

**SPA SERVICE ENTERPRISE**

**AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

**AS AT AND FOR THE YEAR ENDED 30 JUNE 2024**

*Tolessa Beyene Certified Audit Firm*

Addis Ababa, Ethiopia  
E-mail: tolecorb@rednet.et@gmail.com  
P.O. Box 2902, Code 1230  
Tel: +251 937 604053

Ledata Sub-city around South Africa Embassy Sarebet Building, 5<sup>th</sup> Floor, Office No.302B

**SPA SERVICE ENTERPRISE  
REPORT AND FINANCIAL STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2024**

---

<u>Table of Content</u>	<u>Page</u>
1. Independent Auditor's Report	1-3
2. Statement of Profit or Loss and other comprehensive income'	5
3. Statement of Financial Position	4
4. Statement of Changes in Equity	6
5. Statement of Cash Flows	7
6. Notes to the Financial Statements	8-23



# Tolessa Beyene Certified Audit Firm

Mobile: +251 937 604053  
+251 911 48 0094  
E- mail: [tolecertifiedaudit@gmail.com](mailto:tolecertifiedaudit@gmail.com)  
P.O.Box 2862 Code 1250

Ledeta Sub city  
around South Africa Embassy  
Sarbet Business Bdg  
5<sup>th</sup> Floor, Office No.502B

## INDEPENDENT AUDITOR'S REPORT

### Report on the Audit of the Financial Statements

#### Qualified Opinion

We have audited the accompanying financial statements of **SPA Service Enterprise**, set out on pages 4 to 23, which comprise the Statement of Financial Position as at 30 June 2024, and the Statement of Profit and Loss and Other Comprehensive Income, statement of Changes in Equity, and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effect of the matter stated under the basis for opinion section, the accompanying financial statements present fairly, in all material respects, the financial position of the Enterprise as at 30 June 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for opinion

We have noted prior year adjustment/opening balance difference of Birr 26,957,483 for which we could not obtain sufficient evidence to ascertain the validity of the adjustment balance.

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



Page 1



## Independent Auditor's Report (Continued)

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

Management is responsible for the preparation and fair presentation the financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from a material misstatement, whether due to fraud or error.

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

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Enterprise's internal control.



Page 2



## Independent Auditor's Report (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Enterprise's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Enterprise to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Enterprise to express an opinion on the financial statements. We remain solely responsible for our audit opinion

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

Tolessa Beyene  
Certified Audit Firm  
Addis Ababa, Ethiopia

16<sup>th</sup> November 2024



Page 3



**SPA SERVICE ENTERPRISE**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2024**

	Notes	2024 ETB	2023 ETB
REVENUE	5	296,131,426	228,805,101
COST OF SALES	7	86,758,889	78,995,007
OVERHEAD COST	8	209,372,537 65,046,301	149,810,094 22,648,880
<b>GROSS PROFIT</b>		<b>144,326,235</b>	<b>127,161,214</b>
Other income		8,225,614	2,487,584
		<b>152,551,849</b>	<b>129,648,798</b>
<b>EXPENSES</b>			
Administration	9	80,405,389	93,231,517
Finance cost	10	2,522,632	-
		82,928,021	93,231,517
<b>PROFIT BEFORE TAX</b>		<b>69,623,828</b>	<b>36,417,281</b>
Deferred tax charged to OCI		(1,789,001)	(1,000,518)
Income tax expense	7.1	(24,525,920)	(13,162,540)
<b>PROFIT FOR THE YEAR</b>		<b>43,308,906</b>	<b>22,254,224</b>
<b>INCOME</b>		-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>43,308,906</b>	<b>22,254,224</b>



