

**EASTERN COMPANY (S.A.E)**  
**FINANCIAL STATEMENTS**  
**TOGETHER WITH AUDITOR'S REPORT**  
**FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

## INDEX

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**Auditor's Report**

**To: The Shareholders of Eastern Company (S.A.E)**

**Report on the Financial Statements**

We have audited the accompanying financial statements of Eastern Company (S.A.E), which comprise the statement of financial position as of June 30, 2020, the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year ended June 30, 2020, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

These financial statements are the responsibility of the company's management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Egyptian Accounting Standards and the prevailing Egyptian laws. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Except for the effects of the basis for qualified opinion paragraph, we conducted our audit in accordance with the Egyptian Standards on Auditing and the prevailing Egyptian laws. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

- The company management did not prepare expert actuarial study to validate accuracy of the employees benefits as of June 30, 2020. (Note 25)
- The company management carried debit adjustments on the tobacco leaf raw materials stock balance amounted to approximately 2 500 tons. This adjustment understated the cost of sales and increase gross profit presented in the income statements, without supporting documents and authorized approvals.  
The company financial regulations prohibit any accounting adjustments over the physical count discrepancies without justification. Any such adjustments must be sanctioned by the head of costing department shared with the related parties for their opinion and then inform the stores department about the decision. (Note 15)

### **Qualified Opinion**

In our opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Company (S.A.E) as of June 30, 2020, and its financial performance and cash flows for the year then ended, in accordance with the Egyptian Accounting Standards and the prevailing Egyptian laws and regulations.

### **Report on other Legal and Regulatory Requirements**

The company maintains its accounting records as required by the Law and the statute of the company, which agree with the accompanying financial statements. The company is in the process of upgrading and automating its accounting and costing system. The management conducted the inventory physical count according to normal practices and under its responsibility.

The financial information included in the Board of Directors' Report which are prepared according to the requirements of Law No. 159 for the year of 1981, and its executive regulations, is in agreement with the company's records to the extent that such information normally recorded.

**Cairo: September 27, 2020**

### **Auditor**

Dr. Ahmed Shawki

**MAZARS MOSTAFA SHAWKI**

**EASTERN COMPANY (S.A.E)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2020**

(Amounts expressed in Thousands of Egyptian Pounds)

	<u>Notes</u>	<u>30/6/2020</u>	<u>30/6/2019</u>
<b><u>ASSETS</u></b>			
<b><u>Non - Current Assets</u></b>			
Property, plant and equipment	(8)	5 236 863	4 951 149
Projects under construction	(9)	804 710	1 249 540
Investments property	(10)	9 303	9 303
Intangible assets	(11)	1 674	2 989
Investments long-term	(12)	20 668	120 668
Right of use leased assets	(13)	79 665	107 944
Other assets	(14)	765	875
<b>Total Non- Current Assets</b>		<b>6 153 648</b>	<b>6 442 468</b>
<b><u>Current assets</u></b>			
Inventories	(15)	5 928 230	7 956 653
Trade and notes receivables	(16)	267 098	381 975
Debtors and other debit balances	(17)	445 112	511 395
Trade payables - advance payments	(18)	47 498	55 475
Cash on hand and at banks	(19)	7 438 434	6 029 005
<b>Total Current Assets</b>		<b>14 126 372</b>	<b>14 934 503</b>
<b>Total Assets</b>		<b>20 280 020</b>	<b>21 376 971</b>
<b><u>Equity</u></b>			
Issued and paid capital	(20)	2 250 000	2 250 000
Reserves	(21)	3 985 819	3 985 819
Treasury stocks	(22)	(432 343)	--
Retained earnings	(23)	1 492 707	1 540 289
Net profit for the year		3 794 249	--
<b>Total equity</b>		<b>11 090 432</b>	<b>7 776 108</b>
<b><u>Non - Current Liabilities</u></b>			
Deferred tax liability	(24)	210 198	185 245
Long-term employees benefits	(25)	562 124	571 535
<b>Total Non-Current liabilities</b>		<b>772 322</b>	<b>756 780</b>
<b><u>Current Liabilities</u></b>			
Provisions	(26)	644 945	393 137
Trade and notes payables	(27)	412 616	1 457 488
Creditors and other credit balances	(28)	6 828 285	10 458 668
Trade receivables - advance payments	(29)	156 537	56 351
Financial lease contract obligations	(30)	--	93 585
Short term employees benefits	(25)	50 887	--
Income tax payable		323 996	384 854
<b>Total current liabilities</b>		<b>8 417 266</b>	<b>12 844 083</b>
<b>Total liabilities</b>		<b>9 189 588</b>	<b>13 600 863</b>
<b>Total of equity and liabilities</b>		<b>20 280 020</b>	<b>21 376 971</b>

- The accompanying notes (from No. 1 to No. 47) are an integral part of these financial statements and read therewith.

(Accountant/ Niveen Ali Hussein)  
General Manager / Final accounts and  
financial statements

(Accountant/ Osama Fouad Mohamed)  
Chief of the financial sector

(Mr./ Mostafa Ahmed El-Mahdy)  
Chief Financial Officer

(Mr./ Hany Aman)  
Managing Director and Chief Executive  
Officer

**EASTERN COMPANY (S.A.E)**  
**STATEMENT OF INCOME**  
**FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**  
(Amounts expressed in Thousands of Egyptian Pounds)

	<b><u>Notes</u></b>	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Sales/Revenue	(33)	14 464 795	14 025 472
Cost of goods sold	(34)	(8 701 587)	(8 791 695)
<b>Gross profit</b>		<b><u>5 763 208</u></b>	<b><u>5 233 777</u></b>
Other income	(35)	60 770	149 638
Sale and distribution expenses	(36)	(655 689)	(617 140)
General and administrative expenses	(37)	(235 759)	(190 592)
Other expenses	(38)	(360 186)	(52 043)
<b>Result of operating activities</b>		<b><u>4 572 344</u></b>	<b><u>4 523 640</u></b>
Financing cost / income	(39)	376 108	274 276
Other financial investments revenue	(40)	5 187	16 255
<b>Profit before tax</b>		<b><u>4 953 639</u></b>	<b><u>4 814 171</u></b>
Income tax and deferred tax expenses	(41)	(1 159 390)	(1 080 867)
<b>Profit from continued operations</b>		<b><u>3 794 249</u></b>	<b><u>3 733 304</u></b>
<b>Profit from discontinued operations</b>		<b><u>--</u></b>	<b><u>--</u></b>
<b>Profit for the year</b>		<b><u>3 794 249</u></b>	<b><u>3 733 304</u></b>
<b>Earnings per share (EGP/share)</b>	(42)	<b><u>1.60</u></b>	<b><u>1.55</u></b>

- The accompanying notes (from No. 1 to No. 47) are an integral part of these financial statements and read therewith.

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(Accountant/ Niveen Ali Hussein)  
General Manager / Final accounts and financial  
statements

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(Accountant/ Osama Fouad Mohamed)  
Chief of the financial sector

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(Mr./ Mostafa Ahmed El-Mahdy)  
Chief Financial Officer

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(Mr./ Hany Aman)  
Managing Director and Chief Executive Officer

**EASTERN COMPANY (S.A.E)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

(Amounts expressed in Thousands of Egyptian Pounds)

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Net profit for the year	3 794 249	3 733 304
<b><u>Other Comprehensive Income</u></b>		
Exchange differences resulting from translating the foreign operations	--	--
Financial investments available for sale	--	--
Cash flow hedges	--	--
Remeasurements of defined benefit pension plans	--	--
Company share of other comprehensive income from associates	--	--
Income tax relating to other comprehensive income items	--	--
<b>Total other Comprehensive Income of the year after deduct tax</b>	<b>--</b>	<b>--</b>
<b>Total Comprehensive Income for the year</b>	<b><u>3 794 249</u></b>	<b><u>3 733 304</u></b>

- The accompanying notes (from No. 1 to No. 47) are an integral part of these financial statements and read therewith.

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(Accountant/ Niveen Ali Hussein)  
General Manager / Final accounts and financial statements

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(Accountant/ Osama Fouad Mohamed)  
Chief of the financial sector

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(Mr./ Mostafa Ahmed El-Mahdy)  
Chief Financial Officer

---

(Mr./ Hany Aman)  
Managing Director and Chief Executive Officer

**EASTERN COMPANY (S.A.E)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

(Amounts expressed in Thousands of Egyptian Pounds)

	<u>Issued and Paid up capital</u>	<u>Legal reserve</u>	<u>Statutory reserve</u>	<u>Capital reserve</u>	<u>Other reserves</u>	<u>Total reserves</u>	<u>Treasury stocks</u>	<u>Retained earnings</u>	<u>Net profit of the year</u>	<u>Total equity</u>
<b>Balance as of July 1, 2018</b>	<b>1 500 000</b>	<b>1 116 106</b>	<b>1 673 498</b>	<b>529 911</b>	<b>1 210 857</b>	<b>4 530 372</b>	--	<b>452 895</b>	--	<b>6 483 267</b>
Transferred from legal and other reserves for capital increase	750 000	(500 000)	--	--	(250 000)	(750 000)	--	--	--	--
Adjustment of expenses and revenues from previous years	--	--	--	--	--	--	--	63 204	--	<b>63 204</b>
Transferred to reserves from dividends for the fiscal years 2018/2019	--	185 677	--	19 770	--	205 447	--	1 024 190	--	<b>1 229 637</b>
<b>Balance as of June 30, 2019</b>	<b>2 250 000</b>	<b>801 783</b>	<b>1 673 498</b>	<b>549 681</b>	<b>960 857</b>	<b>3 985 819</b>	--	<b>1 540 289</b>	--	<b>7 776 108</b>
<b>Balance as of July 1, 2019</b>	<b>2 250 000</b>	<b>801 783</b>	<b>1 673 498</b>	<b>549 681</b>	<b>960 857</b>	<b>3 985 819</b>	--	<b>1 540 289</b>	--	<b>7 776 108</b>
Treasury stocks	--	--	--	--	--	--	(432 343)	--	--	(432 343)
Remaining from boards directors reward	--	--	--	--	--	--	--	7 000	--	7 000
Adjustment of expenses and revenues from previous years	--	--	--	--	--	--	--	(54 582)	--	(54 582)
Net profit for the year	--	--	--	--	--	--	--	--	3 794 249	3 794 249
<b>Balance as of 30/6/2020</b>	<b>2 250 000</b>	<b>801 783</b>	<b>1 673 498</b>	<b>549 681</b>	<b>960 857</b>	<b>3 985 819</b>	<b>(432 343)</b>	<b>1 492 707</b>	<b>3 794 249</b>	<b>11 090 432</b>

- The accompanying notes (from No. 1 to No. 47) are an integral part of these financial statements and read therewith.

