

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

**Interim Consolidated Financial Statements**  
**and Review Report**  
**For The Period Ended September 30, 2013**

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

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

#### **To the Board of Directors of Lecico Egypt**

##### ***Introduction***

We have performed a limited review for the accompanying consolidated balance sheet of Lecico Egypt (S.A.E.) and its subsidiaries as at September 30, 2013 and the related consolidated statements of 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 September 30, 2013, 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 the following notes:

- 1- Note no. (16) 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.
  
- 2- Note no.(37) to the interim consolidated financial statements. As at October 31, 2013 Lecico started the process of liquidation proceedings of all its French subsidiaries, accordingly , as of that date , a court appointed administrator has taken over the management of Lecico France, Lecico Distribution and Sarreguemine Batiments.

  
KPMG Hazem Hassan  
Hatem Montaser  
CPA no 49309  
Capital Market Register No. 225  
Public Accountants and Consultants

Alexandria on November 12, 2013

**Lecico Egypt  
(S.A.E.)  
Consolidated Balance Sheet at September 30, 2013**

<i>In Egyptian Pound</i>	Note	30 September 2013	31 December 2012
<b>Assets</b>			
Property, plant and equipment	(4)	719 869 862	732 162 639
Projects in progress	(5)	40 789 837	41 737 803
Intangible assets	(6)	24 768 592	24 301 197
Other investments	(7)	5 256 865	4 847 462
Long-term notes receivable	(8)	46 424 175	25 786 687
Long-term pre-paid rent		924 335	1 101 333
<b>Total Non-Current Assets</b>		<b>838 033 666</b>	<b>829 937 121</b>
Inventory	(9)	660 306 564	576 110 639
Trade and other receivables	(10)	483 208 350	411 743 798
Trading investments	(11)	60 534 416	56 938 800
Cash and cash equivalents	(12)	323 655 548	155 754 929
<b>Total Current Assets</b>		<b>1 527 704 878</b>	<b>1 200 548 166</b>
<b>Total Assets</b>		<b>2 365 738 544</b>	<b>2 030 485 287</b>
<b>Equity</b>			
Share capital	(14)	400 000 000	400 000 000
Reserves	(15)	349 226 130	321 168 632
Retained Earnings	(16)	94 057 851	75 333 185
Profit for the period/ year		67 410 894	62 806 604
<b>Total equity attributable to equity holders of the company</b>		<b>910 694 875</b>	<b>859 308 421</b>
<b>Non-controlling Interest</b>		<b>2 625 609</b>	<b>1 535 996</b>
<b>Total Equity</b>		<b>913 320 484</b>	<b>860 844 417</b>
<b>Liabilities</b>			
Long term loans and borrowings	(17)	47 058 824	64 705 883
Other Long-Term Liabilities	(18)	1 692 953	1 704 791
Deferred income tax	(19)	21 710 883	20 312 877
Provision	(20)	14 873 047	12 818 175
<b>Total Non-Current Liabilities</b>		<b>85 335 707</b>	<b>99 541 726</b>
Bank overdrafts		939 314 860	755 409 794
Loans and borrowings	(21)	25 424 839	25 494 812
Trade and other payables	(22)	359 635 439	237 383 650
Provisions	(20)	42 707 215	51 810 888
<b>Total Current Liabilities</b>		<b>1 367 082 353</b>	<b>1 070 099 144</b>
<b>Total Liabilities</b>		<b>1 452 418 060</b>	<b>1 169 640 870</b>
<b>Total Equity and Liabilities</b>		<b>2 365 738 544</b>	<b>2 030 485 287</b>

- Notes from (1) to (37) are an integral part of these interim consolidated financial statements.
- Review report attached,
- Date November 12, 2013.

