated	400,653,817	
Current year payable (40%)	14,482,788	
	(1,050,103)	
	401,401,274	
	3,903,508	
	397,497,766	

21 DATE OF AUTHORIZATION

The General Manager of the Company authorized the issue of these financial statements on 13 October 2023.