**SPA SERVICE ENTERPRISE  
STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2024**

	Notes	2024 ETB	2023 ETB
<b>ASSETS</b>			
<b>NON- CURRENT ASSETS</b>			
Property, plant and equipment	12	184,508,016	164,851,312
Right use of asset	13	44,753,996	44,704,996
Government bond		300,000	300,000
Investment property	18	1,156,008	1,095,165
Intangible asset	19	<u>1,298,292</u>	<u>1,298,292</u>
		<b><u>232,016,312</u></b>	<b><u>212,249,764</u></b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	14	42,483,881	25,647,454
Inventory	17	<u>21,753,166</u>	19,175,929
Cash and bank balances	15	<u>9,196,300</u>	<u>2,471,529</u>
		<b><u>73,433,347</u></b>	<b><u>47,294,911</u></b>
<b>TOTAL ASSETS</b>		<b><u>305,449,659</u></b>	<b><u>259,544,676</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Paid up capital	1	4,382,705	4,382,705
Legal reserve		2,165,445	795,620
Retained earning		<u>152,293,213</u>	<u>138,107,235</u>
		<b>158,841,363</b>	<b>143,285,560</b>
<b>NON- CURRENT LIABILITIES</b>			
Employee benefit-Long term	21	4,077,574	-
Deferred tax liability	11.2	39,191,502	37,402,501
Bank loan	23	<u>207,465</u>	<u>207,245</u>
		<b>43,476,541</b>	<b>37,609,745</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	20	46,956,798	43,808,117
Industrial development fund	24	11,898,481	11,898,481
State dividend payable	25	10,819,375	905,234
Other tax payable	22	4,988,593	1,911,324
Profit tax payable	11.1	23,992,327	12,703,377
Employee benefit-short term	21	<u>4,476,181</u>	<u>7,422,838</u>
		<b><u>103,131,755</u></b>	<b><u>78,649,371</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>146,608,296</u></b>	<b><u>116,259,116</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>305,449,659</u></b>	<b><u>259,544,676</u></b>



**SPA SERVICE ENTERPRISE  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2024**

	Paid up Capital ETB	Legal Reserve	Retained earning ETB	Total ETB
At 1 July 2023	4,382,705	795,620	138,107,235	143,285,560
Profit for the year	-	-	43,308,906	43,308,906
Prior year adjustment	-	-	(26,957,483)	(26,957,483)
Transfer to legal reserve	-	2,165,445	(2,165,445)	-
At 30 June 2024	4,382,705	2,165,445	152,293,213	159,636,983



**SPA SERVICE ENTERPRISE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2024**

	Note	2024 ETB	2023 ETB
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year before taxation	5	69,623,828	36,417,281
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	12	14,142,866	11,642,643
Prior period adjustment		(26,957,483)	(20,026,458)
		<b>56,809,211</b>	<b>28,033,466</b>
<b>Movements in working capital</b>			
(Increase)/decrease in inventory	17	(2,577,238)	(9,654,126)
(Increase)/decrease in trade and other receivables	14	(16,836,427)	(4,331,112)
Increase in trade and other payables	20	3,148,681	8,682,240
(Decrease)/increase in Differed tax payable	11.2	-	1,571,121
(Decrease)/increase in employee benefit	11.1	1,130,917	3,499,946
(Decrease)/increase in other taxes payable	22	3,077,269	141,847
<b>Cash generated from operations</b>		<b>44,752,413</b>	<b>27,943,382</b>
Withholding tax paid		(533,593)	-
Profit tax paid	7.1	(13,529,868)	(13,162,540)
<b>Net cash generated from operating activities</b>		<b>30,688,952</b>	<b>14,780,842</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Property, plant and equipment	12	(34,310,252)	(9,727,502)
Addition to right of use asset		(170,686)	-
Adjustment on Property, plant and equipment		602,397	(5,011,878)
<b>Net cash used in investing activities</b>		<b>(33,878,541)</b>	<b>(14,739,380)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
State dividend		9,914,141	905,234
Deferred tax charged to OCI		-	(1,000,518)
loan proceed/settlement	23	220	(220)
<b>Net cash used in financing activities</b>		<b>9,914,361</b>	<b>(95,504)</b>
<b>Net increase in cash and cash equivalents</b>		<b>6,724,772</b>	<b>(54,042)</b>
Cash and cash equivalents at 1 July 2023		2,471,529	2,525,571
<b>Cash and cash equivalents at 30 June 2024</b>		<b>9,196,300</b>	<b>2,471,529</b>
<b>Represented by:</b>			
Bank and cash balances	15	9,196,300	2,471,529
		<b>9,196,300</b>	<b>2,471,529</b>



