

Copyright Reserved

No. of pages: 20



THE INSTITUTE OF  
CHARTERED ACCOUNTANTS  
OF SRI LANKA

**KC5 – Corporate Strategy and Contemporary Issues**  
**December 2019**

**Pre-seen**

## **XYZ Group**

### **Background**

XYZ Group is a leading apparel manufacturing and exporting group of companies. Its corporate office is located in Sri Lanka and it has operations in Sri Lanka, Cambodia, Bangladesh and Vietnam. XYZ Group consists of three private limited companies: XYZ Apparel (Pvt) Ltd (the parent company, commonly known as XYZ Apparel), XYZ Intimates (Pvt) Ltd and XYZ Trading (Pvt) Ltd. XYZ Trading (Pvt) Ltd acts as the trading house of the group (commonly known as XYZ Trading).

XYZ Apparel is the main contributor to the manufacturing arm of the group, which has 9 factories in Sri Lanka and two more plants in Cambodia and Vietnam. XYZ Apparel and XYZ Trading specialise in denims and their main operations take place in Sri Lanka. Both the companies' Sri Lankan operations represent 99% of the Group's total business. XYZ Intimates (Pvt) Ltd specialises in basic underwear garments (intimate apparel) and operates in Dhaka, Bangladesh. The entity in Bangladesh is a joint venture, where 50% is owned by XYZ Group and the balance 50% is owned by HYC & Co. in India (HYC & Co. specialises in the manufacture and supply of fabric, which is used as a raw material in denim garments).

### **From a retail enterprise to a global business employing over 10,000 people**

In 1930, when a nineteen year old young man named Mohammad Neaz set up a small retail outlet on Second Cross Street, Fort, he would have not believed that such a small beginning could lead to a global business. The small retail outlet continued to flourish over the years, giving Neaz the opportunity to acquire a small loss-making tailoring business with 5 employees that was making customised shirts. Just a few years after the acquisition of this small tailoring business, XYZ Enterprises was established in the late 1930s, pioneering the fashion retail industry with the introduction of 'Popular' and 'Diplomat' shirts, which became the leading shirt brands throughout the 1940s and 1950s. In 1965, Neaz opened up

its first export scale garment manufacturing company Trendy Ceylon (Pvt) Ltd in Dematagoda. This was considered to be a remarkable milestone for Neaz's business (as well as the garment industry), which would later become one of Sri Lanka's most lucrative businesses. Thus the business continued to expand year on year and it re-invested a significant part of the retained profit to set up more factories across the country. Today XYZ Group is a global business with more than 10,000 employees and 12 factories across four countries.

### **From a one man retail store to a family-owned group of companies**

Although Neaz was not fortunate enough to get a formal education going to a school, he gained enough life experience from his parents, friends and the multiethnic community in Slave Island where he grew up. His illiteracy was never a bottleneck to running his business. He was a smart person who could adapt to any situation, and he also possessed great negotiation skills. His commitment, hard work and courage to take risks and face any challenge, paid him a good return. At the age of 26, Neaz was financially stable and found his life partner Christina Fernando who was from a reputed business family in Colombo. The new couple, Neaz and Christina, got married in 1937. They were blessed with two sons (Tony and Wicky) and a daughter (Chandani) within five years. Neaz was busy with his business and Christina managed the household commitments and the kids' education. When Trendy Ceylon (Pvt) Ltd was formed, Tony's name was simply included as one of the shareholders of the new entity. He had no active involvement until he returned from his higher studies in International Relations at a reputed university in USA in 1968. Tony then became actively involved with business development, and secured a few reputed international fashion brands as buyers, which expanded the scope of the business.

One by one new factories were added to the business with the support of satisfied buyers who gave continuous orders to the business. The decade 1967 – 1977 can be considered as one of the golden eras for Neaz's business. During this time, the government promoted the export economy and encouraged domestic industries. With Tony's connections with the government at that time, Trendy Ceylon won a contract amounting to LKR one million to

supply basic clothes for a government social welfare programme at that time. For this purpose, XYZ Lanka Salu (Pvt) Ltd was established. Therefore, Trendy Ceylon (Pvt) Ltd was renamed as XYZ Lanka Salu (Pvt) Ltd, and Wicky joined the business to support his father and brother. Within a year, Wicky was appointed as the Head of Local Supply, whereas Tony had to continue looking after the export business. The company itself reported a 5% YOY average growth rate till 1977 and the employment base hit 1,000. However, the political regime change in late 1977 brought many adverse repercussions to XYZ Lanka Salu. Sudden policy changes with the open economy concept by the new government resulted in the discontinuation of their contract with XYZ Lanka Salu. The company reported a loss for the first time in its history during 1978, and cash flow tightened. Neaz had to sell two of his private lands, which had high commercial values, and inject the cash to manage the running overheads and pay off statutory dues.