(Accountant/ Niveen Ali Hussein)  
General Manager / Final accounts and financial statements

(Accountant/ Osama Fouad Mohamed)  
Chief of the financial sector

(Mr./ Mostafa Ahmed El-Mahdy)  
Chief Financial Officer

(Mr./ Hany Aman)  
Managing Director and Chief Executive Officer



**EASTERN COMPANY (S.A.E)**  
**STATEMENT OF CASH FLOW**  
**FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**  
(Amounts expressed in Thousands of Egyptian Pounds)

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
<b><u>Cash flows from operating activities:</u></b>		
Cash sales and collection from receivables	51 969 038	52 214 998
Cash purchases and payments to suppliers	(5 439 641)	(7 667 408)
Salaries paid	(1 912 222)	(1 943 049)
Revenue from operating for others and other revenues	2 461 601	2 545 237
Proceeds from credit interest	374 216	372 153
Interest paid	(657)	(9 443)
Taxes and fees paid	(42 861 495)	(39 657 897)
Export subsidy / Grants and Subsidies	1 472	548
Proceeds from insurance claims	557	8 113
Notes payable	41 965	--
Other payments	(34 601)	(20 664)
<b>Net Cash flows from operating activities</b>	<b>4 600 233</b>	<b>5 842 588</b>
<b><u>Cash flows from investing activities</u></b>		
Disbursement for purchasing fixed assets (projects under construction)	(302 491)	(849 622)
Proceeds from sales of fixed assets	114	12 404
<b>Net Cash flows from investing activities</b>	<b>(302 377)</b>	<b>(837 218)</b>
<b><u>Cash flows from financing activities</u></b>		
Dividends paid	(2 395 013)	(2 438 741)
Disbursement for finance lease liabilities	(101 299)	(111 623)
<b>Net Cash flows from financing activities</b>	<b>(2 496 312)</b>	<b>(2 550 364)</b>
Foreign currency exchange differences losses and gain	(59 772)	(185 893)
Treasury Bills purchased	(49 097)	--
Treasury Bills sales	49 097	--
Investment in investment certificates	100 000	--
Treasury Stocks purchased	(432 343)	--
<b>Net cash for the year</b>	<b>1 409 429</b>	<b>2 269 113</b>
<b>Cash and cash equivalent at the beginning of the year</b>	<b>6 029 005</b>	<b>3 759 892</b>
<b>Cash and cash equivalent at the end of the year</b> (Note No. 43)	<b>7 438 434</b>	<b>6 029 005</b>

- The accompanying notes (from No. 1 to No. 47) are an integral part of these financial statements and read therewith.

**(Accountant / Mohamed Khalil Khalil)**  
**Head of current account and financing sector**

**(Mr./ Mostafa Ahmed El-Mahdy)**  
**Chief Financial Officer**

**(Mr./ Hany Aman)**  
**Managing Director and Chief Executive Officer**

*Translation of Notes to Financial Statements  
Originally Issued in Arabic*

**EASTERN COMPANY (S.A.E)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2020**

**1- COMPANY**

**1.1 Company's commercial name:**

Eastern Company (S.A.E) Located in Giza.

**1.2 Establish date and location:**

- The Company was established on 12/7/1920 in Giza city - the Arab Republic of Egypt.
- The Company was registered in the Commercial Register under No. 6069.
- The Company located at the sixth industrial zone – Oasis Road plots numbers 1 (87 to 98) - Fifth zone - 6<sup>th</sup> of October City - Giza.

**1.3 Purpose**

- The Company main activities are manufacturing and trading of Tobacco leaf, its products and modern smoking alternatives and accessories/ practicing any investment, financial, commercial, industrial, agricultural or service activities (except all relevant provisions of the capital market according to the Law no. 95 for the year of 1992 with the commitment of the company to adjust its situation in accordance with the provisions of the Law No. 120 for the year of 1982.
- Real estate Ownership and Construction, purchasing and dividing lands for the purposes of utilization, rental or sale, import, export and commercial agencies.
- Establish, participate in establishing, purchasing of companies, contribute to them even if these entities are practicing its activities or part of it inside or outside the Arab Republic of Egypt, in order to develop or achieve any of its goals in accordance to the provisions of the laws, regulations and current decisions. Taking into consideration issuing the necessary licenses to practice these activities. The Company may participate or cooperate in any way with other companies which have similar or non-similar activities.

**1.4 Main shareholders**

The Holding Company for Chemical Industries owner of 50.5% from the company's shares as at 30/6/2020.

**1.5 Trading Shares on the Stock Exchange Market:**

The Company's nominal shares are traded in the Egyptian Stock Exchange market.

**1.6 Company duration:**

The Company's duration is Fifty years starting from 2/6/2019 till 1/6/2069 as from the date of registration in the commercial registration.

**1.7 Date of issuing the financial statements:**

The financial statements have been approved by the board of directors on 23/9/2020.

### **1.8 Company's financial year:**

- From 1/7/2019 till 30/6/2020.
- Shares Percentage of the Holding Company for Chemical Industries have been decreased from 55% to be 50.5%, after offering a percentage of 4.5% (maximum number of 101 250 000 shares for Public & Private Offering **IPO**.
- Private Placement percentage was 95% from the total offered shares with number of 96 187 500 shares, the share price was 17 EGP per share with total amount of EGP 1 635 187 500.
- Public Placement percentage was 5% from the total offered shares with number of (5 062 500 shares), the share price was 17 EGP per share with total amount of EGP 86 062 500.
- Public & Private Offering has been covered by total amount of EGP 1 721 250 000.
- According to the Extra-ordinary General Assembly meeting held on June 2, 2019 the shareholders approved to transfer the company and its legal statue from the Public Business Sector Companies (Law no. 203 for the year of 1991) to be under the Corporate Company Law no. 159 for the year of 1981, and its executive regulation.

This is a result of decreasing the shareholder participation of the Holding company for Chemical Industries percentage of shares to less than 51% of the share capital of Eastern Company.

approving the new Articles of association which prepared in accordance with the Corporate Law no. 159 for the year of 1981 and its executive regulation as it was presented to the General Assembly.

- The Extra-ordinary General Assembly held on June 2, 2019 approved the company's New Articles of Association.

## **2- BASIS OF PREPARING FINANCIAL STATEMENT:**

### **2/1 Accounting Standards:**

- The Financial Statements have been prepared in accordance with the Egyptian Accounting Standards (EAS) and according to the relevant laws and regulations.
- The Minister of Investment and International Cooperation issued Decree No. 69 for the year of 2019 to modify some provisions of the Egyptian Accounting Standards which issued by the Minister of Investment Decree No. 110 for the year of 2015.
- The company applied the accounting treatment regarding financial leasing according to the Egyptian Accounting Standard No. (49) Instead of the Egyptian Accounting Standard No. (20) Which was replaced according to the latest Egyptian Accounting Standards Modifications, which in compliance with Law no. 176 for the year of 2018 concerning "Financial Leasing and Factoring Activities".

The Egyptian Accounting Standards Committee convened to review the Egyptian accounting standard, limited review and other assurance services, the committee formed according to the Prime Minister decree No.909 for the year of 2011 headed by FRA Chairman Dr / Mohamed Omran to study the effect of Ministerial decision No.69 for the year 2019, which has been issued with the purpose of adding and amend some of the Egyptian Accounting Standards, to be applied at the beginning of the year 2020.

Due to the current circumstances of the outbreak of COVID19 and its economic and financial implications, as well as the application of preventive procedures as a response to the Covide 19 spread, and the restrictions on the presence of human resources in its full capacity on a regular basis in companies.

The decree No. (1871) for the year 2020 issued to postpone the application of the new Egyptian Accounting Standards and the accompanying amendments to be effective as of January 1<sup>st</sup>, 2021.

**2/2 Basis of Measurement:**

- The financial statements have been prepared in accordance with the historical cost methods and based on the company continuity.
- The financial statements have been prepared according to the accrual basis except the cash flows which is prepared according to the cash basis.
- The cash flows statements have been prepared according to direct method.

**2/3 Functional and presentation currency:**

- The company's financial statements presented in Thousand Egyptian Pound, while the transaction currency is the Egyptian Pound.

**2/4 Use of Estimates and Judgment:**

- In the application of the company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

**2/5 Fair value measurement:**

- The fair value for financial instruments is determined based on either the market value or similar financial instrument at the date of the financial statements without deducting any future selling costs.
- The financial assets value is determine based on the current purchase prices of these assets, while the financial liabilities value are determine based on the current prices which can settle these liabilities.
- In case of an active market to determine the fair value of financial instruments, the fair value will be estimated by the different evaluation methods considering the latest transaction's prices or other similar instruments are guided, use the discounted cash flows method or any other evaluation method that result a reliable values.

- Estimates of the future cash flows based on the best the management estimates when use the discounted cash flows as an evaluation method , and determine the used discounted rate according to the prevailing market price as at the financial statements date of similar financial instruments of their nature and conditions.

**The following are main items that the company applied estimation and judgments:**

- Useful life of fixed assets
- Provisions
- Deferred tax assets
- Deferred tax liabilities

**3- SIGNIFICANT ACCOUNTING POLICIES:**

The Significant Accounting Policies applied in a consistent base throughout the presented financial periods in these financial statements.

**3/1 Foreign Currencies translation:**

- The company's functional and reporting currency is the Egyptian pound.
- Transactions denominated in foreign currencies during the year are translated to Egyptian pounds at the prevailing rates as at the transaction date. At year-end, monetary assets and liabilities denominated in foreign currencies are translated to Egyptian pounds using the prevailing rates as at that date. Translation differences are included in the income statements.

**3/2 Fixed Assets and Depreciation:**

- Items of property plant and equipment are stated at cost and presented in the statement of financial position net of accumulated depreciation and accumulated impairment losses, if any.
- The items of property plant and equipment are depreciated according to the straight line method and the depreciation cost is charged to income statement over the useful life for each item.

**3/2/1 Replacement cost:**

- The replacement cost incurred for any component of the items of property recognized as part of the asset cost after disposing the carrying amount of that component.

<b><u>Estimated useful live</u></b>	<b><u>Estimated useful lives (year)</u></b>
Buildings	25-50
Machines	10
Vehicles	5-8
Tools	5
Furniture	4-10

**3/3 Projects under construction:**

- Projects under construction are recognized initially at cost. Cost includes all expenditures directly attributable to bringing the asset to the working condition for its intended use. Projects under construction are transferred to the fixed assets at cost when they are completed and are available for the purpose for which they were acquired.

**3/4 Investments:**

- Investments property are recorded at cost however, when there is impairment, the book value should be adjusted with the impairment value and charge impairment to the income statement.
- Government bonds are recorded at cost and income from bond charged to the income statements.