**SPA SERVICE ENTERPRISE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2024**

---

**1. Company information**

SPA Service Enterprise is a public Enterprise re - Established in accordance with the Council of Ministers Regulation 111/1993 on January 1993 with its objective stated on Article of Association.

As per the Regulation, the authorized capital of The enterprise is Birr 4,382,705.00

The main objectives of the Company are to engaged in Star hotel service, Bath and massage, Wholesale and retail trade repair hotels and resraurants import and export business and community social and personal services.

**2. Significant accounting Policies**

**2.1 Introduction to summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are se out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation**

The company's financial statements have been prepared in accordance within an accrual basis in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

**2.2 Going Concern**

The financial statements have been prepared on a going concern basis which assumes the company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

**2.3 Basis of Consolidation**

The company has no parent and subsidiary to prepare consolidated financial statements.

**2.4 Summary of significant accounting policies**

**a) Current versus non-current classification**

The Company presents assets and liabilities in the statement of financial position based on current/ non-current classification. An asset is current when it is:

- Expected to be realized or sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

• The Company classifies all other liabilities as non-current.

• Deferred tax assets and liabilities are classified as non-current assets and liabilities.



**b) Fair value measurement**

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized with in the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognized in the financial statements at a fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by a re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**c) Revenue from contract with customers**

For the purpose of the transition requirements, the date of initial application of IFRS 15 is the start of the report the company first apply the standard. It applies the standard retrospectively only to contracts that are not yet completed. It recognize revenue when (or as) the company satisfies a performance obligation -the company recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognized is the amount allocated to the satisfied a performance obligation. Performance obligation may be satisfied at appoint in time (Typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For performance obligations satisfied over time, the Company recognizes revenue over time by selecting an appropriate method for measuring the company's progress towards complete satisfaction of that performance obligation.

**Interest income**

For all financial instruments measured at amortized cost and interest bearing financial assets, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in other income in the statement of profit or loss.

**Trade receivables**

A receivables represent the right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

**Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the company transfers goods or service to customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier) Contract liabilities are recognized as revenue when the company performs under the contract.

**d) Government bond**

A Government bond with a value of Birr 300,000 is a debt instrument measured at amortized cost, the bond according to the purchase contract and interest income is accrued based on the market rate for the same type of reported as investment under local GAAP.

**e) Taxes**

**Current income tax**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and tax laws that have been enacted substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the balance sheet liability method.



Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the company's forecast of future operating results, adjusted for significant non taxable income and expenses and specific limits on the use of unused tax loss or credit.

Deferred tax liabilities are recognized in full.

**f) Foreign currencies**

Foreign currency transactions are translated in to the functional currency of the respective entity, using the exchange rates prevailing at the dates of transactions ( spot exchange rate).

Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement items denominated in foreign currency at year end exchange rates are recognized in profit or loss.

Non-monetary items are not retranslated are year- end and are measured at historical cost ( translated using the exchange rates at the transaction date),except for non-monetary items measured at fair value which are translated using the exchange rate at the date when fair value was determined.

**g. Foreign currency translation**

**Functional and presentation currency**-Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The functional currency and presentation currency of the company is the Ethiopian Birr (ETB).

**Transaction and balances**- Foreign currency transactions are translated in to the functional currency using the prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of currency transactions and from the translation at exchange rates of monetary assets and liabilities dominated in currencies other than the company's functional currency are recognized in profit or loss with in other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rates as at the reporting date.

**h ) Property plant and equipment**

Plant, buildings, machineries and other equipment (comprising fittings and furniture) are initially recognized at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the company's management. Buildings, and equipment also include leasehold property held under finance lease. Plant, Buildings, machineries and other equipment are subsequently measured at cost less accumulated depreciation and impairment losses.