However within a few years, Neaz and his family as a team managed to turn around the business. In 1983, XYZ Lanka Salu operationally closed for local sales and was renamed as XYZ Apparel (Pvt) Ltd with a view to gain more business internationally. The company kept growing and winning more international buyers to produce different garments including ladies denims and jackets. Both Tony and Wicky worked very hard to meet customers' expectations and deliver the output with high efficiency. The business continued its operations with year-on-year growth. By the year 2000, the total asset base of the company reached USD 20 million. The same asset base doubled in the next ten years and the company's statement of financial position as at 31 December 2011 reported an asset base of USD 41 million (of which USD 16 million was in relation to long-term assets). In 2011, the directors decided to open a separate company to manage the trading activities as required by US Customs under the "First Sale Rule". Accordingly, XYZ Trading (Pvt) Ltd was domiciled under the Companies Act No. 07 of 2007. XYZ Apparel was the parent of XYZ Trading from its inception. The same year Neaz retired from the business and Tony became the chairperson of XYZ Group. Accordingly, Tony was appointed as the Group CEO on 10 October 2011 while Wicky was officially appointed as the Group GM on the same day. The operations in Vietnam started in 2017 whilst those in Cambodia began in 2018. Operations in both these countries are insignificant to the Group's overall operations.

However, the management's intention is to find more opportunities and consider the possibility of growth through more foreign operations.

## **Inventory**

Inventory plays a significant role in determining the profitability and maintaining the liquidity of the Group. A small mistake in planning, ordering, or the manufacturing process can make a big impact. It would result in the piling up of unnecessary inventory for months in stock, which would have no value at the end, and thus have to be written off from the books at zero value. Inventory age analysis of the Group as at 30 September 2019 is given in Annexure I.

## **Working capital financing**

The Group has an overall short-term facility of approximately USD 34 million obtained from five local banks. A summary of the banking facilities is given in Annexure II. 95% of the facilities are backed by a concurrent mortgage on stocks and trade receivables. Short-term facilities are used for working capital financing such as packing credit loans, import loans, LC/DP facilities and making local payments.

## **Strategic planning**

The success of XYZ Group over the past many years was mainly due to the unique products it developed for its buyers, which other competitors in the market were not in a position to do. This is the competitive edge that XYZ Group is still enjoying over others. Therefore the main success factor of the Group is the fact that its development team has been liaising with XYZ and the buyers for a long period of time.

However, the management has also identified overdependence on its main buyers as well as its similar product range. At the strategic level, the board has been discussing product

diversification. One of the proposals is to set up a lingerie manufacturing plant. An extract of the draft project proposal is given in Appendix A.

### **Procurement and supply chain**

Separate purchasing executives are present in each factory to handle consumable purchasing and coordinate with vendors for various services. The merchandising team is empowered to source the main raw materials, fabric and accessories, where most of the suppliers are buyer nominated. However, buyers are not involved in payment negotiations with fabric and accessory suppliers.

### **Financial reporting**

The Group financial reporting period ends on 31 December. XYZ Apparel prepares group level consolidated financial statements including all the companies in the Group. The Group's functional and reporting currency are both USD. LKR financial statements are only prepared and presented for local tax purposes. The summaries of key financials are given in Annexures III – VI.

### **Tax assessment**

XYZ Apparel submitted the annual return for Y/A 2015/16, but there was no income tax liability for the period since the company made losses. However, the Inland Revenue Department (IRD) conducted the audit for Y/A 2015/16 and assessed a tax liability amounting to LKR 41,888,444 calculated on the basis of a 5% profit ratio on turnover. The tax exposure for Y/A 2015/16 was shown as follows.

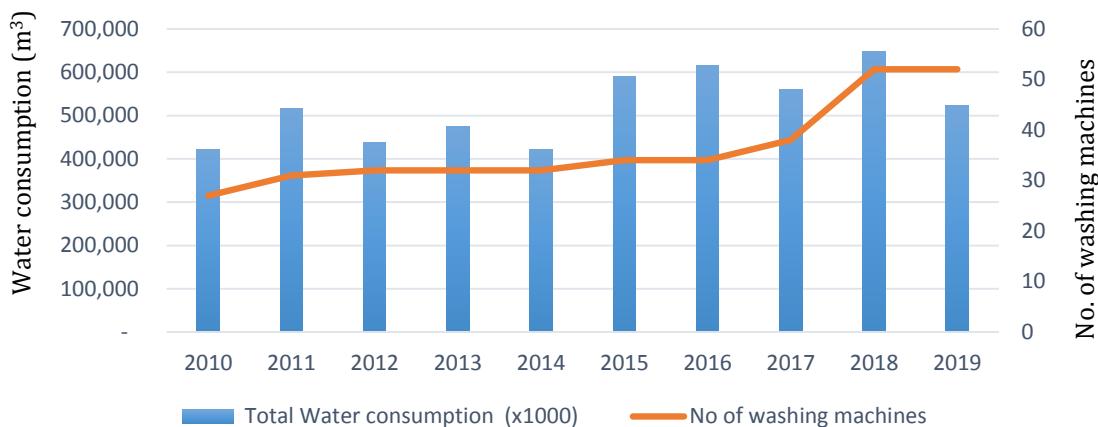
	LKR
Tax liability as per the assessment	41,888,444
Set off of ESC payments up to 2015/16	(28,165,235)
	13,723,209
Penalty charged	8,001,916
<b>Net tax liability</b>	<b>21,725,125</b>

Refer Annexure VII for the detailed revised tax computation extracted from the IRD correspondence sent to the company.

