

**Lecico Egypt**  
**(S.A.E.)**

**Consolidated Financial Statements**  
**And Review Report**  
**For The Period Ended March 31, 2018**

**Lecico Egypt**  
**(S.A.E.)**

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### Report on Limited Review of Interim Consolidated Financial Statements

#### To the Shareholders of Lecico Egypt Company

##### *Introduction*

We have performed a limited review for the accompanying consolidated financial position statement of Lecico Egypt (S.A.E.) and its subsidiaries as at March 31, 2018 and the related consolidated statements of income and other comprehensive income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our limited review.

##### *Scope of Limited Review*

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Limited Review of Interim Financial Statements Performed by the Independent Auditor of the Entity." A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters in the Company, and applying analytical and other limited review procedures. A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim consolidated financial statements.

##### *Conclusion*

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2018, and of its consolidated financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.



Hazem Hassan

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to note no. (22) to the interim consolidated financial statements. The management intends to reinvest, indefinitely, the earnings of the foreign subsidiaries. These earnings might be subject to tax at different rates upon distribution, depending on subsidiaries' country of incorporation.

*KPMG* Hazem Hassan

Hossam Abdel Wahab

CPA no. 8581

Capital Market Register No. 380

Alexandria on May 13<sup>th</sup>, 2018

**Lecico Egypt  
(S.A.E.)  
Consolidated Financial Position at March 31, 2018**

	Note No.	March 31, 2018 LE	December 31, 2017 LE
<b><u>Non-Current Assets</u></b>			
Property, plant and equipment	(11)	679 941 247	690 699 324
Projects in progress	(12)	33 634 376	21 866 338
Intangible assets	(13)	29 556 200	29 183 877
Other investments	(14)	13 151 501	13 221 600
Long-term notes receivable	(15)	24 714 256	27 144 059
<b>Total Non-Current Assets</b>		<b>780 997 580</b>	<b>782 115 198</b>
<b><u>Current Assets</u></b>			
Inventory	(16)	1 183 064 130	1 133 779 159
Trade and other receivables	(17)	851 400 658	782 930 154
Cash and cash equivalents	(18)	368 332 385	261 296 342
<b>Total Current Assets</b>		<b>2 402 797 173</b>	<b>2 178 005 655</b>
<b>Total Assets</b>		<b>3 183 794 753</b>	<b>2 960 120 853</b>
<b><u>Equity</u></b>			
Share capital	(20)	400 000 000	400 000 000
Reserves	(21)	573 024 292	558 501 332
Retained Earnings	(22)	71 610 478	38 524 669
Net profit for the period / year		24 410 340	37 220 802
<b>Total equity attributable to equity holders of the company</b>		<b>1 069 045 110</b>	<b>1 034 246 803</b>
Treasury shares	(23)	(48 182 065)	(48 182 065)
		<b>1 020 863 045</b>	<b>986 064 738</b>
Non-controlling Interests		20 102 430	18 665 774
<b>Total Equity</b>		<b>1 040 965 475</b>	<b>1 004 730 512</b>
<b><u>Non-Current Liabilities</u></b>			
Long term loans and borrowings	(24)	15 000 000	20 000 000
Deferred income tax	(26)	18 374 395	22 783 102
Provision	(27)	9 571 903	10 580 500
<b>Total Non-Current Liabilities</b>		<b>42 946 298</b>	<b>53 363 602</b>
<b><u>Current Liabilities</u></b>			
Banks overdrafts	(18)	1 539 248 423	1 390 477 701
Loans and borrowings	(28)	39 854 181	46 604 181
Trade and other payables	(29)	518 882 388	457 492 063
Provisions	(27)	1897 988	7 452 794
<b>Total Current Liabilities</b>		<b>2 099 882 980</b>	<b>1 902 026 739</b>
<b>Total Liabilities</b>		<b>2 142 829 278</b>	<b>1 955 439 341</b>
<b>Total Equity and Liabilities</b>		<b>3 183 794 753</b>	<b>2 960 120 853</b>

- Notes from no (1) to no (37) are an integral part of these interim consolidated financial statements.
- Limited review attached,
- Date: May 13<sup>th</sup>, 2018

Finance Director  
Mohamed Hassan



Managing Director  
Taher Gargour



**Lecico Egypt****(S.A.E.)****Consolidated Income Statement for the Period Ended March 31, 2018**

	<b>Note</b>	<b>March 31,</b>	<b>March 31,</b>
	<b>No.</b>	<b>2018</b>	<b>2017</b>
		<b><u>LE</u></b>	<b><u>LE</u></b>
Net sales		653 007 032	545 786 251
Cost of sales	(4)	<u>(509 395 140)</u>	<u>(411 908 277)</u>
<b>Gross Profit</b>		<b>143 611 892</b>	<b>133 877 974</b>
Other Income	(5)	30 999 645	4 044 357
Distribution Expenses		(39 004 798)	(34 732 684)
Administrative Expenses		(42 622 796)	(40 377 751)
Other Expenses	(6)	<u>(10 050 751)</u>	<u>(10 218 869)</u>
<b>Results from operating activities</b>		<b>82 933 192</b>	<b>52 593 027</b>
Finance income	(7)	6 255 042	5 033 578
Finance expenses	(8)	<u>(58 156 176)</u>	<u>(29 728 601)</u>
<b>Profit before tax</b>		<b>31 032 058</b>	<b>27 898 004</b>
Current income tax expense	(9)	(11 239 644)	(8 230 428)
Deferred income tax		<u>4 381 466</u>	<u>(120 115)</u>
<b>Net profit for the period</b>		<b><u>24 173 880</u></b>	<b><u>19 547 461</u></b>
<b><u>Attributable to :</u></b>			
Equity holders of the company		24 410 340	18 641 797
Non-controlling interests		<u>(236 460)</u>	<u>905 664</u>
<b>Net profit for the period</b>		<b><u>24 173 880</u></b>	<b><u>19 547 461</u></b>
<b>Earnings per share (LE/Share)</b>	<b>(10)</b>	<b><u>0.34</u></b>	<b><u>0.23</u></b>

- Notes from no (1) to no (37) are an integral part of these interim consolidated financial statements.