**Depreciation**

Depreciation is recognized on a straight line basis to write down the cost less estimated residual value of building and other equipment's. The following useful lives are applied.

	%
Building	2.5
Computers	20
Furniture and equipment's	20
Machineries	10
Motor Vehicle	10
Other fixed asset	5

In the case of leased assets, expected useful live are determined by reference to comparable owned assets or the term of the lease, if shorter. Material residual value estimates and estimates of useful life are updated as required, but at least annually. Gain or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within other income or other expenses.



**i) Leases**

All leased assets are treated as if finance lease except short - term and small value lease. The interest element charged to profit or loss, as finance costs over the period of the lease. All other lease are treated as operating company is a lessee, payments on operating lease agreements are recognized as an expense on a straight-line term. Associated costs, such as maintenance and insurance, are expensed as incurred.

**The company as lessee**

The company measures and recognizes right of use assets representing its right to use underlying leased assets fair value or, if lower, at the present value of the minimum lease payment and lease liabilities representing its payments. Lease payments are apportioned between finance and reduction of the lease liability so as to achieve of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statements.

**j) Borrowing cost**

Borrowing costs directly attribute to the acquisition, construction or production of qualifying asset are capitalized of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs a period in which they are incurred and reported in finance costs.

**k) Investment properties**

Investment properties are held to earn rentals or for capital appreciation, or both, and are accounted valued model.

**l) Financial instruments**

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those for carried at fair value through profit or loss which are measured initially at fair value.

**m) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost includes all expenses directly attributable to the service or manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expense.

**n) Cash and short term deposits**

Cash and cash equivalents comprise cash on hand an demand deposits, together with other short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.



**o) Provisions, contingent assets and contingent liabilities**

Provisions for product warranties, legal disputes, onerous contracts or other claims are recognized when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the company and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. Any reimbursement that the company is virtually certain to collect from the third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of related provision. No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

**p) Post - employment benefits, Other-long-term benefits and short term employee benefits.**

**Post - employment benefit plans**

The company provides post employment benefits through defined contribution benefit plans.

**Defined Contribution Plans**

The company pays fixed contribution into state pension 11% from it and deducting 7% from the individual employees. The company has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognized as an expense in the period that related employee services are received.

**Other long-term employee benefits**

The company accrues annual leave and severance payment using the projected unit credit method. Management estimates the obligation annually with the assistance of actuarial estimates. This is based on standard rates of inflation, salary growth rate and mortality.

**Short-term employee benefits**

Short-term employee benefits, including bonus, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount that the company expects to pay as a result of unused entitlement.

**q) Provisions, contingent assets and contingent liabilities**

Provisions for product warranties, legal disputes, onerous contracts or other claims are recognized when the company present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic requirement is required from the company and amounts can be estimated reliably. The timing or amount of the outflow may provisions are measured at the estimated expenditure required to settle the present obligation, based on the movements available at the reporting date, including the risks and uncertainties associated with the present obligation. Where the risk of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering obligations as a whole. provisions are discounted to their present values, where the time value of money is reimbursement that the company is virtually certain to collect from the third party with respect to the obligation separate asset. However, this asset not exceed the amount of the related provision. No liability is recognized economic recourses as a result of present obligations is not probable. Such situations are disclosed as contingent the outflow of resources is remote.



### 3. Significant management judgment in applying accounting policies and estimation uncertainty

When preparing the financial statements, management makes a number of judgments, estimates and assumption about the recognition and measurement of assets, liabilities, income and expenses.

#### Significant management judgement

The following are the judgements made by management in applying the accounting policies of the company that have the most significant effect on the financial statements.

#### Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

#### Estimations

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

#### Impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of suitable discount rate.

#### Provision for expected credit losses of trade receivables and contract asset

The company uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various debtors that have similar loss patterns.