**3/5 Other assets:**

- The other assets are represented in the licenses cost which expected to generate future economic benefits for the company and the company contribute in establishment of non-owned assets to serve its purposes.
- The other assets are recognized initially at cost after deduction amortization. Cost includes all expenditures directly attributable to bringing the asset to the working condition for its intended use.
- The amortization percentage for the non-owned assets 10%, J.D program amortization 25%, H.R program amortization 25%, and the Microsoft program amortization 25%,

**3/6 Inventories:**

- Inventories of raw materials and inputs materials are stated at cost, and the raw materials consumptions are evaluated based on weighted average cost.
- Inventories of finished goods are stated at lower of cost or net realizable value.
- The company follow the continuing count method.
- The inventories of Tobacco leaf materials are sufficient for around 13 months.
- The inventories balance of finished goods is sufficient to meet the market needs 2 day.
- The raw materials inventory includes Tobacco leaf in customs warehouses amounted to 2 912 million Egyptian pounds and the due customs duties must be paid upon receipt from warehouses.

**3/7 Cash on hand and at banks:**

- Cash and cash equivalents are comprised of cash on hands, at banks and time deposits with maturity of three months or less.

**3/8 Provisions:**

- Provisions are recognized when the company has a present or constructive obligation as a result of past events, and it is expected that the company will require to settle the obligation, and a reliable estimated be made for the amount of the obligation.
- The provisions balance are revised at financial statements date and adjusted according to the best estimates (if necessary)

**3/9 Capital:**

- Paid up and issued capital represent the nominal value per share multiplied by the number of shares as of financial statements date.

**3/10 Employees benefits:**

**a. Short-term employee benefits:**

The short-term employee benefits are recognized as expense when providing the related service, the expected payment is recognized as a liability when the Company has a legal or implicit obligation to pay this amount against a service which has been provided by the employee and the obligation can be reliably measured.

**b. Share-Based Payments:**

The fair value of shares-based payments paid as Equity instruments (at the grant date ) is recognized as expense, and as a corresponding increase in equity during the maturity period, the amount recognized as an expense is adjusted to reflect the number of grants when the related services and performance conditions expected to be met, therefore the recognized amount has to be based on the number of granted equity instruments that met the relevant terms of service and non-market conditions of performance on the maturity date, regarding the granting instruments of equity on non-entitlement terms, the fair value of share-based payment (at the date of granted) is recognized on paid of equity instruments is measured to reflect these conditions and there is no subsequent adjustment to the differences between the expected and actual results.

**c. Defined Contribution Plans:**

Defined Contribution Plans are recognized as an expense when providing the relevant service, the prepaid contributions is recognized as an asset to the extent that the down payment leads to reduce the future payments or cashback. the company contribute in the government social insurance system for employees interest according to social insurance law no. 97 for the year 1975, both of employees and employers contribute according to this law by fixed percentage from the salaries, the company committed by its contribution, the company's contributions are charged to the Company profits or losses according to the accrual basis.

**d. Employee End of Service Benefits:**

The company recognizes the Employee End of Service Benefits as an expense on one of the following two dates, whichever comes first, when the company can no longer cancel those benefits or when the company recognizes the costs of restructuring, and when it is not expected that the benefits will be fully settled within 12 months after the date of preparing the financial statements, It must be deducted at a discount rate - before taxes to reflect the time value of money.

**3/11 Reserves:**

- The company's reserves are formed by law or the company's article of association to support the company's financial position. These reserves are used based on approval from the general assembly upon the board of directors' request to be used in the benefit of the company.

**3/12 Buy back shares or reissue ordinary shares (Treasury Stock):**

When the shares of the issued capital are buyback, the amount paid for the buyback shares is recognized including all direct costs related to the buyback by reducing the equity, the buyback shares are classified as treasury stock and presented deducted from the equity, when selling or issuing the treasury shares, the collected amount is recognized as an increase in the shareholders' equity and the surplus or deficit resulting from the transaction has to be presented as a shares premium.

**3/13 Borrowing Cost:**

- Borrowing cost are initially recognized upon receipt the loans or credit facilities, current portion are classified in the current liabilities unless that the company has the right to reschedule the payment of loans for more than one year after the date of the financial position which will be classified as long-term loan in the long-term liabilities.

**3/14 Revenue:**

**a. Revenue of Sales**

- The revenue of sales is recognized according to the sales process and delivering the goods to the customers when the conditions in the Egyptian Accounting Standard no. (11) accomplished as follows:
  - The entity must transfer the risks and basic returns of ownership of the goods to the buyer.
  - The entity shall not retain the right of continuous administrative intervention to the degree normally associated with ownership or effective control over the goods sold.
  - The revenue can be accurately measured.
  - Must have the forecasting for the flow of economic benefits for the transaction to the entity.
  - The possibility of determining the value of the costs incurred or to be borne by the entity in relation to the transaction accurately.



- The bonds revenue are recognized when the following conditions are occurred:
  - The flow of economic benefits from the transaction is highly expected.
  - The revenue can be reliably measured.
  - The Minister of Investment and International Cooperation issued Decree No. 69 for the year of 2019 to modify some standards of the Egyptian Accounting Standards issued by the Minister of Investment Decree No. 110 for the year of 2015, The new Egyptian Accounting Standard no (48) revenues from contracts with customers replace the standards No. (8 & 11).

**b. Revenues from Operating for other parties:**

- The operating services for others are recognized according to the conditions in the Egyptian Accounting standard no. (11) as follows:
  - The revenue can be accurately measured.
  - Must have high expectations of economic benefits flow to the entity.
  - The degree of completion of the transaction can be accurately measured at the financial statements date.
  - The costs incurred in the production and the costs needed to accomplish could be accurately measured.

**c. Credit Interest Revenue:**

- The Credit Interests revenue are recognized using the effective interest rate, the revenue of credit interest is recorded in the income statement.

**3/15 Income tax:**

- The income tax on the profit for the period comprises income tax for the period and deferred tax, and it should be recognized in the income statement, the income tax on the net profit is recognized by using the current tax price rate as of the financial statements date.
- Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

**3/16 Accounting for grants and subsidies:**

- The company recognized revenue from the export subsidy (grants and subsidies) in income statements and the donated assets recorded as grants in the fixed assets item and charge the depreciation related to income statement.

**3/17 Financial leasing:**

- The profit results from sales with lease back for machinery with financial lease are recognized over the term of the lease contract.
- The rental value and the maintenance expenses are recognized as an expense in the income statement till the year 2017/2018, and the accounting treatment was changed to comply with the Amended Egyptian Accounting Standards for 2019 and the Law no. 176 for the year of 2018 for financial leasing and factoring activities.

**3/18 Operating lease:**

- Total payments for operating lease contracts are distributed minus any deductions obtained from the lessor over the course of the contract period and the income statement for the period is incurred its share of the lease on a time distribution basis according to the accrual principle.

**3/19 Dividends:**

- Dividends are recognized when shareholders have the right to receive the amounts of these dividends.

**3/20 Employees' profits share:**

- Employees' profits share should be paid without exceeding their total annual basic salaries in accordance with the law.

**3/21 Contingent liabilities:**

<b><u>Company contingent liabilities</u></b>	<b><u>Amounts in Thousands of Egyptian Pounds</u></b>
letters of guarantee relevant to Cairo and Alexandria customs	253 794
Letter of credits	403 376
<b>Total</b>	<b>657 170</b>

**4- FINANCIAL INSTRUMENTS**

**4/1 Credit Risk:**

- The financial instruments risk represents the inability to pay due to liquidity issues of debtors with credit term and cash and deposit at banks except for cash at safe.
- The company management to control credit risk deals with reputable financial institution with high credit and stable rating.

**4/2 Liquidity Risk:**

- The liquidity risk is the risk that when the company cannot settle its liabilities or financial commitments on due dates, the Company's approach regarding managing liquidity is to ensure that it has a sufficient liquidity to meet its liabilities on its due dates in both normal and critical circumstances without incurring unacceptable losses or damaging the Company's reputation, the company also ensures the cash is available on request to meet the expected operating expenses for an appropriate period of time including the financial obligations and disposal the potential impact of acute and unpredictable conditions such as natural disasters.

Also the company invests the available excess cash from daily cash receipts in the best aspects of short-term investment

**4/3 Market Risk:**

- Market risk represents in the changes in the market prices such as foreign exchange currencies and interest rate.
- The purpose of managing market risk is managing and controlling the market risk exposure within the acceptable parameters with maximizing revenue.

- (a) **Foreign currencies risk:** The foreign currency risk is represented in changes in foreign currency exchange rates, which affect the payments and receivables in foreign currencies, as well as evaluating assets and liabilities in foreign currencies which the company management facing it through setting policies such as the value of what the company gets from the spare parts local manufacturing and capital equipment, purchasing from suppliers agents, etc.

**The Foreign currencies balances as of June 30, 2020:**

	<u>Assets</u>	<u>Liabilities</u>	<u>In thousands</u>
Dollars	117 054	22 398	94 656
Euro	831	2 670	(1 839)
Sterling pound	189	92	97
Swiss Franc	58	--	58

- (b) **Interest rate risk:** The Company is dealing with various banks with interest rates that enable it to reduce the risk of changes in interest rates, whether debit interest or credit interest through competition among banks in order to get the best rates based on the large business size.
- Interest-bearing bank deposits during the financial time period referred to which are the total deposits in local and foreign currencies.
  - The fair values for the financial instruments are not materially different from their carrying values at the end of the financial period.

**4/4 Capital Management:**

- The board of directors' strategy is to maintain strong capital in order to keep the trust of investors, creditors and the market, as well as to meet future developments of activity. The Company's Board of Directors is monitoring the return on capital and the level of dividends. There were no changes in the company's capital management strategy during the year; also the company is not subject to any external requirements imposed on its capital.

**5- RELATED PARTIES DISCLOSURE:**

- The Holding Company for Chemical Industries hold 50.5% from company's shares as of 30/6/2020.
- Related parties are treated on the same basis as others.
- The company during the period from 1/7/2019 till 30/6/2020 has incurred salaries, allowances, and bonuses for members of the high management and the company's board of directors.
- The General Company for Paper Industry (Rakta) with amount of 48 381 Thousand Egyptian pounds and Moharram Industrial Printing Co. with amount of 4 070 Thousand Egyptian pounds.
- The Holding Company for Chemical Industries did provide a set of banks guarantees and non-bank guarantees to some governmental agencies (Customs Authority - Customs Taxes - Egyptian Tax Authority "Value Added Tax") for the favor of company amounted to 1 470 000 thousand Egyptian pounds.