**Lecico Egypt****(S.A.E.)****Consolidated Statement of Comprehensive Income for the Period Ended March 31, 2018**

	<b>March 31, 2018 <u>LE</u></b>	<b>March 31, 2017 <u>LE</u></b>
<b><u>Other Comprehensive Income</u></b>		
Net profit for the period	24 173 880	19 547 461
<b><u>Items that may be reclassified subsequently to income statement</u></b>		
Foreign operations – Foreign currency translation differences	20 612 955	2 588 465
<b>Total other comprehensive income</b>	<b><u>44 786 835</u></b>	<b><u>22 135 925</u></b>
<b><u>Total comprehensive income attributable to :</u></b>		
Equity holders of the company	38 933 299	13 851 676
Non-controlling interests	5 853 536	8 284 249
<b>Total other comprehensive income</b>	<b><u>44 786 835</u></b>	<b><u>22 135 925</u></b>

- Notes from no (1) to no (37) are an integral part of these interim consolidated financial statements

**Lecico Egypt  
(S.A.E.)**

**Consolidated Statement of Changes in Shareholders' Equity for the Period Ended March 31, 2018**

	Note No.	Issued & Paid up Capital LE	Reserves LE	Retained Earnings LE	Net profit / (Loss) for the period LE	Equity of the parent company's shareholders LE	Non- controlling Interests LE	Total Equity LE	Total Equity LE
<b>Balance at December 31, 2016</b>		<b>400 000 000</b>	<b>579 743 746</b>	<b>65 577 244</b>	<b>(50 118 842)</b>	<b>995 202 148</b>	<b>5 242 453</b>	<b>1 000 444 601</b>	<b>836 350 304</b>
Transfer to retained earnings		--	--	(50 118 842)	50 118 842	--	--	--	--
Transfer to legal reserve		--	1 395 151	(1 395 151)	--	--	--	--	--
Adjustments		--	--	10 784 575	--	10 784 575	(9 304 110)	1 480 465	2 315 078
Translation adjustment of foreign subsidiaries		--	(4 790 121)	--	--	(4 790 121)	7 378 585	2 588 464	209 583 180
Net profit for the period		--	--	--	18 641 797	18 641 797	905 664	19 547 461	(47 803 961)
<b>Balance at March 31, 2017</b>		<b>400 000 000</b>	<b>576 348 776</b>	<b>24 847 826</b>	<b>18 641 797</b>	<b>1 019 838 399</b>	<b>4 222 592</b>	<b>1 024 060 991</b>	<b>1 000 444 601</b>
<b>Balance at December 31, 2017</b>		<b>400 000 000</b>	<b>558 501 332</b>	<b>38 524 669</b>	<b>37 220 802</b>	<b>(48 182 065)</b>	<b>986 064 738</b>	<b>18 665 774</b>	<b>1 004 730 512</b>
Transfer to retained earnings		--	--	37 220 802	(37 220 802)	--	--	--	--
Adjustments		--	--	(4 134 993)	--	--	(4 134 993)	(5 025 796)	(9 160 789)
Translation adjustment of foreign subsidiaries		--	14 522 960	--	--	--	14 522 960	6 698 912	21 221 872
Net profit for the Period		--	--	--	24 410 340	--	24 410 340	(236 460)	24 173 880
<b>Balance at March 31, 2018</b>		<b>400 000 000</b>	<b>573 024 292</b>	<b>71 610 478</b>	<b>24 410 340</b>	<b>(48 182 065)</b>	<b>1 020 863 045</b>	<b>20 102 430</b>	<b>1 040 965 475</b>

▪ Notes from no (1) to no (37) are an integral part of these interim consolidated financial statements.

**Lecico Egypt  
(S.A.E.)**

**Consolidated Statement of Cash Flows for the Period Ended March 31, 2018**

	Note	March 31, 2018	March 31, 2017
	No.	<u>LE</u>	<u>LE</u>
<b><u>Cash Flow from Operating Activities</u></b>			
Net profit for the period		24 410 340	18 641 797
<b><u>Adjustments Provided to Reconcile Net loss to Net Cash Provided by Operating Activities</u></b>			
Fixed assets depreciation and translation differences	(11)	25 582 646	26 157 548
Intangible assets amortization and translation differences		(372 324)	(88 927)
Provided provisions and translation differences		7 119 423	6 684 873
Employees participation in net profit		9 007 074	9 120 644
Long term prepaid rent expense		--	59 000
Capital gain		(887)	--
Provided provisions claims, and translation differences		11 239 644	8 230 428
Income tax expense		(4 408 707)	(295 114)
Reversal of inventory impairment		(23 485)	(512 245)
Discounting of long term notes receivables		(1 020 197)	(978 520)
Increase in non-controlling interests		1 436 656	(1 019 861)
Change in translation reserve		10 287 949	5 994 460
		<b><u>83 358 132</u></b>	<b><u>72 014 500</u></b>
<b><u>Changes in Working Capital</u></b>			
Change in inventory		(49 187 238)	(122 848 022)
Change in receivables		(67 984 802)	3 787 800
Change in payables		44 311 671	36 999 703
Paid income tax		(3 168 059)	(1 733 836)
Utilized provisions		(14 242 781)	(9 235 982)
<b>Net cash used in operating activities</b>		<b><u>(6 913 077)</u></b>	<b><u>(21 015 837)</u></b>
<b><u>Cash Flow from Investing Activities</u></b>			
Payments for acquiring property, plant & equipment and projects in progress		(26 596 701)	(18 061 730)
Proceeds from other current investments		70 099	65 326
Proceeds from selling property, plant & equipment		5 000	2 096
Decrease in long-term notes receivable		3 450 000	4 300 000
<b>Net cash used in investing activities</b>		<b><u>(23 071 602)</u></b>	<b><u>(13 694 308)</u></b>
<b><u>Cash Flow from Financing Activities</u></b>			
(Payments) proceeds for long term loans		(11 750 000)	(12 042 500)
<b>Net cash used in financing activities</b>		<b><u>(11 750 000)</u></b>	<b><u>(12 042 500)</u></b>
<b>Net change in cash and cash equivalents during the period</b>		<b><u>(41 734 679)</u></b>	<b><u>(46 752 938)</u></b>
<b>Cash and cash equivalents at first of January</b>	(18)	<b><u>(1 129 181 359)</u></b>	<b><u>(826 994 925)</u></b>
<b>Cash and cash equivalents at end of March</b>	(18)	<b><u>(1 170 916 038)</u></b>	<b><u>(873 747 570)</u></b>

- The notes from no. (1) to no. (37) are an integral part of these interim consolidated financial statements.