#### Useful lives of depreciable asset

Management reviews its estimate of useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolesce that may change the utility of certain software and IT equipment.

#### Inventories

Management estimates the net realizable values of inventories, talking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market - driven changes that may reduce future selling prices.

#### Other long-term employee benefit obligations

Management's estimate of other long-term employee benefit obligations includes annual leave and severance pay obligation is based on a number of critical underlying assumptions such as standard rates of inflation, morality, discount rate and anticipation of future salary increase. Variation in these assumptions may significantly impact the obligation amount and the annual benefit expenses.



#### Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available, in that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

#### 4. Financial risk management

##### 4.1 Introduction

##### 4.1.1 Risk measurement and reporting systems

The company's risks are measured using methods that reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical model. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected regions. In addition, the Company measures and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

##### 4.1.2 Risk Mitigation

The company uses various risk mitigating techniques to reduce its risk to the level acceptance. Risk controls and mitigates, identified and approved for the company, are documented for existing and new process and systems.

The adequacy of these mitigates is tested on a periodic basis through administration of control self-assessment questionnaires, using an operational risk management tool which requires risk owners to confirm the effectiveness of established controls. These are subsequently reviewed as part of the review process.

#### 4.2 Financial risk

##### Financial instruments by category

The company's financial assets are classified into the following categories: at amortized cost, at fair value through P&L and at FV through OCI and the financial liabilities are classified into other liabilities at amortized cost.

#### 4.3 Credit Risk

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. key areas where the company is exposed to credit risk is trade receivables.

##### 4.3.1 Management of credit risk

The company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty or Companies of counterparty and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved executive management.



#### 4.4 Credit Risk

##### a) credit quality of cash and cash equivalents

The credit quality of cash and bank balances and short term investments that were neither past due nor impaired as 30 June 2024 and are held in banks have been classified as no credit rating agencies in Ethiopia.

##### b) Credit quality of trade and other receivables

###### i) Trade receivables

a company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location and nature of customers.

On the above basis the expected credit loss for trade receivables as at 30 June 2024 and 30 June 2023 was determined as follows:

Number expected	180 to 365	<2 year	<3 year	<4 year	<5 year	<6 year	>6 year
Credit loss	1%	5%	10%	20%	40%	60%	100%

###### ii) Allowance for impairment

The Company establishes an allowance for impairment losses that represents its estimate of incurred and expected losses in its receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance, established for companies of homogeneous assets in respect of losses that have been incurred and expected to be incurred but have not been identified on receivables subject to assessment impairment.

#### 4.5 Capital management

The company maintains an efficient capital structure of equity shareholders' funds, consistent with the company's risk profile and the regulatory and market requirements of its business.

The company objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to range of capital markets;
- to allocate capital efficiently to support growth;
- to safeguard the company's ability to continue a going concern so that it can continue to provide returns for share holders and benefits for other stockholders; and
- to provide adequate return to share holders by pricing products commensurately with the level of risk.

IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, which comprises of three levels as described below, based on the lowest level input is significant to the fair value measurement as a whole.



**4.6 Fair value of financial assets and liabilities**

**4.6.1 valuation models**

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent source; unobservable inputs reflect the Company's market assumptions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized with in the fair value hierarchy, describes as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

- Level 1 : Inputs that are quoted market price (unadjusted) in active markets for identical asset or liabilities

- Level 2 : Inputs other than quoted prices included with in level 1 that are observable for the asset or liability

(i.e. as price) or indirectly (i.e derived from prices). This category includes instruments valued using: quoted active market for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data . In conclusion, this category is for valuation technique for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category Includes all assets and liabilities for which the valuation technique includes inputs not based on observable date and the unobservable inputs have significant effect on asset or liabilities valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions required to reflect differences between the instruments.

**4.6.2 Fair value methods and assumptions**

Loans and receivables including trade receivables are carried at cost net of provision for impairment. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

**4.6.3 Valuation technique using significant observable inputs - level 3**

The Company has no financial asset measured at fair value on subsequent recognition.