### **Proposed capital expenditure (CAPEX)**

The main factory of XYZ Apparel is located in the Katunayake Free Trade Zone. Washing and finishing operations are both carried out at this factory too. Water and energy are considered to be the key factors in running these operations. The plant process flowchart given in Appendix B explains the operations. The factory has been facing limitations in water consumptions and is now considering the recycling of water. The consumption of water by machinery has increased gradually with the increase in capacity to meet growing demand. The water consumption for the past 10 years along with the number of washing machines used is illustrated below.

## Water consumption vs. number of washing machines



\* The water consumption depicted for the year 2019 represents data only till August 2019

The management of XYZ Apparel is planning to install a water recycling plant to recycle at least 60% of the total consumed water per annum. The head engineer of the plant has come up with a CAPEX plan to install a Reverse Osmosis (RO) plant as a water recycling project. The plant would be able to recycle 1,200 m<sup>3</sup> of water per day. The total cost of the machine is estimated to be USD 810,000 (LKR 145.8 million approximately) and the cost of installation and civil construction is estimated to be USD 100,000 (LKR 18 million approximately) with a 5% variation. The estimated operating costs are as follows.

Estimated operating costs per m <sup>3</sup> per day	
Description	Cost in LKR
Manpower/m <sup>3</sup>	2.92
Chemicals/m <sup>3</sup>	25.02
Power/m <sup>3</sup>	33.50
Consumables/m <sup>3</sup>	19.70
Spare list/m <sup>3</sup>	5.70
<b>Total estimated operating cost</b>	<b>86.84</b>

### **Current average water consumption per day**

Description	Usage quantity (m <sup>3</sup> )	Cost per m <sup>3</sup> (LKR)
Raw water	2,600	72.00
Effluent	2,080	13.00

### **QB Bangladesh (Pvt) Ltd (QB)**

QB is a joint venture between BrandCBN (a medium-sized garment manufacturer in Bangladesh) and BrandCR7 International (USA). It is a registered company that commenced its commercial operations in Bangladesh in 2009. QB has been a key member of the textile manufacturing chain in Bangladesh, linking the fabric mill and the garment manufacturers. It offers rotary screen and digital printing facilities for both woven and knitted fabrics. In this role, its augmented service portfolio supports the 'fashion forward' solutions in synchronisation with its parent company BrandCR7. QB provides these services in a remarkable 7-day turnaround time from the initial design sketch to the finished sample, impressing its clientele. Imported expertise from BrandCR7 enables QB to manipulate and engineer designs to fit its printing machines.

QB's innovativeness is a considerable advantage in this dynamic industry. The company has also invested in state-of-the-art machinery from Europe to enhance its services and align them with customer demand for speed and flexibility. QB's capabilities include a production capacity of 1.5 million meters of fabric a month. With this capacity the company passes on quality and cost advantages to its customers. QB recently announced proudly that it has achieved three global industry standard certifications. These were the OE 100 or Organic Exchange Standard, the Global Organic Textile Standard or the GOTS Certification, and the Fair Trade Certification. The company's financials are given in Annexure VIII.

## **Appendix A: An extract of the draft project proposal prepared for submitting to the Board of Investment (BOI)**

### **Project: Manufacture and export of lingerie products – New plant**

#### **Background**

XYZ Apparel (Pvt) Ltd is one of the leading apparel manufacturers and exporters in Sri Lanka, specialised in the marketing of denim jeans under various international brands. In its new strategy, the company has decided to go into new business activities to manufacture and export a range of textile and apparel products.

With the view to diversify and improve its buyer segments, XYZ Apparel intends to set up a lingerie manufacturing plant. This will help the company reduce its reliance on a few customers and thereby reduce its risk. It will also enable the company to be more competitive with large players.

The proposed plant will be set up in close proximity to the Biyagama Free Trade Zone for ease of operations and supervision.

The proposed plant will consist of a:

- Cutting room
- Sewing section
- Finishing and packing section
- Facility area

## **The Sri Lankan apparel industry**

Sri Lanka's apparel export industry is the most significant and dynamic contributor to Sri Lanka's economy. The industry has enjoyed epic growth over the past four decades and is today the country's primary foreign exchange earner accounting for 40% of total exports and 52% of industrial products exports. This industry has successfully exploited the opportunities in the international arena and established a steady marketplace for apparel manufactured by Sri Lankan companies.

## **Marketing and buyers**

At the initial stage the company is expected to manufacture a basic brief, which will be a fast-moving commodity. SMVs (Standard Minute Values) will be within the range of 2 – 3 with an efficiency of 72% due to the non-complexity of styles. With the expansion of business the company is expected to move to more fashionable lingerie.