**Lecico Egypt (S.A.E.)**

**Consolidated Financial Statements Notes for the Period ended March 31, 2018**

**1- Reporting Entity**

The consolidated financial statements of the company as at and for the period ended March 31, 2018 comprise the parent company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”)

**1-1 Lecico Egypt (the Parent)**

Lecico Egypt (S.A.E.) was established on November 1st, 1975 according to the resolution of Ministry of Economics and Economic Co-operation number 142 of 1975. The company is subject to law number 8 of 1997. The parent company’s purpose is the production of all ceramic products including the production of sanitary ware and all kinds of tiles and entering into capital lease transactions.

**1-2 Subsidiaries**

The following is a list of the subsidiaries comprising the consolidated financial statements together with the respective percentage owned by the Parent:-

	Country of Incorporation	Ownership Interest	
		31/3/2018	31/12/2017
		%	%
Lecico for Ceramics Industries (S.A.E.)	Egypt	99.99	99.99
TGF for Consulting and Trading (S.A.E.)	Egypt	99.83	99.83
Lecico for Financial Investments (S.A.E.)	Egypt	99.33	99.33
Lecico (UK) Ltd.	United Kingdom	100	100
Lecico for Investments Company Ltd.	United Kingdom	100	100
The Lebanese Ceramics Industries (S.A.L.)	Lebanon	94.77	94.77
International Ceramics (S.A.E.)	Egypt	99.97	99.97
Lecico for Trading and Distribution of Ceramics (S.A.E.)	Egypt	70	70
European Ceramics (S.A.E)	Egypt	99.97	99.97
Lecico Plus for Trading (S.A.E)	Egypt	99.85	99.85
Burg Armaturen Fabrik Sarrdesign (S.A.E.)	Egypt	69.85	69.85
Lecico – Algeria (S.A.R.L) *	Algeria	--	--

- This subsidiary was liquidated and its accounts was closed as at March 31, 2017 as per the liquidator report in Algeria. The net result of the liquidation of this subsidiary was included in the expenses in the consolidated income statement of the reporting period.

Lecico Egypt (S.A.E.)

**Consolidated Financial Statements Notes for the Period ended March 31, 2018**

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**2- Basis of Preparation**

**2-1 Statement of Compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB).

**2-2 Functional and presentation currency**

The functional currency of the company is Egyptian Pounds; each entity in the group determines its own functional currency and items included in the financial statements of each entity is measured using that functional currency.

The consolidated financial statements are presented in Egyptian Pounds (LE) which is the company's functional currency.

**2-3 Use of Estimates and Judgments**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 36-12 – valuation of financial instruments
- Note 36-11 – lease classification.
- Note 36-10 – measurement of the recoverable amounts of cash-generating units containing goodwill and intangible assets
- Notes 36-15 – provisions and contingencies
- Note 36-15-1 – measurement of defined benefit obligations

Lecico Egypt (S.A.E.)

**Consolidated Financial Statements Notes for the Period ended March 31, 2018**

**2-4 Basis of Measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

**3- Information about operating Segments**

Set out below is business segment information split into the sanitary ware segment, tiles segment and brassware segment:

	<b>March 31, 2018</b>	<b>March 31, 2017</b>
<b><u>First: Sanitary ware Segment</u></b>		
<b><u>Sales Volume (in 000 pcs)</u></b>		
Egypt	438	491
Lebanon	20	30
Export	794	731
<b>Total Sales Volume (in 000 pcs)</b>	<b>1 252</b>	<b>1 252</b>
<b>Sales Revenues (Million LE)</b>	<b>393.4</b>	<b>336.9</b>
Average Selling Price (LE/pc)	313.9	269.1
<b>Total Cost of Sales (Million LE)</b>	<b>273.19</b>	<b>216.8</b>
<b>Gross Profit (Million LE)</b>	<b>120.2</b>	<b>120.1</b>
<b><u>Second: Tile Segment</u></b>		
<b><u>Sales Volume (in 000 m<sup>2</sup>)</u></b>		
Egypt	5 039	4 653
Lebanon	71	116
Export	1 185	677
<b>Total Sales Volume (000 m<sup>2</sup>)</b>	<b>6 295</b>	<b>5 446</b>
<b>Sales Revenues (Million LE)</b>	<b>242.1</b>	<b>185.8</b>
Average Selling Price (LE/ m <sup>2</sup> )	38.5	34.1
<b>Total Cost of Sales (Million LE)</b>	<b>223.8</b>	<b>182.7</b>
<b>Gross Profit (Loss) (Million LE)</b>	<b>18.3</b>	<b>3.1</b>
<b><u>Third: Brassware segment</u></b>		
<b><u>Sales volume (pcs)</u></b>		
Egypt	21 957	33 843
Export	321	
<b>Total Sales Volume (PCS)</b>	<b>22 278</b>	<b>33 843</b>
<b>Sales Revenues (Million LE)</b>	<b>17.6</b>	<b>23</b>
Average Selling Price (LE/ PC)	790	679.4
<b>Total Cost of Sales (Million LE)</b>	<b>12.4</b>	<b>12.3</b>
<b>Gross Profit (Million LE)</b>	<b>5.2</b>	<b>10.7</b>

Lecico Egypt (S.A.E.)

**Consolidated Financial Statements Notes for the Period ended March 31, 2018**

**4- Cost of sales after reclassification**

	<b>March 31, 2018 <u>LE</u></b>	<b>March 31, 2017 <u>LE</u></b>
Cost of sales before reclassification	500 682 749	403 082 316
<b><u>Add:</u></b>		
Employees' share in net profit	8 712 391	8 825 961
	<b><u>509 395 140</u></b>	<b><u>411 908 277</u></b>

**5- Other Income**

Capital Gains – net	887	--
Scrap Sales	2 520 112	1 939 860
Other Revenues	27 458 449	1 075 746
Reversal of discounting of long term notes receivables to its present value	1 020 197	978 520
Reversal of expired provision	--	50 231
	<b><u>30 999 645</u></b>	<b><u>4 044 357</u></b>

**6- Other Expenses**

Capital losses		
Provided for potential losses and claims provision	7 720 961	7 309 621
Amortization of Intangible Assets	--	43 462
Miscellaneous expenses	473 665	726 739
Remuneration of the parent company's board of directors	1 856 125	2 139 047
	<b><u>10 050 751</u></b>	<b><u>10 218 869</u></b>

**7- Finance Income**

Interest revenues	1 134 073	2 131 192
Foreign exchange differences	5 120 969	2 902 386
	<b><u>6 255 042</u></b>	<b><u>5 033 578</u></b>

**8- Finance Expenses**

Interest expenses	58 156 176	29 728 601
	<b><u>58 156 176</u></b>	<b><u>29 728 601</u></b>

Lecico Egypt (S.A.E.)