Financial Manager

Mohamed Hassan

Managing Director

Taher Gargour

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

**Consolidated Income Statement for the Period Ended September 30, 2013**

<i>In Egyptian Pound</i>	Note	From July 1, 2013 to September 30, 2013	From January 1, 2013 to September 30, 2013	From July 1, 2012 to September 30, 2012	From January 1, 2012 to September 30, 2012
Net sales		378 017 225	1 109 891 611	298 403 338	941 155 419
Cost of sales		(267 976 158)	(791 287 778)	(219 586 438)	(686 696 322)
<b>Gross Profit</b>		<b>110 041 067</b>	<b>318 603 833</b>	<b>78 816 900</b>	<b>254 459 097</b>
Other Income	(23)	3 451 453	13 181 097	405 101	3 819 501
Distribution Expenses		(18 146 196)	(56 051 074)	(16 636 441)	(51 034 036)
Administrative Expenses		(35 248 433)	(99 485 941)	(26 331 591)	(78 937 057)
Other Expenses	(24)	(754 258)	(10 750 054)	(2 205 985)	(9 175 338)
<b>Result from operating activities</b>		<b>59 343 633</b>	<b>165 497 861</b>	<b>34 047 984</b>	<b>119 132 167</b>
Investment income		(153 932)	3 269 077	(3 038)	3 253 139
Finance income	(25)	(4 119 981)	11 326 822	1 596 809	5 134 960
Financing expenses	(26)	(28 514 769)	(80 468 920)	(21 416 845)	(70 632 437)
		26 554 951	99 624 840	14 224 910	56 887 829
Employees' participation in profit		(6 562 866)	(19 711 454)	(4 209 029)	(10 501 740)
<b>Profit before tax</b>		<b>19 992 085</b>	<b>79 913 386</b>	<b>10 015 881</b>	<b>46 386 089</b>
Current income tax expense		(1 507 447)	(11 260 409)	(1 602 922)	(8 685 637)
Deferred income tax		(501 260)	(1 371 681)	1 551 207	4 839 419
<b>Profit for the period</b>		<b>17 983 378</b>	<b>67 281 296</b>	<b>9 964 166</b>	<b>42 539 871</b>
<b>Attributable to :</b>					
Equity holders of the company		17 507 710	67 410 894	10 163 662	43 499 599
Non-controlling interest		475 668	(129 598)	(199 496)	(959 728)
<b>Profit for the period</b>		<b>17 983 378</b>	<b>67 281 296</b>	<b>9 964 166</b>	<b>42 539 871</b>
<b>Earnings per share (LE/Share)</b>	(27)		<b>0.84</b>		<b>0.54</b>

▪ Notes from (1) to (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 September 30, 2013**

<i>In Egyptian Pound</i>	<b>Issued &amp; Paid up Capital</b>	<b>Reserves</b>	<b>Retained Earnings</b>	<b>Profit for the period</b>	<b>Equity of the parent company's shareholders</b>	<b>Non- controlling Interest</b>	<b>Total Equity</b>
<b>Balance at December 31, 2011</b>	<b>400 000 000</b>	<b>302 882 746</b>	<b>103 722 738</b>	<b>(20 582 800)</b>	<b>786 022 684</b>	<b>1 441 205</b>	<b>787 463 889</b>
Transfer to retained earnings	--	--	(20 582 800)	20 582 800	--	--	--
Transfer to legal reserve	--	1 092 961	(1 092 961)	--	--	--	--
Adjustments	--	--	(7 068 554)	--	(7 068 554)	4 482 149	(2 586 405)
Translation adjustment of foreign subsidiaries	--	2 273 567	--	--	2 273 567	(747 632)	1 525 935
Profit for the period	--	--	--	43 499 599	43 499 599	(959 728)	42 539 871
<b>Balance at September 30, 2012</b>	<b>400 000 000</b>	<b>306 249 274</b>	<b>74 978 423</b>	<b>43 499 599</b>	<b>824 727 296</b>	<b>4 215 994</b>	<b>828 943 290</b>
<b>Balance at December 31, 2012</b>	<b>400 000 000</b>	<b>321 168 632</b>	<b>75 333 185</b>	<b>62 806 604</b>	<b>859 308 421</b>	<b>1 535 996</b>	<b>860 844 417</b>
Transfer to retained earnings	--	--	62 806 604	(62 806 604)	--	--	--
Transfer to legal reserve	--	4 472 686	(4 472 686)	--	--	--	--
Dividends declared	--	--	(40 000 000)	--	(40 000 000)	--	(40 000 000)
Adjustments	--	--	390 748	--	390 748	(94 994)	295 754
Translation adjustment of foreign subsidiaries	--	23 584 812	--	--	23 584 812	1 314 205	24 899 017
Profit for the Period	--	--	--	67 410 894	67 410 894	(129 598)	67 281 296
<b>Balance at September 30, 2013</b>	<b>400 000 000</b>	<b>349 226 130</b>	<b>94 057 851</b>	<b>67 410 894</b>	<b>910 694 875</b>	<b>2 625 609</b>	<b>913 320 484</b>

▪ Notes from (1) to (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 September 30, 2013**