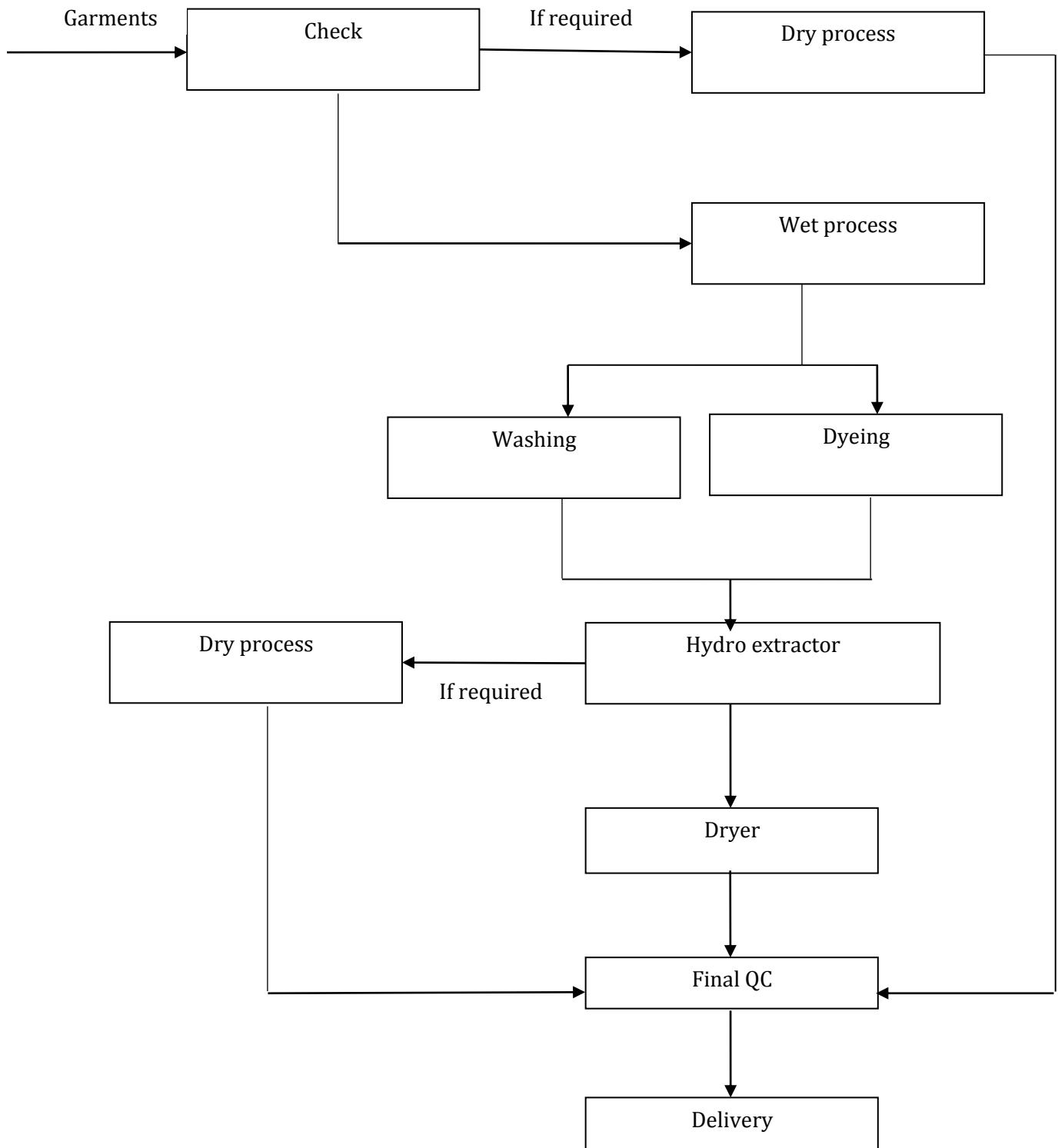
At present orders have been received from international buyers such as George and Calvin Klein. XYZ Apparel intends to produce and ship 15,000 dozens of lingerie products per month with its current capacity, which will generate foreign exchange income of USD 1.6 million monthly.

## **Investment**

The summary of anticipated capital investment and operational results are given below.

Production (in dozens per month)	15,000
No. of employees	1,000
Monthly revenue (FOB) at full capacity	USD 1,633,133
Monthly salaries and wages cost at full capacity	USD 328,826
Monthly overheads at full capacity	USD 194,095
Monthly profit at full capacity (after depreciation)	USD 65,036

## Appendix B: Plant process flowchart – Washing and finishing operations



**ANNEXURE I**

**XYZ Group**

Inventory age analysis as at 30 September 2019

Value in USD

Period in days	0-30		31-60		61-90		91-120		121-180		181-360		Over 360		Total	
Quantity (Qty) or Value	Qty	Value (\$)	Qty	Value (\$)	Qty	Value (\$)	Qty	Value (\$)	Qty	Value (\$)	Qty	Value (\$)	Qty	Value (\$)	Qty	Value (\$)
Fabric	566,021	1,651,992	84,556	247,734	75,129	257,479	15,934	47,255	18,258	69,235	58,809	160,920	69,094	116,143	887,801	2,550,758
	7,013,423	450,773	4,857,178	216,707	1,635,361	114,312	354,519	18,821	253,547	35,616	1,730,799	73,303	2,686,226	82,170	18,531,053	991,702
	4,200,136	89,308	3,143,603	162,544	751,151	45,782	1,489,236	12,085	774,911	14,960	897,134	34,762	3,316,090	144,916	14,572,261	504,357
	11,779,580	2,192,073	8,085,337	626,985	2,461,641	417,573	1,859,689	78,161	1,046,716	119,811	2,686,742	268,985	6,071,410	343,229	33,991,115	4,046,817
Accessories	408,627	2,615,506	938,588	7,014,300	251,194	1,834,053	25,997	215,903	53,326	460,400	-	-	-	-	1,677,732	12,140,162
	-	-	6,043	56,175	179,256	1,333,624	19,114	143,012	324,975	799,605	-	-	-	-	529,388	2,332,416
	408,627	2,615,506	944,631	7,070,475	430,450	3,167,677	45,111	358,915	378,301	1,260,005	-	-	-	-	2,207,120	14,472,578
Total	12,188,207	4,807,579	9,029,968	7,697,460	2,892,091	3,585,250	1,904,800	437,076	1,425,017	1,379,816	2,686,742	268,985	6,071,410	343,229	36,198,235	18,519,395