**Consolidated Financial Statements Notes for the Period ended March 31, 2018**

**9- Current income tax**

	<b>March 31, 2018</b>	<b>March 31, 2017</b>
	<b><u>LE</u></b>	<b><u>LE</u></b>
Current income tax for the period	11 134 869	8 230 428
Tax imposed on Dividends of the last periods	104 775	--
	<b><u>11 239 644</u></b>	<b><u>8 230 428</u></b>

**10- Earnings (Loss) Per Share**

The earning (loss) per share for the period ended March 31, 2018 was computed as follows:

	<b>March 31, 2018</b>	<b>March 31, 2017</b>
Net profit (loss) for the period (in LE)	24 410 340	18 641 797
Weighted average of the number of outstanding shares	72 000 000	80 000 000
<b>Earnings (loss) per share ( LE / share)</b>	<b><u>0.34</u></b>	<b><u>0.23</u></b>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the period ended March 31, 2018

**11- Property, plant and equipment**

	<b>Land</b>	<b>Buildings</b>	<b>Leasehold</b>	<b>Machinery</b>	<b>Motor</b>	<b>Tools</b>	<b>Furniture, Office</b>	<b>Total</b>
<b><u>Cost</u></b>	<b><u>LE</u></b>	<b><u>LE</u></b>	<b><u>Improvements</u></b>	<b><u>&amp;</u></b>	<b><u>Vehicles</u></b>	<b><u>LE</u></b>	<b><u>Equipment</u></b>	<b><u>LE</u></b>
<b>At 01/01/2018</b>	<b>175 396 704</b>	<b>415 525 396</b>	<b>14 503 854</b>	<b>1 177 749 390</b>	<b>73 077 430</b>	<b>132 022 431</b>	<b>37 323 896</b>	<b>2 025 599 101</b>
Translation differences	94 787	1 398 283	122 077	(978 492)	(13 582)	--	(34 832)	588 241
Period additions	--	7 437 234	484 306	562 605	1 255 144	4 673 122	416 252	14 828 663
Period disposals	--	--	--	--	--	--	(5 697)	(5 697)
<b>At 31/3/2018</b>	<b>175 491 491</b>	<b>424 360 913</b>	<b>15 110 237</b>	<b>1 177 333 503</b>	<b>74 318 992</b>	<b>136 695 553</b>	<b>37 699 620</b>	<b>2 041 010 309</b>
<b><u>Accumulated Depreciation</u></b>								
<b>At 01/01/2018</b>	--	<b>199 203 165</b>	<b>10 697 679</b>	<b>924 454 014</b>	<b>67 093 940</b>	<b>100 518 683</b>	<b>32 932 296</b>	<b>1 334 899 777</b>
Translation differences	--	579 215	81 687	(947 370)	(47 086)	--	(31 171)	(364 725)
Period depreciation	--	4 512 166	633 615	17 175 646	738 687	3 105 071	370 409	26 535 594
Accumulated depreciation of disposals	--	--	--	--	--	--	(1 584)	(1 584)
<b>At 31/3/2018</b>	--	<b>204 294 546</b>	<b>11 412 981</b>	<b>940 682 290</b>	<b>67 785 541</b>	<b>103 623 754</b>	<b>33 269 950</b>	<b>1 361 069 062</b>
<b><u>Net Book Value at</u></b>								
<b>At 31/3/2018</b>	--	<b>220 066 367</b>	<b>3 697 256</b>	<b>236 651 213</b>	<b>6 533 451</b>	<b>33 071 799</b>	<b>4 429 670</b>	<b>679 941 247</b>

- The Land and Buildings include properties at a cost of LE 1.8 million and LE 6.5 million respectively which were purchased by the Parent Company with an unregistered deed.

## Lecico Egypt (S.A.E.)

## Consolidated Financial Statements Notes for the period ended March 31, 2018

	<b>Land</b>	<b>Buildings</b>	<b>Leasehold Improvements</b>	<b>Machinery &amp; Equipment</b>	<b>Motor Vehicles</b>	<b>Tools</b>	<b>Furniture, Office Equipment &amp; Computers</b>	<b>Total</b>
<b><u>Cost</u></b>	<b><u>LE</u></b>	<b><u>LE</u></b>	<b><u>LE</u></b>	<b><u>LE</u></b>	<b><u>LE</u></b>	<b><u>LE</u></b>	<b><u>LE</u></b>	<b><u>LE</u></b>
<b>At 01/01/2017</b>	<b>168 714 987</b>	<b>404 105 737</b>	<b>12 882 851</b>	<b>1 144 963 409</b>	<b>72 199 566</b>	<b>116 145 081</b>	<b>35 883 276</b>	<b>1 954 994 907</b>
Translation differences	80 667	905 092	37 835	(986 937)	(6 916)	--	(28 556)	1 185
Period additions	--	375 326	257 637	893 429	1 008 267	3 044 451	144 133	5 723 243
Period disposals	--	--	--	(32 618)	--	--	--	(32 618)
<b>At 31/3/2017</b>	<b>168 895 654</b>	<b>405 386 155</b>	<b>13 178 323</b>	<b>1 144 837 283</b>	<b>73 200 917</b>	<b>119 189 532</b>	<b>35 998 853</b>	<b>1 960 686 717</b>
<b><u>Accumulated Depreciation</u></b>								
<b>At 01/01/2017</b>	<b>--</b>	<b>180 913 647</b>	<b>7 647 716</b>	<b>892 045 133</b>	<b>64 426 643</b>	<b>89 006 285</b>	<b>31 713 864</b>	<b>1 265 753 288</b>
Translation differences	--	287 526	23 309	(880 701)	(25 202)	--	(28 554)	(623 622)
Period depreciation	--	4 278 070	731 253	17 841 342	839 241	2 749 324	343 125	26 782 355
Disposals' accumulated depreciation	--	--	--	(30 522)	--	--	--	(30 522)
<b>At 31/3/2017</b>	<b>--</b>	<b>185 479 243</b>	<b>8 402 278</b>	<b>908 975 252</b>	<b>65 240 682</b>	<b>91 755 609</b>	<b>32 028 435</b>	<b>1 299 881 499</b>
<b><u>Net Book Value at</u></b>								
<b>At 31/3/2017</b>	<b>168 895 654</b>	<b>219 906 912</b>	<b>4 776 045</b>	<b>235 862 031</b>	<b>7 960 235</b>	<b>27 433 923</b>	<b>3 970 418</b>	<b>668 805 218</b>
<b>At 31/12/2016</b>	<b>168 714 987</b>	<b>223 192 090</b>	<b>5 235 135</b>	<b>252 918 276</b>	<b>7 772 923</b>	<b>27 138 796</b>	<b>4 169 412</b>	<b>689 241 619</b>

Lecico Egypt (S.A.E.)