<i>In Egyptian Pound</i>	Note	30 September 2013	30 September 2012
<b><u>Cash Flow from Operating Activities</u></b>			
Net profit for the period		67 410 894	43 499 599
<b><u>Adjustments Provided to Reconcile Net Profit to Net Cash Provided by Operating Activities</u></b>			
Fixed assets depreciation and translation differences	(4)	69 499 879	68 012 578
Intangible assets amortization and translation differences	(6)	(399 359)	30 563
Employees participation in net profit		19 711 454	10 501 740
Long term prepaid rent expense		177 000	195 797
Capital gain		(4 206 095)	(74 380)
Provided provisions, inventory impairment and translation differences		8 277 755	7 981 544
Income tax expense		11 260 409	8 685 637
Deferred income tax		1 371 681	(4 839 419)
Reversal of expired provision		(5 878 183)	(2 000 000)
Discounting of long term notes receivables		3 398 512	(2 100 000)
Increase in minority interest		1 089 613	2 774 789
Change in translation reserve		24 001 892	(4 521 418)
		<b><u>195 715 452</u></b>	<b><u>128 147 030</u></b>
<b><u>Changes in Working Capital</u></b>			
Increase in inventory		(85 138 815)	(18 022 142)
Increase in receivables		(74 267 830)	(74 143 397)
Increase in payables		110 940 493	100 857 368
Payments for other long-term liabilities		(11 838)	(31 333 780)
Paid income tax		(4 377 276)	(9 226 042)
Utilized provisions		(5 702 207)	(10 058 268)
Change in current investments		(3 595 616)	16 526 083
<b>Net cash provided by operating activities</b>		<b><u>133 562 363</u></b>	<b><u>102 746 852</u></b>
<b><u>Cash Flow from Investing Activities</u></b>			
Payments for property, plant & equipment additions and projects in progress		(74 033 242)	(38 563 240)
Payments for intangible assets		(68 036)	(9 557)
Payment for other current investments		(409 403)	(52 106)
Proceeds from sales of property, plant & equipment		21 980 194	135 224
Change in long-term notes receivable		(24 036 000)	9 979 000
<b>Net cash (used in) investing activities</b>		<b><u>(76 566 487)</u></b>	<b><u>(28 510 679)</u></b>
<b><u>Cash Flow from Financing Activities</u></b>			
Payments for long term loans and its current portion		(17 717 032)	(11 825 466)
Payments for employees' share in net profit		(15 283 291)	(12 606 826)
Dividends Paid		(40 000 000)	--
<b>Net cash (used in) financing activities</b>		<b><u>(73 000 773)</u></b>	<b><u>(24 432 292)</u></b>
Net change in cash and cash equivalents during the Period		(16 004 447)	49 803 881
Cash and cash equivalents at beginning of the Period	(13)	(599 654 865)	(634 939 437)
<b>Cash and cash equivalents at the end of the Period</b>	(13)	<b><u>(615 659 312)</u></b>	<b><u>(585 135 556)</u></b>

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

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

**Interim Consolidated Financial Statements Notes for the period ended September 30, 2013**

**1. Reporting Entity**

The interim consolidated financial statements of the company as at and for the Period ended September 30, 2013 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	
		30/9/2013 %	31/12/2012 %
Lecico for Ceramics Industries (S.A.E.)	Egypt	99.99	99.99
TGF for Consulting and Trading (S.A.E.)	Egypt	99.41	99.41
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	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

## **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. 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.

### **2.3. 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.

### **2.4. 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 period 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 3-3 – valuation of financial instruments
- Note 3-5 – lease classification.
- Note 3-7– measurement of the recoverable amounts of cash-generating units containing goodwill and intangible assets
- Notes 3-11 – provisions and contingencies
- Note 3-15 – measurement of defined benefit obligations

### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to periods presented in these consolidated financial statements and have been applied consistently by group entities.

#### **3.1. Basis of Consolidation**

##### **- Subsidiaries**

Subsidiaries are those entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### **- Transactions Eliminated on Consolidation**

Intergroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidation financial statements.

Unrealized gains arising from transactions with subsidiaries are eliminated to the extent of the group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

- Minority interests in the subsidiaries are separately presented on the consolidated balance sheet, and the minority's share in the subsidiaries' net profit for the year is separately presented before determining the consolidated net profit in the consolidated income statement.

## **3.2. Foreign Currency**

### **3.2.1. Foreign Currency Transactions**

Transactions in foreign currencies are translated at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into reporting currency at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into reporting currency at foreign exchange rates ruling at the dates the fair value was determined.

### **3.2.2. Financial Statements of Foreign Operations**

The assets and liabilities of foreign operations including goodwill and fair value adjustments arising on consolidation are translated to Egyptian Pounds at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated into Egyptian Pound at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in reserves in equity.

## **3.3. Financial Instruments**

### **(i) *Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3-14.

***Held-to-maturity investments***

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

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

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

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

An instrument is classified at fair value through profit and loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit and loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

***Other***

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) ***Share capital***

***Ordinary shares***

Ordinary shares are classified as equity.

***Repurchase of share capital (treasury shares)***

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

### 3.4. Property, plant and equipment

#### (i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, except for the land owned by the parent, which was revalued in 1997, and the revaluation surplus, which is not available for distribution or transfer to capital, is included in the reserve account in equity.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets is recognized in profit or loss as incurred.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

#### (ii) *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

<u>Asset</u>	<u>Estimated Useful life in years</u>
Buildings	20 – 40
Leasehold Improvements	3
Machines and Equipment	3 – 16.67
Motor Vehicles	3 – 10
Tools	5
Furniture, Office Equipment and Computers	4 – 12.5

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The land and buildings of the Lebanese Ceramic Industries Co. (S.A.L.) were revalued in the consolidated balance sheet although this revaluation was not recorded in the subsidiary's books pending the finalisation of certain registration legal formalities.