**4.6.4 Transfers between the fair value hierarchy categories**

During the three reporting periods covered by this annual financial statements, there were no movements between levels as a result of significant inputs for the fair valuation process becoming observable or un observable.

**4.7 Offsetting financial assets and financial liabilities**

There are no offsetting arrangements. Financial assets and liabilities are settled and disclosed on a gross basis.



**SPA SERVICE ENTERPRISE**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2024**

5 REVENUE	2024	2023
	ETB	ETB
Room service	9,989,598	8,123,024
Food ,cafeteria ,and beverages	78,686,508	59,896,008
Bath and shower	112,143,335	83,156,553
Therapy and sauna bath	91,157,722	71,481,532
Shop rent	4,154,262	6,147,984
	<u>296,131,426</u>	<u>228,805,101</u>
 6 INCOME		
	2024	2023
	ETB	ETB
Bakery income	1,880,524	1,621,726
Laundry Income	10,760	29,432
Parking income	3,296,859	-
Other income	3,037,470	836,426
	<u>8,225,614</u>	<u>2,487,584</u>
 7 COST OF MATERIALS AND SERVICES		
	2024	2023
	ETB	ETB
Food ,cafeteria and beverages	39,182,507	32,349,793
Bath and shower	19,166,623	17,610,890
Therapy and sauna bath	1,585,429	2,689,005
Water	26,824,330	26,331,219
Room service	-	14,100
Clinic	-	-
	<u>86,758,889</u>	<u>78,995,007</u>
 8 OVERHEAD COST		
	2024	2023
	ETB	ETB
Salary and related	50,819,205	11,021,225
Repair & maintenances	-	-
Depreciation	14,082,023	11,627,656
Cleaning and sanitation	90,595	-
Other supplies	54,478	-
	<u>65,046,301</u>	<u>22,648,880</u>



**SPA SERVICE ENTERPRISE**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2024**

**9 ADMINISTRATION**

	2024	2023
	ETB	ETB
Salary and related benefit	40,360,718	65,058,757
Travel and per dime	42,630	28,735
Stationery and printing	1,612,477	1,124,876
lubricant	5,343,630	3,692,910
Electricity	5,727,354	5,330,292
Commission	148,038	131,894
Hotel	459,232	226,460
Repair and maintenance	8,271,116	4,574,015
License and registration	8,212	8,716
Cleaning and sanitation	3,001,648	2,996,232
Uniform and clothing	341,881	43,709
Transportation	162,936	50,278
Periodical	193,031	24,499
Membership fee	17,500	28,300
Insurance	1,285,347	1,043,761
Donation	482,276	1,822,705
Advertisement	1,194,785	583,728
Penalty	1,222	-
Legal and Professional fee	387,185	97,064
Communication	536,406	-
Impairment loss	730,230	264,534
Entertainment	1,903,802	1,529,965
Board fee/management fee	435,500	1,604,500
Property tax	2,485,264	-
Depreciation	-	14,987
Electrical and other supply	4,146,160	2,276,516
Bank service charge	21,409	9,003
Miscellaneous	1,105,400	665,080
	<u>80,405,389</u>	<u>93,231,517</u>

**10 FINANCE COST**

	2024	2023
	ETB	ETB
bank loan	2,522,632	-
	<u>2,522,632</u>	<u>-</u>



**SPA SERVICE ENTERPRISE**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2024**

**11 PROVISION FOR BUSINESS INCOME TAX**

**11 Business income tax**

	2024	2023
	ETB	ETB
Profit before taxation	69,623,828	36,417,281
<b>Add: non- allowable expenses</b>		
Impairment loss	730,230	264,534
Property tax	2,485,264	-
Donation	482,276	-
Entertainment ,penalty and donating	1,905,024	1,529,965
Depreciation and amortization per accounting policy	14,051,152	11,642,641
Provision for stock obsolescence written off	-	-
	<u>19,653,947</u>	<u>13,437,140</u>
	<b>89,277,774</b>	<b>49,854,421</b>
Less:- Bank Interest income		
Depreciation and amortization per tax policy	<u>(7,524,706)</u>	<u>(5,979,289)</u>
<b>Taxable profit</b>	<b>81,753,068</b>	<b>43,875,132</b>
Tax expense for the year	24,525,920	13,162,540
Advance profit tax	(533,593)	(459,163)
At 7 July - Payable/(recoverable)	<u>23,992,327</u>	<u>12,703,377</u>