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**12- Projects In Progress**

	<b>March 31, 2018 <u>LE</u></b>	<b>December 31, 2017 <u>LE</u></b>
Machinery under installation	14 690 618	5 241 816
Buildings under construction	2 252 944	165 960
Advance payments for purchasing fixed assets	2 257 923	2 103 753
Letter of credit for purchase fixed assets	14 432 891	15 354 809
	<b><u>33 634 376</u></b>	<b><u>21 866 338</u></b>

**13- Intangible Assets**

	<b>Goodwill <u>LE</u></b>	<b>Trademarks <u>LE</u></b>	<b>Development &amp; Other Costs <u>LE</u></b>	<b>Other Intangibles <u>LE</u></b>	<b>Total <u>LE</u></b>
<b>Balance at 01/01/2018</b>	<b>26 477 797</b>	<b>63 823</b>	<b>13 114 069</b>	<b>2 216 918</b>	<b>41 872 607</b>
Translation differences	406 534	1 705	435 573	(11 912)	831 900
<b>Balance at 31/3/2018</b>	<b><u>26 884 331</u></b>	<b><u>65 528</u></b>	<b><u>13 549 642</u></b>	<b><u>2 205 006</u></b>	<b><u>42 704 507</u></b>

**Amortisation & Impairment**

**Losses**

<b>Balance at 01/01/2018</b>	--	<b>50 626</b>	<b>12 638 104</b>	--	<b>12 688 730</b>
Translation differences	--	1 352	418 868	--	420 220
Period amortisation	--	1 688	37 669	--	39 357
<b>Balance at 31/3/2018</b>	<b>--</b>	<b><u>53 666</u></b>	<b><u>13 094 641</u></b>	<b>--</b>	<b><u>13 148 307</u></b>
<b>Carrying Amount at 31/3/2018</b>	<b><u>26 884 331</u></b>	<b><u>11 870</u></b>	<b><u>455 001</u></b>	<b><u>2 205 006</u></b>	<b><u>29 556 200</u></b>
<b>Carrying Amount at 31/12/2017</b>	<b><u>26 477 797</u></b>	<b><u>13 197</u></b>	<b><u>475 965</u></b>	<b><u>2 216 918</u></b>	<b><u>29 183 877</u></b>

**14- Other Investments**

	<b>Ownership %</b>	<b>March 31, 2018 <u>LE</u></b>	<b>December 31, 2017 <u>LE</u></b>
Murex Industries and Trading (S.A.L.)	40.0	13 130 689	13 200 788
El-Khaleeg for Trading and Investment	99.9	99 900	99 900
Other Investments	--	20 812	20 812
		<b><u>13 251 401</u></b>	<b><u>13 321 500</u></b>
<b>(Less):-</b>			
Impairment of investment in "El- Khaleeg for Trading and Investment"		(99 900)	(99 900)
		<b><u>13 151 501</u></b>	<b><u>13 221 600</u></b>

**15- Long term notes receivables**

Face value of long term notes receivables	31 400 000	34 850 000
Discounting notes receivables to its present value*	(6 685 744)	(7 705 941)
<b>Present value of long term notes receivables</b>	<b><u>24 714 256</u></b>	<b><u>27 144 059</u></b>

\* The discounting of long term notes receivables is computed according to the effective interest rate of the parent company.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended March 31, 2018

**16- Inventory**

	Note No,	March 31, 2018 LE	December 31, 2017 LE
Raw materials, consumables and spare parts		344 022 785	329 685 286
Work in process		72 102 997	77 945 641
Finished products		764 532 072	730 862 343
		<b>1 180 657 854</b>	<b>1 138 493 270</b>
<b>Less:</b>			
Impairment of inventory		(33 418 841)	(33 516 574)
		<b>1 147 239 013</b>	<b>1 104 976 696</b>
Letters of credit for purchasing inventory		35 825 117	28 802 463
		<b>1 183 064 130</b>	<b>1 133 779 159</b>

The movement of the impairment of inventory through the period is as follows:

	Balance in 1/1/2018 LE	Translation Differences LE	Impairment Reversal LE	Balance in 31/3/2018 LE
Impairment of inventory	33 516 576	(74 250)	(23 485)	33 418 841
	<b>33 516 576</b>	<b>(74 250)</b>	<b>(23 485)</b>	<b>33 418 841</b>

**17- Trade and other receivables**

		March 31, 2018 LE	December 31, 2017 LE
Trade Receivables		617 332 896	600 165 542
Notes Receivable		129 988 718	103 972 898
Sundry Debtors		46 946 297	49 896 511
Suppliers – Debit Balances		3 876 746	497 552
Due from related parties - net	(30)	28 342 021	38 678 906
Tax Administration – Tax withheld		361 664	446 520
Tax Administration – Advance payment		6 273 258	6 117 065
Tax Administration – Sales tax		11 031 029	6 859 712
Other Debit Balances		97 285 028	90 264 321
Other prepaid expenses		15 163 227	8 337 058
Accrued Revenues		16 987 043	367 040
		<b>973 587 927</b>	<b>905 603 125</b>
<b>Less:</b>			
Impairment of Receivables		(122 187 269)	(122 672 971)
		<b>851 400 658</b>	<b>782 930 154</b>

The movement of the impairment of receivables through the period is as follows:

	Balance in 1/1/2018 LE	Translation Differences LE	Balance in 31/3/2018 LE
Impairment of receivables	122 672 971	(485 702)	122 187 269
	<b>122 672 971</b>	<b>(485 702)</b>	<b>122 187 269</b>

**Lecico Egypt (S.A.E.)**

**Consolidated Financial Statements Notes for the Period ended March 31, 2018**

**Transactions with Key Management**

- The balances of the Board of Directors of the Parent Company amounted to LE 57 529 (debit balances), LE 2 785 (credit balances) as at March 31, 2018. These balances are included in sundry debtors in receivables and sundry creditors in payables.
- The Board of Directors of the Parent Company control 0.04% of the voting shares of the Parent company.
- Emoluments for the Board of Directors of the parent company, for the period ended March 31, 2018 charged to the other operating expenses in the consolidated income statement amounted to LE 1 856 125 (March 31, 2017: LE 2 139 047).