## **6- IMPAIRMENT OF FINANCIAL ASSETS:**

- Periodically the company management at financial statement date assess if there is an objective evidence that a financial asset or a group of assets is impaired or not. Financial assets or a group of assets can be considered as an impairment asset. If there is any objective evidence referring to such impairment which results from one or more events occurring after the initial recognition of the asset and have an impact on the estimated cash flows of a financial asset or group of financial assets that can be estimated reliably.

### **6/1 Non-derivative financial assets:**

Non-derivative financial assets is valued at fair value through profit or loss, including shares that are accounted by the equity method, the company estimates at the end of each financial period whether there is indicators for impairment in the value of the asset.

Indicators of impairment of the asset includes:

- Non-payment or late payment by a debtor.
- Rescheduling amounts due to the group on conditions that the company would not have accepted in other circumstances.
- Indicators of bankrupt the debtor or issuer.
- Adverse changes in the repayment status of borrowers or issuers.
- The disappearance of the active market for the financial asset due to financial difficulties.
- The presence of clear data indicating a measurable decrease in the expected future cash flows from the group of financial assets.
- Investment in the equity instrument includes objective evidence of important or continues impairment in fair value from cost.

### **Financial assets recognized at amortized cost**

The company assesses whether there is objective evidence of an impairment in the value of these assets individually or at the aggregate level of all assets that represent relative importance on their own, they are evaluated in relation to individual impairment, and in the absence of evidence of the impairment of these assets individually, they are evaluated collectively with respect to any impairment a value has occurred and has not yet been identified on the individual assets, assets that are not individually considered as relatively important assets are assessed collectively for any impairment in value for the purposes of the aggregate assessment of assets, assets with similar risk characteristics are grouped together.

When assessing the impairment at the aggregate level of the assets, the company uses historical information on the timing of recovery for the loss arising from the impairment and the value of the losses incurred, and makes adjustments if the current economic and credit conditions indicate that effective losses are more likely to be more or less than expected with historical indicators.

Impairment losses are calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted by the effective interest rate of the financial asset, the amount of the loss is recognized in profit or loss, the accumulated impairment is deducted to the carrying amount of the asset.

If the company considers that there are no possibilities for reversing the loss resulting from the impairment of the asset's value, then write-off the related value.

In case of the subsequently decrease in impairment loss value, and the decrease can be related objectively to an event occurring after the impairment loss was recognized, then the previously recognized impairment loss is reversed through profit or loss.

#### **Financial assets available for sale**

Impairment losses are recognized in available-for-sale financial assets by reclassifying previously recognized losses under other comprehensive income items that are accumulated in the fair value reserve and recognized in profit or loss. The amount of accumulated loss excluded from equity and recognized in profit or loss is the difference between the acquisition cost (net of any amortization or payment of any amount of the principal) and the fair value less any loss of impairment for this financial asset that has previously been recognized in profit or loss.

When the fair value of the performance of a debt, which classified as available for sale are increased in the subsequent period, and this increase is related to an objective relation to an event that occurred after the recognition of the impairment loss in profit or loss, then this impairment loss is reversed in profit or loss.

Impairment losses recognized in profit or loss are not reversed for any investment in an equity instrument classified as available for sale in profit or loss.

#### **Investments accounted for using Equity Method:**

Impairment losses of financial investment which accounted using the Equity Method are measured by comparing the carrying amount with the recoverable amount, and the impairment losses are recognized in profit or loss, the impairment loss is reversed when detailed changes occur in the estimates used to determine the recoverable amount.

#### **6/2 Non-Financial assets:**

The carrying amounts of the company's assets, except inventory, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of the asset is assessed if there is any indication to impairment.

The recoverable value of the good will and intangible assets which have indefinite useful lives or not available to be used should be assessed at the date of each financial statements.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The impairment losses of other assets recognized in the previous periods are reviewed at the date of each financial statements to determine the indication to the decrease of loss or that it does not exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **FINANCIAL INSTRUMENTS**

The company classifies non-derivative financial assets among the following categories: Financial assets classified at fair value through profits or losses, Investments held to maturity, Loans, debts and financial assets available for sale. The company classifies non-derivative financial liabilities between the following categories:

Financial liabilities classified at fair value through profit or loss and a group of other financial liabilities.

#### **a. Non-derivative financial assets and financial liabilities - recognition and derecognition:**

The company initially recognizes the loans, debts and debt instruments issued on the date of its creation. All financial assets and other financial liabilities are initially recognized on the date of the transaction when the company becomes a party to the contractual provisions of the financial instrument.

The company derecognizes the financial asset when the contractual right to the cash flows from the financial asset expires, or it transfers the contractual right to receive cash flows from the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset have been transferred substantially.

Or if the company does not transfer not retain substantially all the risks and rewards of owners of the financial asset and the company does not retain control of the transferred asset, it derecognize the financial assets and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.

The company remove a financial liability when, it is extinguished, the obligation specified in the contract is discharged or cancelled or expires.

A financial asset and liability is offset and the net offset is presented in the financial position when, and only when the company currently has the enforceable legal right to offset the recognized amounts and has the intention to either make a settlement on the basis of the net amounts or recognition of the asset and settlement of the liabilities simultaneously.

**b. Non-derivative financial assets - measurement:**

**Financial assets held at fair value through profit or loss:**

The financial asset is classified at fair value through profit or loss if it is classified as an asset held for trading or it is classified at initial recognition to be measured at fair value through profit or loss, the transaction cost directly related to the acquisition or issue of the financial asset is recognized directly within the profit or losses when incurred.

Financial assets measured at fair value are measured through profit or loss at fair value, and changes in fair value are recognized, including any rewards or dividends.

**Investments held to maturity:**

These assets are measured at the initial recognition by the fair value plus the cost of the transaction directly related to the acquisition or issue of the financial asset after the initial recognition, they are measured at the amortized cost using the effective interest method.

**Loans and receivables:**

These assets are measured at the initial recognition by the fair value plus the cost of the transaction directly related to the acquisition or issue of the financial asset after the initial recognition, they are measured at the amortized cost using the effective interest method.

**Available-for-sale financial assets:**

These assets are measured at initial by of the fair value in addition to the transaction cost directly related to the acquisition or issuance of the financial asset after the initial recognition. Changes in the fair value except for impairment losses and foreign exchange gain and losses are recognized in other comprehensive income.

**c. Non-derivative financial liabilities - measurement:**

The financial obligation is classified at fair value through profit or loss if it is classified as a liability held for trading purposes or is classified at initial recognition to be measured at fair value through profit or loss, the transaction cost directly related to the acquisition or issue of the financial obligation is recognized directly within the profit Or losses when incurred, Financial liabilities measured at fair value are measured through profit or loss at fair value, and changes in fair value are recognized, including any interest expense in profits or losses. Other non-derivative financial liabilities are initially measured at fair value, less any costs directly related to the acquisition or issue after the initial recognition, these liabilities are measured at amortized cost using the effective interest method.

**contingent assets**

The potential assets represent the compensation values issued in favor of the company according to the following statement:

	Value (in millions)
A judgment was issued in Case No. 9869 of 1994 (total civil) Cairo appeals to compensate the company, and that was during the 10/5/2017 hearing and until this date, the judgment has not been implemented.	12
A judgment was issued in Case No. 3650 Civilians, College of Giza, on December 25, 2019, and to date, the judgment has not been implemented	42
<b>Total</b>	<b>54</b>

**7- TAX POSITION**

**7/1 Corporate Tax:**

- The company was inspected till the financial year 2014/2015.
- The financial year 2015/2016 and 2016/2017 is under inspection.
- The company submit the tax return till 2018/2019 according to the income tax law no. 91 for 2005 om due dates.

**7/2 Stamp duty fees:**

- The company was inspected till the financial year 2015/2016.
- The financial year 2016/2017 is not inspected

**7/3 Payroll Tax:**

- The company was inspected till the financial year 2012.
- The company has received for years 2013, 2014 and 2015 form no. (38) amounted to 209 238 thousand Egyptian Pounds and it has been objected upon the estimated inspection of the tax office on 3/8/2017 and the company required to re-inspecting the file.

**7/4 Value Added Tax:**

- The company is paying the monthly value added tax amount (VAT) according to the Law no. 67 for the year of 2016, and the company was inspected till the financial year 2013/2014.
- The company was inspected till financial years 2014/2015 and 2015/2016 and the notification was made with a form no. 15 dated 2/3/2020 and this form was contested on legal dates and transferred to the internal committee.
- The years of 2016/2017, 2017/2018 and 2018/2019 are under inspection.

**7/5 Property Tax:**

- The company paid the accrued property according to claims received from real state tax authorities for the year of 2020.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020**

(Amounts expressed in Thousands of Egyptian Pounds unless otherwise stated)

**8- PROPERTY, PLANT AND EQUIPMENT**

(Amounts expressed in Thousands of Egyptian Pounds)

<b><u>Fixed assets movement statement:</u></b>	<b><u>Lands</u></b>	<b><u>Buildings</u></b>	<b><u>Machines and equipment</u></b>	<b><u>Vehicles</u></b>	<b><u>Tools</u></b>	<b><u>Furniture and office equipment</u></b>	<b><u>Total</u></b>
<b>Cost as of 1/7/2018</b>	<b>218 103</b>	<b>3 498 629</b>	<b>4 455 517</b>	<b>329 215</b>	<b>161 842</b>	<b>771 833</b>	<b>9 435 139</b>
Additions during the year	--	39 204	563 873	20 365	5 467	16 844	645 735
Disposals during the year	--	( 1 984)	( 19 697)	( 168)	(4 435)	( 322)	(26 606)
<b>Total Cost as of 30/6/2019</b>	<b>218 103</b>	<b>3 535 849</b>	<b>4 999 693</b>	<b>349 412</b>	<b>162 874</b>	<b>788 355</b>	<b>10 054 286</b>
<b>Cost as of 1/7/2019</b>	<b>218 103</b>	<b>3 535 849</b>	<b>4 999 693</b>	<b>349 412</b>	<b>162 874</b>	<b>788 355</b>	<b>10 054 286</b>
Additions during the year	83 930	48	676 872	7 809	3 793	70 282	842 734
Disposals during the year	--	--	(5 778)	--	(36)	(123)	(5 937)
<b>Total Cost as of 30/6/2020</b>	<b>302 033</b>	<b>3 535 897</b>	<b>5 670 787</b>	<b>357 221</b>	<b>166 631</b>	<b>858 514</b>	<b>10 891 083</b>
<b><u>Accumulated depreciation and impairments movement:</u></b>							
<b>Accumulated depreciation as of 1/7/2018</b>	--	<b>704 902</b>	<b>2 977 550</b>	<b>252 764</b>	<b>138 589</b>	<b>539 074</b>	<b>4 612 879</b>
Additions during the year	--	90 496	341 855	27 912	12 232	58 959	531 454
Disposals during the year	--	(1 218)	(13 320)	(98)	(4 305)	(321)	(19 262)
Impairment of fixed assets	--	(21 934)	--	--	--	--	(21 934)
<b>Accumulated depreciation and impairment as of 30/6/2019</b>	--	<b>772 246</b>	<b>3 306 085</b>	<b>280 578</b>	<b>146 516</b>	<b>597 712</b>	<b>5 103 137</b>
<b>Accumulated depreciation as of 1/7/2019</b>	--	<b>772 246</b>	<b>3 306 085</b>	<b>280 578</b>	<b>146 516</b>	<b>597 712</b>	<b>5 103 137</b>
Additions during the year	--	95 015	365 526	16 495	8 282	65 583	550 901
Disposals of the year	--	--	(5 768)	--	(36)	(23)	(5 827)
Impairment of fixed assets	--	--	6 009	--	--	--	6 009
<b>Accumulated depreciation and impairment as of 30/6/2020</b>	--	<b>867 261</b>	<b>3 671 852</b>	<b>297 073</b>	<b>154 762</b>	<b>663 272</b>	<b>5 654 220</b>
<b>Property, plant and equipment assets of 30/6/2019</b>	<b>218 103</b>	<b>2 763 603</b>	<b>1 693 608</b>	<b>68 834</b>	<b>16 358</b>	<b>190 643</b>	<b>4 951 149</b>
<b>Property, plant and equipment assets of 30/6/2020</b>	<b>302 033</b>	<b>2 668 636</b>	<b>1 998 935</b>	<b>60 148</b>	<b>11 869</b>	<b>195 242</b>	<b>5 236 863</b>