**11 Reconciliation with deferred tax**

At 30 June, 2024 , the tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities are detailed as follows:

At the beginning of the year		37,402,501	36,401,983
Recognized in the profit or loss- PPE		1,957,934	1,079,878
Recognized in the profit or loss- allowance for credit l	(168,932)	<u>(168,932)</u>	<u>(79,360)</u>
Deferred tax charged to OCI		1,789,001	1,000,518
		<u>39,191,502</u>	<u>37,402,501</u>



**SPA SERVICE ENTERPRISE**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2024**

**12 PROPERTY, PLANT AND EQUIPMENT**

COST	At 1 July 2023	Addition	Adjustment	At 30 June 2024
	ETB	ETB	ETB	ETB
Building	146,414,038	7,393,337	-	153,807,375
Plant and machinery	39,492,747	17,315,036	(13,074,738)	43,733,046
Furniture and equipment	5,184,711	553,528	5,174,768	10,913,007
Motor vehicle	16,215,071	-	-	16,215,071
Computer & Printer	3,160,003	2,180,498	(783,280)	4,557,221
Other fixed asset	12,497,881	1,260,797	818,083	14,576,761
Construction In Progress	4,885,645	5,607,056	4,513,243	15,005,944
	<b>227,850,096</b>	<b>34,310,252</b>	<b>(3,351,924)</b>	<b>258,808,424</b>
<b>DEPRECIATION</b>				
Building	24,398,738	3,845,184	(3,407,545)	24,836,377
Plant and machinery	15,263,081	5,680,778	1,494,042	22,437,901
Furniture and equipment	6,461,582	1,147,648	(534,173)	7,075,057
Motor vehicle	11,314,096	1,621,507	-	12,935,603
Computer & Printer asset	3,005,973	1,068,100	(701,347)	3,372,726
	2,555,314	687,934	399,496	3,642,743
	<b>62,998,784</b>	<b>14,051,152</b>	<b>(2,749,527)</b>	<b>74,300,408</b>
<b>NET BOOK VALUE</b>	<b>164,851,312</b>	<b>20,259,100</b>	<b>(602,397)</b>	<b>184,508,016</b>

**13 RIGHT USE OF ASSET**

	2024	2023
	ETB	ETB
<b>Cost</b>		
At 1 July 2023	44,704,996	44,704,996
Additions during the year	49,000	-
At 30 June 2024	44,753,996	44,704,996
<b>Net Book Value</b>	<b>44,753,996</b>	<b>44,704,996</b>

**14 TRADE AND OTHER RECEIVABLES**

	2024	2023
	ETB	ETB
Trade receivable	10,816,789	8,628,934
Advance	8,528,825	3,884,407
VAT	6,817,429	5,521,402
Sundry receivable	1,498,593	109,626
Withholding	1,078,997	619,834
Staff loan	5,576,522	5,559,835
Deposit & prepayment	10,935,640	3,529,223
	<b>45,252,795</b>	<b>27,853,260</b>
Provision for uncollectable debtors	(2,768,914)	(2,205,806)
	<b>42,483,881</b>	<b>25,647,454</b>



**SPA SERVICE ENTERPRISE**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2024**

**15 CASH AND BANK BALANCES**

	2024	2023
	ETB	ETB
Cash at bank	6,498,386	1,580,364
Cash on hand	2,697,914	891,165
	<u>9,196,300</u>	<u>2,471,529</u>

**16 LEGAL RESERVE**

According to article 45 of the Commercial Code of Ethiopia, The company transfers 5% of profit after tax to legal reserve account until it amounts to one- fifth of the capital.