**18- Cash and cash equivalents**

	<b>March 31, 2018 <u>LE</u></b>	<b>December 31, 2017 <u>LE</u></b>
Banks - Time Deposits	70 305 155	63 366 395
Banks - Current Accounts	278 733 872	190 216 079
Cash On Hand	19 293 358	7 713 868
	<b><u>368 332 385</u></b>	<b><u>261 296 342</u></b>
<b><u>Less:</u></b>		
Bank Overdrafts	(1 539 248 423)	(1 390 477 701)
<b>Cash and cash equivalent for the purpose of cash flows statement</b>	<b><u>(1 170 916 038)</u></b>	<b><u>(1 129 181 359)</u></b>

**19- Bank overdrafts**

Bank overdrafts represent credit facilities partially secured by certain notes receivables and inventories. The authorized facilities limit in respect of all overdrafts LE 1 806 459 000 and the unutilized amount is LE 592 304 384.

**20- Share capital**

**20-1 Authorized capital**

The authorized capital was determined to be LE 500 million distributed over 100 million shares with par value of LE 5 per share.

**20-2 Issued and paid up capital**

The issued and paid up capital was determined by an amount of LE 400 million, distributed over 80 million nominal shares. The par value of each share of LE 5 is fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the parent company. All shares rank equally with regards to the parent Company's residual assets.

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Consolidated Financial Statements Notes for the period ended March 31, 2018

**21- Reserves**

	<b>Legal Reserve <u>LE</u></b>	<b>Other* Reserves <u>LE</u></b>	<b>Special Reserve Premium <u>LE</u></b>	<b>Land** Revaluation Surplus <u>LE</u></b>	<b>Translation Reserve <u>LE</u></b>	<b>Total <u>LE</u></b>
<b>Balance at December 31, 2016</b>	49 520 330	15 571 032	181 164 374	52 765 085	280 722 925	579 743 746
Transferred to legal reserve	1 395 151	--	--	--	--	1 395 151
Translation adjustment for foreign subsidiaries	--	--	--	--	(4 790 121)	(4 790 121)
<b>Balance at March 31, 2017</b>	<b><u>50 915 481</u></b>	<b><u>15 571 032</u></b>	<b><u>181 164 374</u></b>	<b><u>52 765 085</u></b>	<b><u>275 932 804</u></b>	<b><u>576 348 776</u></b>
<b>Balance at December 31, 2017</b>	50 915 481	15 571 032	181 164 374	52 765 085	258 085 360	558 501 332
Translation adjustment for foreign subsidiaries	--	--	--	--	14 522 960	14 522 960
<b>Balance at March 31, 2018</b>	<b><u>50 915 481</u></b>	<b><u>15 571 032</u></b>	<b><u>181 164 374</u></b>	<b><u>52 765 085</u></b>	<b><u>272 608 320</u></b>	<b><u>573 042 292</u></b>

\* Other reserves include the Parent Company's share of the premium (LE 9.9 Million) received by Lecico for Ceramics Industries (subsidiary) for admitting a new shareholder through an increase in capital, such amount is not distributable according to local laws and regulations.

\*\* Land revaluation surplus is represented in the adjusted value of the Parent Company's land in Khorshid and Abou-Quir that was revalued to reflect its fair value at the date of revaluation in the year 1997. The revaluation result was included in the revaluation surplus in the shareholders' equity and is not distributable or transferable to capital.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period Ended March 31, 2018

22- **Retained Earnings**

At March 31, 2018 the retained earnings represent the retained earnings of the parent company and its share of the retained earnings of the consolidated subsidiaries. The parent company's management expects to reinvest the retained earnings in its subsidiaries.

23- **Treasury Shares**

	No. of shares Acquired	March 31, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Acquisition cost of the parent company's shares acquired on August 1 <sup>st</sup> 2017 as per the approval of the parent company's board of directors and the Egyptian Stock Exchange Authority	8 000 000	48 182 065	48 182 065
		<u>48 182 065</u>	<u>48 182 065</u>

According to the resolution of general assembly of the shareholders of the parent company dated March 28, 2018 it was approved distribute the treasury shares over the parent's shareholders as stock dividends on a rate of one stock dividend for each 9 original shares. The referred to action is to be approved from the General Authority for Financial Supervisory and the Stock Exchange Authority.

24- **Loans and borrowings**

- **Commercial International Bank (CIB)**

The outstanding counter value of the loan granted to the parent company from CIB as a medium term loan, to enable the parent company to repay its short-term debts granted from other local banks.

35 000 000                      40 000 000

This loan bear a variable interest that equal the "Corridor Offer Rate" declared by the "Central Bank of Egypt" for the one-night loans in addition to a margin of 1.25%.

The loan will be repaid over 7 consecutive quarterly installments starting from January 2018 till October 2019.

The subsidiary companies (i.e. Lecico for Ceramics Industries, European Ceramics and International Ceramics) had acknowledge to guarantee the parent company's jointly in the liability arisen from this loan.

- The outstanding counter value loan granted from the CIB to the parent company amounted to USD 1.5 million. The loan will be repaid over 3 consecutive quarterly installments starting from March 2018 till December, 2018. The interest rate is variable and equal the LIBOR rate for 3 months plus margin.

19 845 000                      26 595 000

**Total**    54 845 000                      66 595 000

**Less:**

Installments due within one year which are classified as current liabilities (note 28).

(39 845 000)                      (46 595 000)

**15 000 000**                      **20 000 000**

All of the available balances under these loans from banks were drawn down.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended March 31, 2018

**25- Other Long-Term Liabilities**

	March 31, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Sales Tax Department (deferred sales tax related to imported machinery)	9 181	9 181
	<u>9 181</u>	<u>9 181</u>
<b>Less :</b>		
Installments due within one year which are classified as current liabilities (Note 28).	(9 181)	(9 181)
<b>Total Other Long-Term Liabilities</b>	<u><u>--</u></u>	<u><u>--</u></u>

**26- Deferred Income Tax Assets and Liabilities**

Deferred income tax assets and liabilities are attributable to the following:

	31/3/2018		31/12/2017	
	Assets <u>LE</u>	Liabilities <u>LE</u>	Assets <u>LE</u>	Liabilities <u>LE</u>
Accumulated losses carried forward	887 573	--	886 154	--
Property, plant and equipment	--	23 083 896	--	27 543 519
Inventory	3 821 928	--	3 876 263	--
<b>Total Deferred Income tax (assets) / liabilities</b>	<u><u>4 709 501</u></u>	<u><u>23 083 896</u></u>	<u><u>4 760 417</u></u>	<u><u>27 543 519</u></u>
<b>Net Deferred Income Tax Liabilities</b>	<u><u>--</u></u>	<u><u>18 374 395</u></u>	<u><u>--</u></u>	<u><u>22 783 102</u></u>