On 24/11/2019 the company's board of director decided in its meeting the decision No. 10 for 2019, going through procedures to re-exploit the company's stores and factories of Al-Zumar Street and change its activities to a hospital and tourism services this is in exchange for paying the value of the improvement which amounted 83 930 Thousand Egyptian Pounds, to be paid in two installments:

- First installment 50% upon the issuance of the approval of the Chairman of Giza City Council.
- Second installment remaining 50% will pay 1/12/2020

On 15/2/2020 the company was have the approval of the Exceptions Committee of the Housing and Utilities Directorate in Giza was obtained and initial approvals of (water, sanitation, civil defense, traffic, electricity) were obtained and the approval to construction of the project was paid, and the first installment was paid upon obtaining this approval.

- \* The fully depreciated property, plant and equipment as of June 30, 2020 is 2 728 712 Thousand Egyptian Pounds include:
- \* Fully depreciated property, plant and equipment still in use amounted to 2 076 317 Thousand Egyptian Pounds (including machines and equipment amounted to 1 294 832 Thousand Egyptian Pounds)
- \* Fully carried depreciated fixed assets and others under scrap process amounted to 613 762 Thousand Egyptian Pounds.
- \* The fixed assets are including approximately 109 381 Thousand Egyptian Pounds representing net donated assets as following:

<u>Donated Assets</u>	<u>Amounts expressed in Thousands of Egyptian Pounds</u>
Production's machinery	104 990
Production Utilities, equipment of Services	2 577
Transportation	21
Furniture	1 793
<b>Total</b>	<b><u>109 381</u></b>

- \* Deduct amount 6 009 Thousand Egyptian Pounds from Production Utilities, equipment which represent impairment in line in Talbieh and this reduction appeared in note (37) of other expenses in the income statement

	Book value in million
The Manesterly buildings are being used in part, and the necessary licenses are being extracted for its use as a commercial mall.	20
Giza buildings an optimization study is underway.	4
Al-Zomor buildings and stores are currently obtaining the necessary licenses for their use as a hospital.	0.9
<b>Total book value</b>	<b><u>24.9</u></b>

**Financial Leasing:**

- The Decree of Minister of Investment and International Cooperation No. 69 of 2019 was issued to modify some provisions of the Egyptian Accounting Standards which issued by the Minister of Investment Decree No. 110 of 2015 by replacing the Financial Leasing Standard no. 20 (old one) by a new one numbered (49) covering the Financial Leasing Contracts.

- The financial leasing contracts were treated by the Egyptian Accounting Standard no. (49) according to the Amended Accounting Standards for the year of 2019, This amended standard applied for the leasing contracts which were under the finance leasing law no. 95 for the year of 1995 and its amendments, these contracts were treated by the Egyptian Accounting Standard no. (20) which was stating that “the accounting rules and standards related to process of the finance leasing” and the finance leasing contracts which established under the law of organizing the finance leasing and the factoring activities no. 176 for the year of 2018 starting from the beginning of the annual report time period which in the law no. 95 for 1995 was canceled and instead of the law no. 176 for 2018 was issued.
- A contract was signed with Al-Ahly Company for Financial Leasing to sell and rent some machines with total cost of (398 324 153 Egyptian Pounds) by changing interest rate (average price of corridor + 1.2%) on 28/6/2012 for 6 years in addition to two years as an extra years, after that time period the total rental amount should be paid for 72 months amounting to almost 8 404 Thousand Egyptian Pounds.
- The ownership of these machines will devolve to the company at the end of contract with a memorial amount of one Egyptian Pound.
- The last installment of the lease value of the financial leasing contract was paid with QNB Al-Ahly Financial Leasing Company on 28/6/2020.

**9- PROJECTS UNDER CONSTRUCTION**

	<b><u>In thousands</u></b>	
	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Projects	719 110	916 612
Advance payments an LCs	85 600	332 928
<b>Total</b>	<b><u>804 710</u></b>	<b><u>1 249 540</u></b>
▪ <b><u>Projects investment Formation include:</u></b>		
	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Buildings	59 103	1 359
Machinery	540 735	746 917
Tools	626	--
Transportation	15 831	10 134
Office equipment and installations*	102 815	158 202
<b>Total</b>	<b><u>719 110</u></b>	<b><u>916 612</u></b>

\* The amount 4 907 Thousand Egyptian Pounds has been deducted from the Projects account of typewriters and calculators for the impairment of the J.D Edwards program.

▪ **Advance payments an LCs Investment Formation include:**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Advance payments fixed assets	82 480	79 215
Goods in transit - fixed assets	640	49 671
LCs of fixed assets	2 480	204 042
<b>Total</b>	<b><u>85 600</u></b>	<b><u>332 928</u></b>

**10- INVESTMENTS PROPERTY**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Land of Gizert Eldahb in Elbahr Elaazam - Giza	8 894	8 894
Land of Alsalom factory - Alexandria	404	404
Land of Jan Marchena	5	5
<b>Total</b>	<b><u>9 303</u></b>	<b><u>9 303</u></b>

\* The plot of land owned by the company located at 41 Abu Al-Dardaa Street, El-Laban, Alexandria Governorate, was put up for sale by public bidding for the closed envelopes system on Thursday 30/1/2020, as a total amount 51 743 Thousand Egyptian Pounds, the payment will be as follows:

- Supplying the initial insurance amount of 500 Thousand Egyptian Pounds to the company's treasury after an auction is awarded.
- The initial insurance amount must be completed up to 25% of the sale value within fifteen days from the date of award notification.
- 25% of the sale value shall be paid within 3 months from the date of award notification.
- The remaining 50% must be paid in 12 installments for a period of three years, in equal installments, provided that an interest equivalent to the interest of the Central Bank is added to the declared borrowing on the amounts of these installments as compensatory interest.
- The preliminary sale contract is released upon payment of 50% of the total value of the sale.

**11- INTANGIBLE ASSETS**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Computes' program and H.R software license update	33 755	33 755
Amortization	(31 732)	(30 417)
Refunded Sales tax	(349)	(349)
<b>Net</b>	<b><u>1 674</u></b>	<b><u>2 989</u></b>

\* The estimate useful life of the intangible assets 4 years has been re-evaluated by the company technicians.

**12- INVESTMENTS LONG-TERM**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Deposit in the Central Bank of Egypt invested in government bonds*	20 663	20 663
Investments in other companies shares	5	5
Investments in foreign securities**	23	23
Investment in investment certificates***	--	100 000
<b>Total</b>	<b>20 691</b>	<b>120 691</b>
Less impairment in securities	23	23
<b>Net</b>	<b><u>20 668</u></b>	<b><u>120 668</u></b>

\* Cash deposit in the Central Bank of Egypt to be invested in Governmental bonds and National Investment Bank against 5% of the surplus from the prior years of issuing the law no. 203 for the year of 1991, the cash deposit yields a return of 3.5% annually.

\*\* Investments in foreign securities

\*\*\* Represent a new Suez Canal investment certificates by returns of 15.5% annually, its maturity expired on 9/2019.

**13- RIGHT OF USE LEASED ASSETS**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Right of use leased assets	159 330	143 926
Accumulated depreciation right of use leased assets	(79 665)	(35 982)
<b>Net</b>	<b><u>79 665</u></b>	<b><u>107 944</u></b>

**14- OTHER ASSETS**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
The company's contribution to the project of filling, improvement and coverage of the El Zomor Canal	10 537	10 537
Expense of providing Gas to the new industrial complex in 6th October city	16 016	16 016
Expense of providing Gas to Moharem Bek	348	348
Expense for to external roads	756	756
Retriever from some customers who benefit from gas delivery	(1 403)	(1 403)
Amortization to date	(25 489)	(25 379)
<b>Net</b>	<b><u>765</u></b>	<b><u>875</u></b>

**15- INVENTORIES**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Raw materials *	645 248	608 623
Raw materials (Tobacco leaf) under customs custody (unpaid custom yet) **	2 912 310	4 284 172
Fuel inventory	1 312	2 548
Spare parts	583 298	483 760
Packaging	1 641 177	2 271 943
Waste and scrap	2 356	1 875
Materials and spare parts under process storage	757	926
Production work in process	63 290	94 696
Finished goods	81 290	63 828
Consignment packing materials and spare parts	937	1 851
Goods in transit	5 298	11 165
Letter of Credit	62 196	133 142
<b>Total</b>	<b><u>5 999 469</u></b>	<b><u>7 958 529</u></b>
Less the impairment in inventory ***	71 239	1 876
<b>Net</b>	<b><u>5 928 230</u></b>	<b><u>7 956 653</u></b>

- The company management used to in previous years to record the inventory (in) from the tobacco leaf raw material under custom custody at the lower of cost according to the quantities as per supplier invoice or the actual quantities weight per customs.
- The Egyptian Custom Authority select a sample from tobacco leaf raw material shipment to be weighted. Customs make adjustment to increase weights in case of the sample selected from tobacco leaf cartons is lower than standard cost recorded on the cartons. According to the Minister of Finance decree No. (189) for year 2008 amending some of the executive regulation articles from custom Law issued by the Minister of Finance No. (10) for year 2006. "The tobacco leaf imported weight recorded with estimated custom taxes, other taxes and fees should be recorded for custom tax purpose based on the higher weight of the actual weight performed by the custom upon storing in customs warehouse or weight stated in shipment documents".
- Upon release of tobacco leaf shipment from customs warehouse to the factory warehouse the imported tobacco leaf should be recorded for customs tax purpose based on weights approved from custom (Higher weight) the related customs taxes and other taxes are settled based on the approved customs weights.
- Due to the incorrect accounting treatment in previous years which lead to a difference in inventory book value with approximately 2 600 ton from different tobacco leaf grades initially amounted to 111 5 Million EGP representing 2.6% from inventory opening balance and 1.3% from current year cost of sales.