**ANNEXURE II**

**XYZ Group**

**Banking facility status as at 30 September 2019**

Bank	Approved facility USD	<u>Outstanding as at reporting date</u>		Interest rate (%)	Remarks
		XYZ Trading USD	XYZ Apparel USD		
<b><u>Short-term facilities</u></b>					
BANK - A	9,000,000	8,925,365	-	4.5% flat	Packing Credit/ LC etc.
BANK - B	6,800,000	6,951,323	-	4% + LIBOR	Packing Credit/ LC etc.
BANK - C	10,000,000	6,498,256	-	4.5% + LIBOR	Packing Credit/ LC etc.
BANK - D	5,400,000	3,200,156	-	3.75% + LIBOR	Packing Credit/ LC etc.
BANK - E	3,100,000	1,945,365	-	3.75% + LIBOR	Packing Credit/ LC etc.
<b>Total</b>	<b>34,300,000</b>	<b>27,520,465</b>	-		
<b><u>Long-term facilities</u></b>	Facility obtained USD	XYZ Trading		Interest rate (%)	Remarks
		USD	USD		
BANK - A	500,000		296,375	5% flat	CAPEX loan granted in USD
BANK - E	1,000,000	-	648,159	4% + 3 month LIBOR	CAPEX loan granted in USD
BANK - F	633,000	-	510,650	4.25% + 3 month LIBOR	CAPEX loan granted in EUR
BANK - D	1,000,000	181,734	-	11.3% per annum	Shareholder loan granted in LKR
BANK - D	500,000		250,000	4.65% + 3 month LIBOR	
BANK - D	500,000		328,700	4.65% + 3 month LIBOR	
<b>Total</b>		<b>181,734</b>	<b>2,033,884</b>		

**ANNEXURE III**

**XYZ Apparel (Pvt) Ltd**

**Currency: USD**

<b>Statements of financial position As at 31 December</b>	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	18,802,502	16,501,223	18,473,473	16,361,652
Intangible assets		52,683		
Investment in subsidiaries			15,185,380	13,496,434
Deferred tax	132,949	109,560		
	18,935,451	16,663,466	33,658,853	29,858,086
<b>Current assets</b>				
Inventories	14,902,693	13,514,190	2,495,762	2,719,185
Financial assets at FVTPL	46,325	46,325	46,325	46,325
Financial assets available-for-sale	38,103	38,103	38,103	38,103
Trade and other receivables	14,306,100	11,117,150	2,760,403	2,610,225
Advances and prepayments	1,246,189	1,736,425	816,000	1,576,960
Income tax receivables	607,915	187,502	157,096	16,002
Cash and cash equivalents	8,459,360	11,450,260	801,695	965,625
	39,606,685	38,089,955	7,115,384	7,972,425
<b>Total assets</b>	58,542,136	54,753,421	40,774,237	37,830,511
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Stated capital	5,225,920	5,225,920	5,225,920	5,225,920
Revaluation reserve	4,550,730	4,550,730	4,546,109	4,546,109
Retained earnings	1,436,193	962,545	1,440,150	992,340
	11,212,843	10,739,195	11,212,179	10,764,369
<b>Non-current liabilities</b>				
Interest bearing loans and borrowings	904,863	952,026	863,419	831,129
Defined benefit obligations	1,743,142	1,727,531	1,546,316	1,247,516
Deferred tax liability	218,193	22,726	208,420	11,765
	2,866,198	2,702,283	2,618,155	2,090,410
<b>Current liabilities</b>				
Trade and other payables	10,694,150	9,959,185	25,654,755	23,439,547
Interest bearing loans and borrowings	33,768,945	31,352,758	1,289,148	1,536,185
	44,463,095	41,311,943	26,943,903	24,975,732
<b>Total liabilities</b>	47,329,293	44,014,226	29,562,058	27,066,142
<b>Total equity and liabilities</b>	<b>58,542,136</b>	<b>54,753,421</b>	<b>40,774,237</b>	<b>37,830,511</b>