**27- Provisions**

	Balance at 1/1/2018 <u>LE</u>	Translation Differences <u>LE</u>	Provided Provisions <u>LE</u>	Utilised Provisions <u>LE</u>	Balance at 31/3/2018 <u>LE</u>
<b>Provisions Disclosed in the Non-Current Liabilities</b>					
End of Service Indemnity Provision	7 430 440	(26 982)	--	(16 504)	7 386 954
Claims provision	3 150 060	(14 601)	--	(950 510)	2 184 949
	<u><u>10 580 500</u></u>	<u><u>(41 583)</u></u>	<u><u>--</u></u>	<u><u>(967 014)</u></u>	<u><u>9 571 903</u></u>
<b>Provision Disclosed in the Current Liabilities</b>					
Potential Losses and Claims Provision	7 452 794	--	7 720 961	(13 275 767)	1 897 988
	<u><u>7 452 794</u></u>	<u><u>--</u></u>	<u><u>7 720 961</u></u>	<u><u>(13 275 767)</u></u>	<u><u>1 897 988</u></u>
<b>Total</b>	<u><u>18 033 294</u></u>	<u><u>(41 583)</u></u>	<u><u>7 720 961</u></u>	<u><u>(13 275 767)</u></u>	<u><u>11 469 891</u></u>

**28- Loans and borrowings**

	March 31, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Current portion of long-term loan	39 845 000	46 595 000
Current portion of other long-term liabilities	9 181	9 181
	<u><u>39 854 181</u></u>	<u><u>46 604 181</u></u>

Lecico Egypt (S.A.E.)

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**29- Trade and other payables**

	Note	March 31, 2018	December 31, 2017
	No.	LE	LE
Trade payable		145 724 248	149 022 800
Notes payable		52 398 026	36 752 214
Due to related parties	(30)	2 752 074	2 105 730
Social insurance authority and tax authority		7 181 902	12 831 360
Income tax payable		17 756 783	9 685 198
Accrued expenses		141 252 126	127 082 414
Deposits due to others		24 701	24 701
Sundry creditors		98 488 139	52 378 996
Sales Tax Administration - Current account		15 740 732	17 104 696
Dividends payable		389 929	389 929
Creditors for purchasing fixed assets		1 780 780	1 789 030
Profit sharing provision for employees of certain group companies		33 783 562	44 686 177
Liabilities arisen from foreign currencies hedge contracts		1 609 385	3 638 817
		<b>518 882 388</b>	<b>457 492 063</b>

**30- Related Parties**

The Parent Company has a business relationship with its subsidiaries and affiliated companies.

	Nature of Transaction	Transaction Amount	March 31, 2018	December 31, 2017
		LE	LE	LE
<b><u>Due from Related Parties</u></b>				
Murex Industries and Trading (S.A.L)	Sales	15 135 577	28 301 382	38 619 918
	Notes Receivables	--	40 639	58 988
			28 342 021	38 678 906
El-khaleeg for Trading and Investment	Current	--	300 100	300 100
			28 642 121	38 979 006
Impairment for balance of "El-khaleeg for Trading and Investment"			(300 100)	(300 100)
<b>Net of debit balances</b>			<b>28 342 021</b>	<b>38 678 906</b>

**Due to Related Parties**

Murex Industries and Trading (S.A.L)	Purchases	1 768 490	950 419	703 882
LIFCO	Rent	--	1 053 134	1 058 824
Ceramics Management Services Ltd. (CMS)	Technical Assistance Fees	--	748 521	343 024
<b>Total of credit balances</b>			<b>2 752 074</b>	<b>2 105 730</b>

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**Consolidated Financial Statements Notes For the Period ended March 31, 2018**

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**31- Contingent Liabilities**

**31-1 Letters of Guarantee**

The letters of guarantee issued from banks in favor of others are as follows:

<u>Currency</u>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
LE	18 574 105	17 846 547

**31-2 Letters of Credit**

<u>Currency</u>		
LE	13 529 134	26 958 003

**32- Litigation**

The Electricity Utility Organization in Lebanon has charged The Lebanese Ceramic Industries S.A.L. (a subsidiary) about LBP 855 million (equivalent to LE 10.1 million) as unpaid electricity charges for the period from March 1996 until August 2003. This Subsidiary has objected to these charges, and raised a legal case requesting the cancellation of such charges. This matter is still pending in the court and its outcome is not known as at the date of issuing the consolidated financial statements. No provisions have been taken by the subsidiary against this claim.

**33- Capital Commitment**

The unexecuted portions of the capital commitments' contracts in respect of acquiring of fixed assets is LE 1.1 million as at March 31, 2018 (December 31, 2017: L.E 1.1 million).

**34- Financial Instruments**

The financial instruments are represented in cash balances, bank overdrafts, debtors and creditors. The book value of these instruments represents a reasonable estimate of their fair value.

The following are the summaries of the major methods and assumptions used in estimating their fair values of financial instruments:

- Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.
- Trade and other receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

**35- Financial Instruments Risk Management**

**35-1 Interest Risk**

The interest risk is represented in changes in interest rates which adversely affect the results of operations and cash flows. In financing its working capital the Parent depends on bank overdrafts at variable interest rates. In financing its expansion projects the Parent Company depends on equity and long-term loans at the best offered rates and conditions available.

Lecico Egypt (S.A.E.)

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### **35-2 Credit Risk**

Represented in the ability of the clients who have been granted credit to pay their debts and the probability that the Parent Company may lose all or part of these debts. This is considered one of the risks that confront the Company. To address this risk the Parent Company established selling policies so that credit would only be granted to well-known clients and where appropriate, obtaining adequate guarantees.

### **35-3 Foreign Currency Exchange Rates Fluctuations Risk**

Foreign currency exchange rate fluctuation risk is represented in exchange rate changes that affect payments in foreign currencies in addition to the revaluation of monetary assets and liabilities denominated in foreign currencies. Due to the volatility of foreign currency exchange rates, the foreign currency exchange rate fluctuations risk is considered high.