Adjustments booked on inventory quantities during current year was without supporting documents and necessary authentication.

Currently the company management perform studies to identify and settle variance causes in coordination with external parties.

- The company management taken the necessary action towards modifying the recording method of tobacco leaf raw material inventory (in and out) to prevent recurrence of errors in the future.

\* The raw materials stock as of 30/6/2020 includes items under inspection with an amount 2 257 Thousand Egyptian pounds, and Items under inspection (packaging and mixing materials) with an amount 48 496 Thousand Egyptian pounds. The examination and final receipt are carried out periodically for all items.

\*\* Raw tobacco leaf material at customs balance include items under inspection (tobacco leaf raw materials) with estimated amounted to 53 175 Egyptian pounds, and unpaid customs fees are estimated at 311 521 Thousand Egyptian pounds., The total unpaid fee for the development of the state's financial resources is estimated at 65 789 thousand Egyptian pounds.

\*\*\* The decrease in inventory impairment represented in spare parts and gear by LE 70,000 Thousand, and finished goods by LE 1 239 thousand.

#### **16- TRADE AND NOTES RECEIVABLE**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Trade receivables (foreign production)	204 352	135 346
Trade receivables (co-production*)	62 746	244 785
Foreign Trade receivables	--	1 844
<b>Total</b>	<b><u>267 098</u></b>	<b><u>381 975</u></b>

\* The trade receivables (co-production) will be paid in the next month, although the company does not give credit in the domestic sales.

#### **17- DEBTORS AND OTHER DEBIT BALANCES**

	<u>Note</u>	<u>30/6/2020</u>	<u>30/6/2019</u>
Holding company debit balance		502	567
Debtor Accounts to governmental Authorities	(17/1)	349 916	369 074
Accrued revenues	(17/2)	2 600	3 194
Prepaid expenses		3 800	11 545
Other debit balances	(17/3)	100 147	140 426
<b>Total</b>		<b><u>456 965</u></b>	<b><u>524 806</u></b>
Less impairment in debtors		11 853	13 411
<b>Net</b>		<b><u>445 112</u></b>	<b><u>511 395</u></b>

**17/1 Debtor Accounts to governmental Authorities**

	<u>30/6/2020</u>	<u>30/6/2019</u>
VAT tax authority	282 587	345 372
Custom authority	36	921
Debit balance for other governmental authorities	67 293	22 781
	<u>349 916</u>	<u>369 074</u>

Accounts receivable with other authorities include the following:

- 45 951 Thousand Egyptian pounds for Tax authority for salaries.
- 11 874 Thousand Egyptian pounds for Customs Department, Drupak Tobako.
- 5 628 Thousand Egyptian pounds for sales paid on imported goods.
- 2 033 Thousand Egyptian pounds for sales tax paid on investment goods
- 1 719 Thousand Egyptian pounds for Ministry of Finance - imported sales tax.
- 88 Thousand Egyptian Pounds others.

**17/2 Accrued revenues**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Accrued export incentives	832	1 045
Securities accrued income	709	1 474
Debit rents accrued	550	635
Miscellaneous income accrued	509	40
<b>Total</b>	<u>2 600</u>	<u>3 194</u>

**17/3 Other debit balances:**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Guarantees for others	10 795	10 740
Employees loans	11 027	10 391
Other debit balances *	78 325	119 295
<b>Total</b>	<u>100 147</u>	<u>140 426</u>

\* The other debit balance includes the follows:

48 381 thousand pounds for the State Company for Paper Industry (Racta)

12 961 thousand pounds for stock for others joint production (Viceroy / pal mal)

8 014 thousand pounds for confiscated goods belonging to the company and fines owed to the company, as well as a travel allowance abroad

3 255 thousand belonging to the treasury of the Rusafa factory, which is registered with Misdemeanor No. 4900/2016

1 249 thousand pounds for insurance claims under settlement and for cars

657 thousand pounds belong to the mosque deposit, and it has a charge in other credit accounts of the same value



**18- TRADE PAYABLES - ADVANCE PAYMENTS**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Public sector suppliers	2 198	6 807
Private sector suppliers	40 296	43 179
Public sector services suppliers	5 004	4 229
Other	--	1 260
<b>Total</b>	<b><u>47 498</u></b>	<b><u>55 475</u></b>

**19- CASH ON HAND AND AT BANKS**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Banks time deposits	--	751
Banks current accounts	7 419 268	5 831 822
Cash on hand	19 166	196 432
<b>Total</b>	<b><u>7 438 434</u></b>	<b><u>6 029 005</u></b>

\* The cash is including 5.9 Million Egyptian Pounds related to the social solidarity fund of the company's employees Against a commitment confirmed in other credit balances of the same amount

**20- ISSUED AND PAID-UP CAPITAL**

The Authorized Capital amounted to 3 000 Million Egyptian Pounds (Three Billion Egyptian Pounds) and the Paid and Issued Capital amount is 2 250 Million Egyptian Pounds (Two Billion and two hundred and fifty Million Egyptian Pounds) divided to 2 250 Million Shares with nominal amount of one Egyptian Pound.

**The Share Capital Structure as of 30/6/2020:**

<u>Company name</u>	<u>Shares number</u>	<u>Percentage</u>
The holding company for Chemical industries	1 136 250 000	50.5%
Employees associations	138 035 692	6.14%
Treasury bills	35 382 492	1.57%
Free trading	940 331 816	41.79%
<b>Total</b>	<b><u>2 250 000 000</u></b>	<b><u>100.00%</u></b>

- On 29/5/2018 the Extra-ordinary General Assembly increased the company's issued and paid capital from 1.5 Billion Egyptian Pounds to 2.25 Billion Egyptian Pounds (with total increasing amount of 750 Million Egyptian Pounds) divided to 450 million shares as nominal shares amounted to five Egyptian Pound per share financed from the legal reserves and other reserves appeared in financial statements for the financial year ended on 30/6/2017, and the securities committee issued a decision to approve this increase on 1/8/2018.

- The nominal share was divided by percentage of 1:5 to be one Egyptian Pound instead of five Egyptian Pounds with keeping the company's capital as it is amounted to 2.25 Billion Egyptian Pounds to be divided to 2.25 Billion Shares, and the necessary approval has been obtained from the concerned authorities according to the decision of the extra-ordinary general assembly for the Eastern company which held on 29/8/2018.
- The employee's association of the Eastern company has bought number of 1 199 529 shares from the Eastern company shares During the period from 1/7/2019 to 30/3/2020, so, the company's shares will be 138 035 692 shares by contributions percentage up to 6.14%.
- The company's board of directors which held on 19/3/2020 decided that buy of treasury stock up to a maximum of 3% of the company's shares traded on the stock exchange, the purchasing process will be during a month start from 23/3/2020 till 22/4/2020 and notifying the shareholders that not perform any operations on it, The board of directors also decided to seek the assistance from (CI Capital company and EFG company).
- The company's board of directors which held on 23/4/2020 approved to complete the purchase of treasury shares start from 28/4/2020 till 27/7/2020 to complete the aforementioned percentage 3%, the number of treasury shares purchased amounted to 40 410 210 share as percentage 1.796% from the company's shares till 27/7/2020, The company's board of directors, held on 28/7/2020, also decided to extend the completion of the purchase of treasury shares, provided that the purchase process starts from 29/7/2020 and ends on 28/10/2020 and another 6 013 208 shares were purchased during the period from 29 /7/2020 until 5/8/2020

## **21- RESERVES**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Legal reserve	801 783	801 783
Regular /Statutory reserve	1 673 498	1 673 498
Capital reserve	549 681	549 681
Reserve to be invented in governmental bonds	20 662	20 662
Reserve of profits estimated budget	940 170	940 170
Other reserves	25	25
<b>Total</b>	<b><u>3 985 819</u></b>	<b><u>3 985 819</u></b>

▪ **Movement of share capital, reserves and retained earnings**

	<b><u>Thousand Egyptian Pounds</u></b>			
	<b><u>Balance as of 1/7/2019</u></b>	<b><u>Additions</u></b>	<b><u>Exclusions</u></b>	
Paid and issued share capital	2 250 000	--	--	2 250 000
Legal reserve	801 783	--	--	801 783
Reserve to be invested in governmental bonds	20 662	--	--	20 662
Capital reserve	549 681	--	--	549 681
Reserve of profit estimated budget	940 170	--	--	940 170
Statutory reserve	1 673 498	--	--	1 673 498
Other reserves	25	--	--	25
Treasury shares	--	--	*432 343	(432 343)
Retained earnings	1 540 289	7 000	54 582	1 492 707
<b>Total</b>	<b><u>7 776 108</u></b>	<b><u>7 000</u></b>	<b><u>486 925</u></b>	<b><u>7 296 183</u></b>

\* The purchase of approximately 35 382 thousand shares.

**The legal reserves:** according to the corporate law no .159 for 1981 and the company's article was conforming by percentage of 5% from the year net profit and to legal reserve account, and based on the suggestion of the Board of Directors, it is permissible to suspend part of the profits for the legal reserve account if the legal reserve reaches 50% of the issued capital the legal reserve is not available for distribution to shareholders.

**The Other reserves:** the remaining reserves in the financial statements its formation according to law no. 203 for 1991.

**22- TREASURY STOCKS**

The total bought treasury stocks is 35 382 492 share amounted 432 343 358 EGP with average price 12.22 EGP/share during the period from March 23, 2020 till May 7, 2020.

**23- RETAINED EARNINGS**

The charge on retained earnings during the fiscal year 2019/2020 amounted to 47 582 thousand pounds, which is the adjustments of previous years expenses and previous years revenues and deferred taxes in accordance with Egyptian Accounting Standard No. (5) The Board of Directors in calculating the retained earnings according to the decisions of the general assembly of the company

**24- DEFERRED TAX**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Deferred tax liabilities	411 822	361 579
Deferred tax assets	(201 624)	(176 334)
<b>Net tax liabilities</b>	<b><u>210 198</u></b>	<b><u>185 245</u></b>

- The deferred tax which result from temporary time differences between book value for assets and liabilities according to the account basic and its value according to the tax basic are recognized, the amount of deferred tax was determined according to what expected to achieve or settle values of assets and liabilities by using current tax price on the financial statements date, the deferred tax assets will be recognized when having a strong probability to achieve profits that may be taxed in the future where the assets can be used and the value of deferred tax assets can be decreased by the value of the part which will not achieve any tax benefits through the future years.
- Clearing was performed between the deferred tax assets and deferred tax liabilities.