**ANNEXURE IV**

**XYZ Group**

**Budget 2019**

**Currency: USD**

Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD 2019
<b>Income</b>													
Export income	10,980,905	8,669,579	9,128,876	6,633,486	8,186,350	10,411,690	10,859,542	11,654,330	9,570,604	8,824,520	9,692,451	9,334,725	113,947,058
Second shipments	134,652	147,550	269,094	201,642	142,113	67,854	203,667	136,079	136,344	294,914	50,398	50,398	1,834,705
Total sales	11,115,557	8,817,129	9,397,970	6,835,128	8,328,463	10,479,544	11,063,209	11,790,409	9,706,948	9,119,434	9,742,849	9,385,123	115,781,763
<b>Manufacturing cost</b>													
Fabric consumption	(3,506,337)	(3,257,708)	(4,411,409)	(2,602,488)	(4,215,159)	(3,770,108)	(4,069,827)	(4,016,622)	(3,432,329)	(4,640,389)	(3,890,983)	(3,764,222)	(45,577,581)
Accessories consumption	(683,802)	(661,198)	(742,802)	(576,110)	(703,459)	(862,962)	(942,578)	(879,626)	(822,442)	(725,896)	(783,373)	(722,552)	(9,106,800)
Packing material consumption	(405,554)	(287,668)	(390,446)	(175,138)	(552,603)	(317,595)	(462,737)	(181,018)	(369,179)	(371,879)	(351,416)	(319,989)	(4,185,222)
Subcontact payments	(39,619)	(38,694)	(42,209)	(42,016)	(37,974)	(166,814)	(211,827)	(243,491)	(162,822)	(164,216)	(165,000)	(180,000)	(1,494,682)
Chemicals consumed	(176,115)	(153,939)	(159,927)	(163,491)	(136,366)	(165,300)	(207,594)	(207,255)	(136,489)	(141,657)	(149,052)	(149,052)	(1,946,237)
Furnace oil consumed	-	(1,323)	(175)	(618)	(321)	(1,319)	(1,571)	(1,573)	(416)	(2,118)	(1,667)	(1,667)	(12,768)
Wood chips consumed	(55,478)	(46,949)	(53,433)	(37,795)	(51,610)	(55,401)	(47,008)	(44,900)	(39,338)	(45,791)	(52,915)	(52,915)	(583,533)
Factory wages	(1,580,687)	(1,486,853)	(1,554,080)	(1,128,627)	(1,526,815)	(1,494,826)	(1,506,152)	(1,374,164)	(1,445,575)	(1,379,389)	(1,351,461)	(1,326,318)	(17,154,947)
Factory salaries	(251,675)	(231,503)	(242,232)	(241,802)	(245,431)	(238,829)	(242,192)	(236,565)	(231,903)	(217,903)	(190,433)	(190,433)	(2,760,901)
<b>Prime cost</b>													
Factory overheads	(6,699,267)	(6,165,835)	(7,596,713)	(4,968,085)	(7,469,738)	(7,073,154)	(7,691,486)	(7,185,214)	(6,640,493)	(7,689,238)	(6,936,300)	(6,707,148)	(82,822,671)
Factory supplies and machine maintenance	(631,552)	(526,392)	(649,159)	(497,046)	(549,376)	(569,982)	(569,276)	(638,825)	(604,864)	(592,978)	(562,866)	(562,866)	(6,955,182)
Depreciation	(110,767)	(80,638)	(101,887)	(73,156)	(114,109)	(126,484)	(149,554)	(174,172)	(110,698)	(109,010)	(108,631)	(108,631)	(1,367,737)
Import export expenses	(196,464)	(196,758)	(197,449)	(200,256)	(209,159)	(217,828)	(219,171)	(223,689)	(223,782)	(229,995)	(223,038)	(223,038)	(2,560,627)
Non-operational expenses	(172,633)	(112,564)	(217,813)	(126,333)	(116,234)	(133,808)	(197,136)	(218,466)	(144,265)	(153,222)	(148,434)	(148,434)	(1,894,342)
<b>Manufacturing cost before WIP</b>													
WIP	(7,938,122)	(7,127,684)	(8,783,428)	(5,870,680)	(8,526,995)	(8,214,956)	(8,926,701)	(8,590,812)	(7,829,810)	(8,818,526)	(8,024,269)	(7,820,117)	(96,472,100)
Change in WIP	(67,942)	(298,570)	632,292	(115,161)	1,141,732	(204,643)	(101,985)	(943,362)	(293,829)	849,647	145,260	125,162	868,601
<b>Total manufacturing cost</b>													
Change in WIP	(8,006,064)	(7,426,254)	(8,151,136)	(5,985,841)	(7,385,263)	(8,419,599)	(9,028,686)	(9,534,174)	(8,123,639)	(7,968,879)	(7,879,009)	(7,694,955)	(95,603,499)
<b>Cost of sales</b>													
Cost of sales	(8,087,896)	(7,364,009)	(7,871,292)	(6,001,345)	(7,323,582)	(8,618,853)	(9,203,619)	(9,472,513)	(8,096,443)	(7,839,272)	(7,960,054)	(7,754,400)	(95,593,278)
<b>Gross profit/(loss)</b>													
Other income	3,027,661	1,453,120	1,526,678	833,783	1,004,881	1,860,691	1,859,590	2,317,896	1,610,505	1,280,162	1,782,795	1,630,723	20,188,485
Administrative expenses	128,841	102,711	88,866	126,439	83,182	86,558	72,798	83,602	119,319	113,499	103,920	103,920	1,213,655
Depreciation - Trading	(303,736)	(266,433)	(381,858)	(295,776)	(298,526)	(318,112)	(302,525)	(310,137)	(303,837)	(288,876)	(288,591)	(288,591)	(3,646,998)
<b>Operating profit</b>													
Finance charges	2,850,622	1,287,210	1,231,469	662,229	787,320	1,626,920	1,627,646	2,089,128	1,423,754	1,102,552	1,596,028	1,443,956	17,728,834
<b>Profit before taxation</b>													
Profit before taxation	(185,264)	(200,098)	(232,470)	(209,811)	(232,196)	(248,642)	(235,332)	(249,176)	(253,872)	(252,211)	(235,081)	(247,183)	(2,781,336)
Taxation	2,665,358	1,087,112	998,999	452,418	555,124	1,378,278	1,392,314	1,839,952	1,169,882	850,341	1,360,947	1,196,773	14,947,498
Taxation	(373,150)	(152,196)	(139,860)	(63,338)	(77,717)	(192,959)	(194,924)	(257,593)	(163,784)	(119,048)	(190,533)	(167,548)	(2,092,650)
<b>Profit after taxation</b>													
Profit after taxation	2,292,208	934,916	859,139	389,080	477,407	1,185,319	1,197,390	1,582,359	1,006,098	731,293	1,170,414	1,029,225	12,854,848