**17 INVENTORY**

	2024	2023
	ETB	ETB
Beverages	5,608,034	4,464,111
Provisions	1,013,753	1,245,481
Stationery and supplies	1,733,098	2,249,629
Medical supplies	136,298	164,499
Uniforms and clothing's	286,036	144,426
Cases and bottles	300,084	155,584
Building material and spare parts	3,335,442	3,037,646
Others	8,784,036	6,563,501
Fixed asset	556,385	1,151,052
Allowance for inventory impairment	-	-
	<u>21,753,166</u>	<u>19,175,929</u>

**18 INVESTMENT PROPERTY**

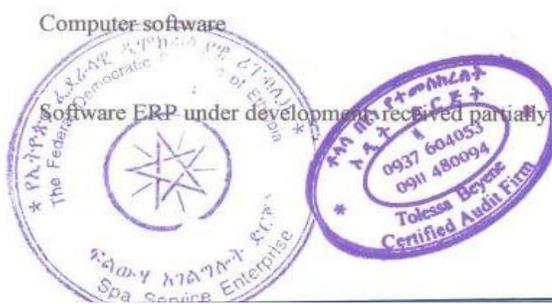
	2024	2023
	ETB	ETB
Cost	1,095,165	1,095,165
Addition	121,686	-
	<u>1,216,851</u>	<u>1,095,165</u>
Charge for the year	(60,843)	-
Net value	<u>1,156,008</u>	<u>1,095,165</u>



**19 INTANGIBLE ASSET**

	2024	2023
	ETB	ETB
Computer software	1,298,292	1,298,292
	<u>1,298,292</u>	<u>1,298,292</u>

Software ERP under development received partially but not fully completed.



**SPA SERVICE ENTERPRISE**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2024**

**20 TRADE AND OTHER PAYABLES**

	2024	2023
	ETB	ETB
Trade payable	4,165,826	13,545,765
Contract liability	4,174,930	6,010,954
Taxes payable	4,988,593	2,650,797
Accrual	13,912,497	11,154,045
Salary payable	94,311	79,405
Intercompany payable	7,539,321	7,539,321
Sundry payable	10,054,975	953,519
Pension	248,536	118,744
Retention Payable	1,777,809	1,755,568
	<u>46,956,798</u>	<u>43,808,117</u>

**21 EMPLOYEES BENEFIT:- SEVERANCE**

The enterprise is obliged by law to pay severance payment for eligible employees who served the enterprise for 5 years when the employment is terminated. The amount payable is one month final salary for he first year of one third of the final salary for the remaining year of services. Accordingly the present value of post employment obligation (severance) and the related current service cost were measured using the projected unit credit method.

**22 OTHER TAXES**

	2024	2023
	ETB	ETB
Income tax	4,677,273	1,576,818
Other tax	2,156	-
tax	309,164	334,506
	<u>4,988,593</u>	<u>1,911,324</u>

**23 BANK LOAN**



	2024	2023
	ETB	ETB
	207,465	207,245
	<u>207,465</u>	<u>207,245</u>

**24 INDUSTRIAL DEVELOPMENT FUND**

	2024	2023
	ETB	ETB
Opening	11,898,481	11,898,481
Adjustment	-	-
Settlement during the year	11,898,481	11,898,481
Adjustment	-	-
	<u>11,898,481</u>	<u>11,898,481</u>



**SPA SERVICE ENTERPRISE**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2024**

**25 STATE DIVIDEND PAYABLE**

	2024	2023
	ETB	ETB
Opening	905,234	905,234
Adjustment	-	905,234
Declared during the year	9,914,141	-
Transfer from current year profit	-	-
	10,819,375	1,810,468
Settlement during the year	-	(905,234)
	<b>10,819,375</b>	<b>905,234</b>

**25 EVENTS AFTER THE REPORTING PERIOD**

There are no significant events after the reporting period which has been reported in these financial statements.