**25- EMPLOYEE BENEFITS**

- The total employee benefits is representing an amount of 613 011 Thousand Egyptian Pounds which expressing the end of service grant for the permanent employees of the company on 30/6/2020
- The expected value of the end-of-service grant for graduates during the fiscal year 2020/2021, amounting to 50 887 thousand pounds, has been separated and included in current liabilities and the rest has been included in long-term liabilities.

**26- PROVISIONS:**

- The provisions are composing according to the Egyptian Accounting Standard No. (28).

▪ **Movement of provisions:**

	<u>Thousand Egyptian Pounds</u>			
	<u>Balance as of 1/7/2019</u>	<u>Provided</u>	<u>No longer needed/ used***</u>	<u>Balance as of 30/6/2020</u>
Provision of disputed taxes *	209 238	--	--	209 238
Provision of contingent liabilities	--	262 000	--	262 000
Provision of legal claims **	183 899	--	10 192	173 707
<b>Total</b>	<b><u>393 137</u></b>	<b><u>262 000</u></b>	<b><u>10 192</u></b>	<b><u>644 945</u></b>

\* The provision of disputed taxes: composed to meet the tax liabilities.

\*\* The provision of legal claims, salaries, and other: the company's lawyer prepared lists from his point of view according to the prospect liabilities.

\*\*\* 9,000 thousand Egyptian pounds is no longer needed provision, and the amount of 1,192 thousand Egyptian pounds is used provision.

The provisions have been created against expected claims from third parties related to The Company activities.

The Company's management did not disclose provisions details as per Egyptian Accounting Standard No. (28) article No. (92) due to the Company management's consider that such disclosure may extremely negatively impact the negotiations results with external parties, the company management reviews the provisions periodically and adjusts their value according to the latest updates, discussions and agreements with those parties.

**27- TRADE AND NOTES PAYABLES**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Trade payables (public sector)	48 616	37 133
Trade payables (private sector)	149 899	104 698
Foreign Trade payables	172 136	1 315 657
Notes Payable *	41 965	--
<b>Total</b>	<b><u>412 616</u></b>	<b><u>1 457 488</u></b>

\* The amount of notes payables represent the due installment to re-exploit the company's stores and factories of Al-Zumar Street and change its activities to a hospital.

**28- CREDITORS AND OTHER CREDIT BALANCES**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Governmental authorities current account	5 673 729	6 832 929
Dividends payable	11 663	2 504 663
Accrued expenses	628 899	624 020
Other credit balances	513 994	497 056
<b>Total</b>	<b><u>6 828 285</u></b>	<b><u>10 458 668</u></b>

**28/1 Governmental authorities credit accounts**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
VAT tax authority*	5 606 129	6 740 215
Health insurance contribution	37 325	34 999
General Tax Authority (withheld from others at source)	4 621	27 311
Property tax authority	1 018	952
National organization for social insurance	24 636	29 452
<b>Total</b>	<b><u>5 673 729</u></b>	<b><u>6 832 929</u></b>

\* The amount of value added tax includes two-months "February and March" because of the electronic payment system from March 2019 where tax payment will be first day of the next month instead of being at the previous month.

**28/2 Accrued expenses**

\* 628 899 Thousand Egyptian Pounds representing accrued expenses for employees and other.

**28/3 Other credit balances**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Deposits from others	55 517	52 982
Fixed assets supplies	53 296	71 606
Creditors amounts deducted from employees	7 748	7 396
Remaining accrued cost relevant to finance leased machines	--	7 363
Deferred revenue related to gifted fixed assets*	118 975	142 544
Sums set aside for the benefit of workers - social services	216 006	182 587
Other	62 452	32 578
<b>Total</b>	<u><u>513 994</u></u>	<u><u>497 056</u></u>

\* Credit balances include deferred revenue

109 381 thousand Egyptian pounds, pertaining to the net gifted fixed assets  
 9 594 thousand Egyptian pounds for equipment against tobacco leaf raw materials.  
 The amounts withheld for the benefit of social services workers are the value of the remaining profits to be distributed at least 10% of these profits and not more than the total annual wages of the employees, where the company was subject to the provisions of Law No. 203 of 1991, where article 33 of that law stipulates that "the employees of the company shall have a share in the profits to be distributed determined by the Association based on the proposal of the Board of Directors at least 10% of these profits.

The workers total cash distribution of these profit must not exceed total them yearly basic salaries, executive regulations shows how to distribute what it exceed total yearly basic salary that benefit the company's employees

When the company became under the Law No. 159 of 1981 by the decision General Assembly of the Company on 2/6/2019, article 41 of the same law stipulates that "the employees of the company shall have a share in the profits to be distributed determined by the General Assembly on the proposal of the Board of Directors at least 10% of these profits and does not exceed the total annual wages of the employees of the company and the executive regulations show how to distribute more than 10% of the profits indicated by the employees and services that come to them.

\* Includes other credit balances

20,981 EGP is deducted from employees, especially for the Shareholders Union  
 10 475 Egyptian pounds for the social solidarity committee of the company  
 10 449 EGP thousand under the account of selling the plot of land at 41 Abu Darda Street - Laban Division  
 2 585 Egyptian pounds for joint production stocks (Target / LD)  
 2 182 thousand pounds pertaining to checks whose owners did not come forward to cash them  
 1 342 thousand pounds of due marketing expenses  
 657 thousand pounds for the deposit of the mosque

**29- TRADE RECEIVABLES - ADVANCE PAYMENTS**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Receivables - other credit balances	156 266	56 085
Receivables credit balances - scrap	270	266
<b>Total</b>	<b><u>156 536</u></b>	<b><u>56 351</u></b>

**30- FINANCIAL LEASE CONTRACT OBLIGATIONS**

The last installment of the rental value of the financial leasing contract was paid with QNB Al-Ahly Financial Leasing Company on 28/6/2020.

**31- CAPITAL COMMITMENTS**

The capital commitments represented in accrued customs fees on the company which the company paid after the smoke out from the custom warehouses and the development resources fees amounted 377 310 Thousand Egyptian Pounds.

**32- THE INCOME STATEMENT:**

The cost of revenues includes an amount of 39 832 Thousand Egyptian Pounds related to the depreciation of finance leased assets (for the financial year from 1/7/2019 till 30/6/2020), in addition to an amount of 3 023 Thousand Egyptian Pounds as maintenance expenses (spare parts) related to the leased assets.

**33- SALES REVENUE**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Net sales	11 956 465	11 685 596
Revenue of operation for other	2 508 330	2 339 876
<b>Total</b>	<b><u>14 464 795</u></b>	<b><u>14 025 472</u></b>

**34- COST OF GOODS SOLD**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Raw Materials	6 028 934	6 223 024
Depreciation and amortization	518 563	485 967
Wages	1 803 391	1 751 738
Maintenance	138 453	159 923
Miscellaneous service expenses	50 844	66 206
Insurance expenses	26 061	21 938
Decline in inventory value	70 205	1 361
Revers of impairment in inventory value	(637)	--
Others	65 773	81 538
<b>Total</b>	<b><u>8 701 587</u></b>	<b><u>8 791 695</u></b>

**35- OTHER INCOME**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Gain from materials sales	197	286
Other miscellaneous income*	30 297	62 410
Other miscellaneous income property investment	1 297	--
Gain from scrap sales	7 685	22 106
Rent income	2 020	1 663
Credit compensation	351	246
No-longer needed provisions	16 530	41 906
Capital gain**	1 134	19 770
Grants and subsidies ***	1 259	1 251
<b>Total</b>	<b><u>60 770</u></b>	<b><u>149 638</u></b>

\* The miscellaneous revenues include an amount of 23 569 Thousand Egyptian Pound relevant to gifted assets.

\*\* The capital gain is an amount 1 134 Thousand Egyptian pound.

\*\*\* The other revenues includes the grants and subsidies related to the financial year ended in 30/6/2020. Also the comparative period which has been transferred from operating revenue to other income item.

**36- SALE AND DISTRIBUTION EXPENSES**

	<b><u>30/6/2020</u></b>	<b><u>30/6/2019</u></b>
Wages	404 929	370 534
Depreciation and amortization	4 101	2 834
Maintenances	3 249	1 896
Miscellaneous service expenses	5 834	4 275
Insurance expenses	2 258	4 188
Marketing expenses	47 337	41 174
Permitted Discount	133 120	131 937
Finished product transfer	22 125	21 733
Other	32 736	38 569
<b>Total</b>	<b><u>655 689</u></b>	<b><u>617 140</u></b>



**37- GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Wages	162 398	147 344
Depreciation and amortization	20 160	33 162
Maintenances	237	141
Miscellaneous service expenses	45 866	5 999
Other	7 098	3 946
<b>Total</b>	<b><u>235 759</u></b>	<b><u>190 592</u></b>

- The general and administrative expenses includes amount of 37 325 Thousand Egyptian Pound related to health insurance contribution for the financial year from ended 30/6/2020.

**38- OTHER EXPENSES**

	<u>30/6/2020</u>	<u>30/6/2020</u>
Donations for other	19 592	34 700
Raw materials sales losses	--	6 576
Extraordinary losses	20 226	600
Compensation and fines	4	10
Allocation of the end of service grant for disability and death	41 476	9 735
Impairment losses provision	10 916	--
Provision for contingent liabilities*	262 000	--
Doubtful provision	5 972	422
<b>Total</b>	<b><u>360 186</u></b>	<b><u>52 043</u></b>

\* Provision for contingent liabilities related to expected claims in relation to external parties in relation to the company's activities, and the management reviews these provisions periodically with the assistance of specialists and consultants when required, and the amount of the allowance is adjusted according to the latest discussions and agreements with those parties.

The information that was usually published according to the requirements of the Egyptian accounting standards was not disclosed because the management of the company believes that doing so strongly affects the results of negotiations with those parties.

**39- NET FINANCING COST/ REVENUE**

	<u>30/6/2020</u>	<u>30/6/2019</u>
Credit interest	415 582	417 261
Gains revaluation differences on foreign currencies	82 487	73 152
<b>Total finance revenue</b>	<b><u>498 069</u></b>	<b><u>490 413</u></b>
Bank interest and bank expenses	(10 634)	(34 119)
(Losses) revaluation differences on foreign currencies	(111 327)	(182 018)
<b>Total finance expenses</b>	<b><u>(121 961)</u></b>	<b><u>(216 137)</u></b>
<b>Net finance expenses</b>	<b><u>376 108</u></b>	<b><u>274 276</u></b>

**40- OTHER FINANCIAL INVESTMENTS REVENUE**

The financial investments revenue includes 3 111 Thousand Egyptian Pounds interest from investments in Suez Canal and 1 353 Thousand Egyptian Pounds from treasury bills revenue, 723 Thousand Egyptian Pounds for the return on government bonds.