**Annexure V**

**XYZ Apparel (Pvt) Ltd**

**Key financial information for the past six years**

**Currency: USD**

<b>Income statements</b>						
<b>For the years ended 31 December</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Revenue	21,765,944	17,904,496	27,472,881	28,404,334	28,829,212	30,110,418
Cost of sales	(26,107,605)	(19,850,949)	(26,898,181)	(27,195,297)	(26,823,682)	(27,701,585)
<b>Gross profit/(loss)</b>	(4,341,661)	(1,946,453)	574,700	1,209,037	2,005,530	2,408,833
Other income	(47,539)	164,010	54,168	172,709	424,733	465,732
Administrative expenses	(880,355)	(747,965)	(1,194,346)	(1,016,654)	(1,220,265)	(1,425,326)
<b>Operating profit/(loss)</b>	(5,269,555)	(2,530,408)	(565,478)	365,092	1,209,998	1,449,239
Finance income	51,877	26,343	90,705	242,206	634,727	639,435
Finance costs	(354,265)	(332,150)	(375,481)	(211,802)	(490,269)	(695,363)
Share of profit/(loss) on subsidiary	2,626,869	3,315,196	927,621	(1,671,057)	2,029,879	2,023,292
<b>Profit/(loss) before tax</b>	(2,945,074)	478,981	77,367	(1,275,561)	3,384,335	3,416,603
Income tax (expense)/reversal	(146,608)	-	-	-	(272,421)	(293,369)
<b>Profit/(loss) for the year from continuing operations</b>	(3,091,682)	478,981	77,367	(1,275,561)	3,111,914	3,123,234

**Annexure VI**

**XYZ Trading (Pvt) Ltd**

**Key financial information for the past six years**

**Currency: USD**

<b>Income statements</b> <b>For the years ended 31 December</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Revenue	74,603,575	73,365,946	74,044,198	62,765,233	81,693,542	91,243,692
Cost of sales	(69,381,325)	(66,763,011)	(69,867,077)	(58,319,498)	(73,524,187)	(83,944,196)
<b>Gross profit/(loss)</b>	<b>5,222,250</b>	<b>6,602,935</b>	<b>4,177,121</b>	<b>4,445,735</b>	<b>8,169,355</b>	<b>7,299,496</b>
Other income	157,286	-	103,014	117,273	34,838	42,356
Administrative expenses	(1,955,080)	(2,563,032)	(2,037,654)	(2,294,647)	(2,236,076)	(2,869,356)
Provision for impairment of receivables/investment in subsidiaries	-	-	-	(2,286,456)	(2,048,380)	-
<b>Operating profit/(loss)</b>	<b>3,424,456</b>	<b>4,039,903</b>	<b>2,242,481</b>	<b>(18,095)</b>	<b>3,919,737</b>	<b>4,472,496</b>
Finance income	165,265	142,150	274,502	181,002	282,978	282,978
Finance costs	(965,815)	(1,038,502)	(1,470,098)	(1,708,228)	(1,904,196)	(2,463,542)
<b>Profit/(loss) before tax</b>	<b>2,623,906</b>	<b>3,143,551</b>	<b>1,046,885</b>	<b>(1,545,321)</b>	<b>2,298,519</b>	<b>2,291,932</b>
Income tax (expense)/reversal	2,963	171,645	(119,264)	(125,736)	(268,640)	(268,640)
<b>Profit/(loss) for the year from continuing operations</b>	<b>2,626,869</b>	<b>3,315,196</b>	<b>927,621</b>	<b>(1,671,057)</b>	<b>2,029,879</b>	<b>2,023,292</b>