### **36- Significant accounting policies**

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

#### **36-1 Basis of consolidation**

**a. Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

**b. Non-controlling interests (NCI)**

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**c. Lose of control**

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

**d. Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended March 31, 2018

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### **36-2 Foreign currency**

#### **a. Foreign currency transactions**

Transactions in foreign currencies are translated into the respective functional currencies of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

#### **b. Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income "OCI" and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest "NCI".

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

### **36-3 Revenues**

#### **Sale of goods**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

### **36-4 Employee benefits**

#### **36-4-1 Employees' pension**

The holding company and two subsidiary companies (Lecico Ceramic Industries and European Ceramics) contribute 3% of the annual remuneration of employees in addition to 0.5% to 1% of the net profit for the year which is recognized during the year until approval by the General Assembly of Shareholders for annual distributions.

**36-4-2** Profitability of the employee's share of profit is recognized in the respective year.

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### **36-5 Finance income and finance costs**

The Company's finance income and finance costs include:

- Interest income;
- Interest expense;
- The net gain or loss on financial assets at fair value through profit or loss;
- The foreign currency gain or loss on financial assets and financial liabilities;

Interest income or expense is recognised using the effective interest method.

### **36-6 Income tax**

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

#### **a. Current tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

#### **b. Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax 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. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Company has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

**36-7 Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the moving average method. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

**36-8 Property, plant & equipment**

**36-8-1 Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

**36-8-2 Subsequent expenditure**

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

**36-8-3 Depreciation**

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

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The estimated useful lives of property, plant and equipment for current and comparative year.

<u>Assets</u>	<u>Years</u>
Buildings	20-40 years
Lease hold improvements	3 years
Machinery and equipment	3-16.67 years
Vehicles	3-10 years
Tools and Supplies	5 years
Furniture, office equipment & computers	4-12.5 years

- Leasehold improvements are depreciated over the period of the contract or useful life of the lease which ever is less.
- Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**36-9 Projects In Progress**

This item represents the amounts spent for constructing or acquiring of fixed assets. Whenever it is completed and ready for its intended use in operations, then, it is transferred to fixed assets. Projects in progress are recorded at cost, and not depreciated until transferred to fixed assets.

**36-10 Intangible assets**

**36-10-1 Goodwill**

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment

In respect of acquisitions that have occurred, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Positive goodwill is stated at cost or deemed cost less accumulated impairment losses.

**36-10-2 Intangible Assets**

Intangible assets which include the Trademark of Lecico UK and development costs are valued at cost, and amortized over ten years. Lecico Lebanon (a subsidiary) recognizes a payment to enter a lease agreement as an intangible assets this asset has an indefinite legal life, accordingly it is not amortized but is subjected to an annual impairment test.

**36-10-3 Amortization**

Amortization is charged to cost of intangible assets less their estimated residual value using straight line method over estimated useful lives of those assets and the amortization charge is recognized as an expense in profit and loss. Good will is not amortized.

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### **36-11 Leased Assets**

Capital leased assets which confer rights and obligations similar to those attached to owned assets are included in the fixed assets at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease and depreciated over their estimated useful life at rates applied to the identical assets. The liability is recorded in the long-term liabilities as a capital lease obligation (except for the current portion which is presented in current liabilities) in an amount equal to the utilised portion of the obligation after deducting the principal's portion of the paid instalments. The interest expense portion is recognized in the income statement.

### **36-11-1 Finance Lease Payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### **36-12 Financial instruments**

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities category.

### **36-12-1 Non-derivative financial assets and financial liabilities – Recognition and derecognition**

The Company initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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**36-12-2 Non-derivative financial assets – Measurement**

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

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

**36-12-3 Held-to-maturity financial assets**

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

**36-12-4 Loans and receivables**

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

**36-12-5 Available-for-sale financial assets**

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

**36-12-6 Non-derivative financial liabilities – Measurement**

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

**36-13 Share capital**

**36-13-1 Ordinary shares**

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction are accounted for in accordance with IAS 12.

**36-13-2 Repurchase of share capital**

When share capital recognized as equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as deduction from total equity.

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### 36-14 Impairment

#### 36-14-1 Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

#### 36-14-2 Financial assets measured at amortized cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

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**a. Available-for-sale financial assets**

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

**b. Equity-accounted investees**

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

**36-14-3 Non-financial assets**

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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 amortisation, if no impairment loss had been recognised.

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**36-15 Provisions**

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**36-15-1 End of Services Benefit Fund (Defined contribution plan)**

The parent company and two of its subsidiaries (Lecico for Ceramic Industries and European Ceramics) contributed to an employees End of Services Benefit fund. This contribution represents 3 % of the annual salaries. In addition, 0.5% to 1% of the annual net profit is recognized in the current year but pending the approval by the General Assembly Meeting along with annual dividends.

**36-15-2** The group policy on Employees' Profit Participation is to accrue these employees benefits in the year to which it relates.

**36-16 Cash and Cash Equivalents**

Cash and cash equivalent comprises cash balances and call deposits. For the purpose of preparing the cash flow statement, cash and cash equivalents are defined as balances of cash on hand, bank current accounts, notes receivable and time deposits with maturity of less than three months. The Bank overdrafts which are repayable on demand form an integral part of the company's cash management. Accordingly bank overdrafts are included as a component of cash and cash equivalents for the purpose of preparing the cash flow statement.

**36-17 Borrowing Cost**

The borrowing cost, represented in interest expenses, is recognized in the income statement under the "Financing Expenses" account in the year in which it occurs.

Those borrowing costs to be considered as parts of a qualified fixed asset that take a substantial year to be prepared for its intended use are capitalized. This accounting treatment is applied consistently to all borrowing costs and all qualified fixed assets.

**36-18 Segment Reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

**36-19 Consolidated Cash Flows Statement**

The cash flows statement is prepared according to the indirect method.

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**37- Tax Status**

<u>Type of tax</u>	<u>Years</u>	<u>Status</u>
Corporate tax	From inception Till 2007	Tax dispute was finalized and all tax obligation was paid.
	2008/2012	The parent company's records were examined and informed by the related tax forms which was objected within the legal dates.
	2013/2016	The parent company's records were not examined yet.
Salary tax	Till 2008	The parent company has obtained a final settlement and paid all the tax obligations for these years.
	2009 till now	The parent company's records were not examined yet.
Stamp duty	From inception Till 2012	Tax dispute was finalized and all tax obligation arisen was paid.
	From 1/1/2013 till now	The parent company's records were not examined yet.
Sales tax	Till 2014	The tax examination occurred and were paid all the tax obligations arisen.
	From 2015 till now	The parent company's records were not examined yet.