**41- TAX EXPENSES**

- The income tax in the income statement as of 30/6/2020 was amounted to 1 152 361 Thousand Egyptian Pounds.
- The deferred tax in income statement as of 30/6/2020 was amounted to 7 029 Thousand Egyptian Pounds according the following:

	<b>Thousand Egyptian Pounds</b>
Deferred tax assets	32 318
Deferred tax liabilities	(25 289)
<b>Total</b>	<b>7 029</b>

- It includes amount of 5.2 Million Egyptian Pound for the taxes of financial year 2018/2019.

**42- EARNINGS PER SHARE**

	<b>Unit</b>	<b>30/6/2020</b>	<b>30/6/2019</b>
Net profit for the year after deducting the dividends for employees, Youth and sport Authority, and rewards of Board of Directors Members.	Thousand Egyptian Pounds	3 590 550	3 479 637
Weighted average number of common shares	Thousand shares	2 241 641	2 250 000
<b>Portion per share in net profit</b>	Egyptian Pounds	<b>1.60</b>	<b>1.55</b>

- The weighted average number of ordinary shares was calculated according to standard (22) weighted by the number of days after the reduction of treasury stocks.

**The Cash Flows Statement:**

**43- CASH AND CASH EQUIVALENT**

- The cash and cash equivalent balance amounted to 7 438 434 Thousand Egyptian Pounds are as following:

	<b>30/6/2020</b>	<b>30/6/2019</b>
Banks - time deposits	--	751
Banks - current accounts	7 419 268	5 831 822
Cash on hand	19 166	196 432
<b>Total</b>	<b>7 438 434</b>	<b>6 029 005</b>

- The credit facilities which available to be used in future amounted to 7 320 Million Egyptian Pounds.
- Cash balance as of 30/6/2020 include an amount of 1.872 Billion Egyptian Pounds for the favor of the Ministry of finance regarding the declaration of May which was paid in first day of July 2020 instead of the last day of June 2020 because the company applied the electronic payment system.

#### **44- LIST OF PROPOSED DISTRIBUTIONS**

On the occasion of the company's transformation to Law No. (159) of 1981, where the company was subject to the provisions of Law No. 203 of 1991, where Article No. (33) of Law No. 203 of 1991 stipulated that "the employees of the company shall have a share in the profits that are decided to be distributed, which the association determines upon the proposal of the Council Management of at least 10% of these profits. The cash disbursed to workers from these profits may not exceed the sum of their basic annual wages. The executive regulations shall indicate how to distribute what exceeds the total annual wages from profits on services that benefit the company's employees. As well as Paragraph (c) of Article No. (47) of the Company's Articles of Association prior to the transformation of Law No. 159 of 1981, which states: "The amount necessary for the distribution of a share of profits of 5% of the capital shall be deducted from the share of the profits to the shareholders for what was paid from the value of their shares and for the employees. The share of workers in the profits to be distributed shall not be less than 10%, provided that what is disbursed to them in cash from them shall not exceed their total annual basic wages, and more than that shall be set aside in a special account for the establishment of housing projects for these workers and the provision of social services to them in accordance with the decision of the general assembly of the company ". And when the company was transformed into the umbrella of Law No. 159 of 1981 by the decision of the ordinary general assembly of the company on 2/6/2019, where Article No. (41) of the same law stipulated that "the employees of the company shall have a share in the profits that are decided to be distributed. Not less than (10%) of these profits and not more than the sum of the annual wages of the company's employees. The executive regulations indicate how to distribute more than the aforementioned 10% of profits to workers and services that benefit them.

As well as Article No. (55) of the company's articles of association, which stipulates "distributing 10% of the profits that are decided to be distributed in cash to the company's employees in accordance with the rules established by the company's board of directors and approved by the general assembly exceeding the total annual wages for workers."

#### **45- COMPARATIVE FIGURES**

Some comparative figures have been reclassified to conform to the presentation of the financial statements for the current year.

#### **46- OTHER DATA**

##### **46/1 Fight smoking:**

- On 21/6/2007 the law no. 154 for the year of 2007 issued a modification of some provisions of the law no. 52 for the year of 1981 about the protection from the damage of smoking which prevents smoking completely in all facilities as health, educational, governmental departments, sports and social clubs, youth centers and all other places that the ministry of health determine. This law state penalties on those responsible for these places and on the smoker.

In addition the company is obliged to print a warning of smoking risk on at least the half of the two sides of the package accompanied with adding other warnings or publishing photos confirm damage of smoking, The company to comply with this law and the decree of minister of health and population no. 443 for the year of 2007, the company endured by additional burden cost as a result of the continuous adjustment in printing cylinders which resulting losses in the publications material related to products.

In addition, the company is obliged to change the photo each six months according to the decision of ministry of health and population.

**46/2 Industrial complex in the 6<sup>th</sup> of October:**

- Industrial complex in the 6<sup>th</sup> of October was established on 353 acre and the actual cost amounted to 5.8 billion Egyptian pound and most of the company activities transferred to the industrial complex and the company will invest its appreciated premises to decrease the finance cost incurred.

**46/3 Insurance:**

- The company have various insurance using insurance policies which covered all potential risks that company may face, such as:

**a. Comprehensive Certificate/document:**

- To cover risks of fire properties, risk of cash transfer, dishonesty, machinery malfunction, the common civil responsibility, loss revenues, and remove debris.

**b. Cars Certificate/document:**

- Cover all risks fleet of cars facing (comprehensive insurance - compulsory insurance).

**c. Transportation Certificate/document:**

- Cover risks of transportation, sea and air transportation for all production materials and finished goods.

**d. Lifts Certificate/document:**

- Cover the civil responsibility result from operation.

**e. Political violence Certificate/document:**

- Cover terrorism, vandalism, willful acts, riots, civil unrest, armed insurrection, revolution, rebellion, military coup, and costs of rubble elimination.

**f. Personnel accident violence Certificat/document :**

- Cover the death, the full and partial disability result from accidents and the medical care expenses (10% from the insurance amount). Terrorism risk was added.

**g. Dishonesty Certificate/document:**

- Cover the drivers who are working on contractual terms for transporting the company's' products.

**46/4 Environmental responsibility:**

- According to the Eastern company's continued efforts to achieve protecting environment and preserving the common health and as a commitment by the company to apply the environmental requirements of Environment Law No. 4 for the year of 94 and its amendments and executive regulations through implementing and maintaining the internal environment in its factories and the external environment surrounding the company in the purpose of achieving sustainable compatibility of its environmental conditions, these points are representing in some projects as following:
  - The company has established and implemented the integrated industrial complex in the industrial zone at the City of 6<sup>th</sup> October to include all its locations. This procedure is an evidence of commitment towards the environmental laws and regulations.
  - The company has used the Natural Gas as a clean source of energy in operating boilers, generation power as a clean source of energy, and to reduce environmental pollutants from combustion.
  - The company established an environment friendly incinerator and the heat generated are used to generate ice water in a heat exchange to A/C factories.
  - The company has controlled the emissions of fine tobacco leaf using cyclones with non-permeable filters to prevent dust of tobacco leaf powder in the airspace in order to protect the environment from pollution and reuse and recycling through manufacturing natural tobacco leaf flakes.
  - The company established a station of liquid waste treatment (industrial drainage) in the industrial complex of the company in the City of 6<sup>th</sup> October with total capacity of 610 m<sup>3</sup>/day and the company got the environmental approval for energy raising up to be 1220 m<sup>3</sup>/day. Installations and the station are currently in the testing phase to start operation.
  - The company has also implemented a project of central air conditioning operating by natural gas to one of its factories to avoid the impact of thermal stress knowing that there is no raise in the temperature of the working environment as a result of various industrial processes more than allowed rates according to the executive decisions and regulations, through the monitoring carried out at the facility.
  - The company established a central station for collecting the manufacturing process outputs resulting from the company's production activities. Some items are sold and others are recycled in industries. Compost production from unusable dust of tobacco leaf is also been studied.
  - The company already bought a group of the environmental measuring devices to monitor pollutants and emissions of the work environment to determine the permissible limits in accordance with the requirements of the environmental law (number 4 for the year of 1994) and its executive regulation. In addition, the experts of the National Research Center had done the required regularly measurements and approved it in the environmental records for the different locations of the company. It is worth mentioning that the company spares no effort in supplying all personal protection tools to employees according to the nature of each activity.

- Extensive environmental approval was obtained for the project of establishing and extending a factory of roots plant (ESS) as space of 13350 m<sup>3</sup> in the industrial complex of the company in the City of 6<sup>th</sup> October, the company has also planted green areas and windbreaks and ornamental plants inside the industrial complex zone , and that with the implementation of the construction requirements and green spaces in the general plan for the industrial complex approved by the Urban Communities Authority as well as green areas around the eastern side of the industrial complex.
- Environmental approval was obtained for the construction of a 1 MW solar power station with an area of 14000 m<sup>2</sup> in the industrial complex of the company in the City of 6<sup>th</sup> October, the station has already been completed and it is currently in the testing phase for its service entry in order to reduce the burden on the electricity network in the industrial complex of the company in the City of 6<sup>th</sup> October. The company also is in the process stage of establishing additional electricity generating station by (BOT) system and 2 MW power.
- The soiled thinner is recovered and reused by an organic solvent separator. The company has all the environmental approvals and has updated environmental records approved by the largest research and scientific bodies (National Research Center) and it has been reviewed by the Environmental Affairs Agency. Also, the company is committed to all environmental laws and regulations.

#### **47- MATERIAL EVENT**

The second half of March witnessed the beginning of the impact of the spread of the Corona virus in the Egyptian market, and the Egyptian government announced unprecedented measures to combat the virus infection and its spread. In the company's operations, all risks have already been studied and evaluated, and a series of measures have been taken to reduce the risks to the work team and to ensure the continuation of the operational, manufacturing, sales and collection operations in this period and there is no effect on the company's current economic position (its financial position, business results and cash flows)

In view of the lack of clarity of the effects that could result from the development of the situation related to the impact of the spread of the virus (Covid-19) in the future, it is not possible to precisely determine the impact of these developments on the company's activity.

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**(Accountant/ Niveen Ali Hussein)**  
**General Manager / Final accounts and**  
**financial statements**

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**(Accountant/ Osama Fouad Mohamed)**  
**Chief of the financial sector**

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**(MR/ Mostafa Ahmed El Mahdy)**  
**Chief financial officer**