**ANNEXURE VII**  
**XYZ Apparel (Pvt) Ltd**  
**Revised tax computation per IRD correspondence for Y/A 2015/16**

	LKR	
Estimated business profit	166,525,598	Note 1
Add:		
Other income	22,586,365	
Declared disallowable expenses	<u>302,265,159</u>	
	<u>491,377,122</u>	
<b>Less:</b>		
Depreciation allowance claimed	283,365,196	
Disallowable overclaimed capital allowance	(58,163,365)	Note 2
Incorrect capital allowance	<u>(43,054,165)</u>	
Other allowable expenses	<u>(35,195,280)</u>	
	<u>(217,342,946)</u>	
Adjusted taxable profit	274,034,176	
Additional interest income	32,158,369	
Declared interest income	<u>283,019</u>	
Statutory income	<u>306,475,564</u>	
 Less: Ground rent	 <u>(4,370,145)</u>	
Assessable income/Taxable income	<u>302,105,419</u>	
 Tax on interest income at 28%	 9,004,343	Note 3
Tax on business profit	<u>32,884,101</u>	
Total tax liability	<u>41,888,444</u>	

	LKR
<b>Note 1</b>	
Total expenses incurred per income statement	3,163,986,365
Estimated turnover @ 5% profit mark-up ratio	3,330,511,963
Estimated net profit	166,525,598

<b>Note 2</b>	
No documentary evidence on fixed assets acquisition of LKR 135,377,575, and capital allowance claimed disallowed.	58,163,365

<b>Note 3</b>	
Related party transactions - fund transfers to managing director and interest expenses incurred in this regard by the company is LKR 32,158,369. Therefore the additional liability on interest income on the related party loan at 28% is:	9,004,343

**ANNEXURE VIII**

**QB Bangladesh (Pvt) Ltd (QB)**

**Currency: BDT (Bangladeshi Taka)**

<b>Income statements for the years ended 31 December</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Revenue	19,801,924	21,366,276	23,054,212	24,875,495	26,840,659	28,961,071
Cost of sales	17,547,098	13,140,260	14,178,340	15,298,429	16,507,005	17,811,058
<b>Gross profit</b>	<b>2,254,826</b>	<b>8,226,016</b>	<b>8,875,872</b>	<b>9,577,066</b>	<b>10,333,654</b>	<b>11,150,013</b>
Other income	1,487,260	206,430	195,147	191,405	205,043	199,043
Administrative expenses	1,276,560	5,316,411	5,901,638	6,523,274	7,203,217	7,968,902
<b>Profit from operations</b>	<b>2,465,526</b>	<b>3,116,035</b>	<b>3,169,381</b>	<b>3,245,197</b>	<b>3,335,480</b>	<b>3,380,154</b>
Net finance cost	(156,037)	(126,821)	(124,231)	(131,120)	(125,410)	(127,310)
<b>Net profit</b>	<b>2,309,489</b>	<b>2,989,214</b>	<b>3,045,150</b>	<b>3,114,077</b>	<b>3,210,070</b>	<b>3,252,844</b>
<b>Statements of financial position As at 31 December</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	2,996,271	2,684,816	2,527,333	2,337,713	2,123,126	1,870,576
<b>Current assets</b>						
Inventories	3,216,442	2,839,964	3,064,321	3,306,403	3,567,608	3,849,449
Trade and other receivables	2,454,332	2,634,199	2,842,301	3,066,842	3,309,123	3,570,544
Amount due from related parties	1,218,191	1,218,191	1,218,191	1,218,191	1,218,191	1,218,191
Cash and cash equivalents	1,353,525	6,233,381	9,268,332	12,326,299	15,468,169	18,679,826
<b>Total assets</b>	<b>8,242,490</b>	<b>12,925,735</b>	<b>16,393,145</b>	<b>19,917,735</b>	<b>23,563,091</b>	<b>27,318,010</b>
	<b>11,238,761</b>	<b>15,610,551</b>	<b>18,920,478</b>	<b>22,255,448</b>	<b>25,686,217</b>	<b>29,188,586</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>						
Stated capital	2,876,865	2,876,865	2,876,865	2,876,865	2,876,865	2,876,865
Capital reserve	286,823	286,823	286,823	286,823	286,823	286,823
Retained earnings	3,704,356	6,693,570	9,736,026	12,858,039	16,056,698	19,306,030
	<b>6,868,044</b>	<b>9,857,258</b>	<b>12,899,714</b>	<b>16,021,727</b>	<b>19,220,386</b>	<b>22,469,718</b>
<b>Non-current liabilities</b>	<b>144,267</b>	<b>1,243,143</b>	<b>1,033,499</b>	<b>1,133,238</b>	<b>1,233,248</b>	<b>1,233,238</b>
<b>Current liabilities</b>						
Trade and other payables	768,594	2,162,557	2,430,028	2,642,985	2,875,095	3,128,132
Short-term loan	3,457,856	2,347,593	2,557,237	2,457,498	2,357,488	2,357,498
<b>Total liabilities</b>	<b>4,226,450</b>	<b>4,510,150</b>	<b>4,987,265</b>	<b>5,100,483</b>	<b>5,232,583</b>	<b>5,485,630</b>
	<b>4,370,717</b>	<b>5,753,293</b>	<b>6,020,764</b>	<b>6,233,721</b>	<b>6,465,831</b>	<b>6,718,868</b>
<b>Total equity and liabilities</b>	<b>11,238,761</b>	<b>15,610,551</b>	<b>18,920,478</b>	<b>22,255,448</b>	<b>25,686,217</b>	<b>29,188,586</b>