**3.5. 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 installments. The interest expense portion is recognized in the income statement.

***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.

### **3.6. 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.

### **3.7. Intangible Assets**

#### ***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.

#### ***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.

### **3.8. Investments**

#### **Investments in Debt and Equity Securities**

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognized in the income statement where the group has the positive intent and ability to hold an investment to maturity, and then they are stated at amortized cost less impairment losses.

Other financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in the consolidated income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading or available-for-sale investments are recognized / derecognized by the Group on the date it commits to purchase / sell the investments. Securities held-to-maturity are recognized / derecognized on the day they are transferred to / by the Group.

#### Treasury Bonds of the Egyptian Government Held For Trading

Are recorded at its acquisition cost and classified as current assets and any resultant gains or loss are recognized in the consolidated income statement.

### **3.9. Inventories**

Inventories are valued at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. Cost includes expenditure incurred in acquiring the inventories and bringing it to its existing location and condition.

The Cost of issued inventories is based on the moving average method. In the case of finished products and work in progress, cost includes an appropriate share of overheads based on the normal operating capacity.

### **3.10. 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.

### **3.11. Provisions**

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risk specific to the liability.

### **3.11.1. End of Services Indemnity**

- a- The parent company makes provision for end of service benefits due to expatriate employees.
- b- A provision is held in one of the subsidiaries (The Lebanese Ceramic Industries Co. S.A.L.) for the difference between total indemnity due to employees, from the date of joining to the financial statements date, on the basis of the last salary paid, and the total funds available with the National Social Security Fund in Lebanon (NSSF) for the same year.

### **3.11.2. Restructuring**

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

### **3.12. Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. 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 realized.

### **3.13. Revenue Recognition**

#### ***Goods Sold and Services Rendered***

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

Interest revenue is recognized as it accrues on a timely basis.

### **3.14. 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.

### **3.15. Employees Benefits**

#### **3.15.1. 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, ½ 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.

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

### **3.16. 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.

### **3.17. Consolidated Cash Flows Statement**

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

### **3.18. Impairment of Assets**

#### ***Impairment***

The carrying amounts of the Group's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use then the recoverable amount is estimated at each balance sheet date. Impairment losses are recognized in the income statement.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

#### ***Calculation of recoverable amount***

The recoverable amount of the group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the period Ended September 30, 2013

**4. Property, plant and equipment**

<i>In Egyptian Pound</i>	Land	Buildings	Leasehold Improvements	Machinery & Equipment	Motor Vehicles	Tools	Furniture, Office Equipment & Computers	Total
<b>Cost</b>								
At 01/01/2013	<b>166 554 623</b>	<b>323 486 937</b>	<b>2 675 084</b>	<b>835 746 534</b>	<b>55 225 133</b>	<b>71 336 346</b>	<b>27 976 851</b>	<b>1 483 001 508</b>
Translation differences	1 091 887	2 270 158	28 178	8 150 935	932 856	--	190 457	12 664 471
Period additions	259 265	125 188	449 022	60 213 884	3 940 736	8 353 743	1 639 363	74 981 201
Period disposals	(17 078 905)	(69 331)	--	(189 597)	(2 208 214)	--	--	(19 546 047)
At 30/9/2013	<b>150 826 870</b>	<b>325 812 952</b>	<b>3 152 284</b>	<b>903 921 756</b>	<b>57 890 511</b>	<b>79 690 089</b>	<b>29 806 671</b>	<b>1 551 101 133</b>
<b>Accumulated Depreciation</b>								
At 01/01/2013	--	101 553 638	1 884 991	535 935 407	43 367 605	46 194 666	21 902 562	750 838 869
Translation differences	--	831 056	17 797	6 903 030	732 803	--	185 604	8 670 290
Period depreciation	--	11 087 526	315 215	49 322 878	3 726 673	7 482 138	1 559 630	73 494 060
Disposals acc. Depreciation	--	(46 553)	--	(99 286)	(1 626 109)	--	--	(1 771 948)
At 30/9/2013	--	<b>113 425 667</b>	<b>2 218 003</b>	<b>592 062 029</b>	<b>46 200 972</b>	<b>53 676 804</b>	<b>23 647 796</b>	<b>831 231 271</b>
<b>Net Book Value at</b>								
<b>30/09/2013</b>	<b>150 826 870</b>	<b>212 387 285</b>	<b>934 281</b>	<b>311 859 727</b>	<b>11 689 539</b>	<b>26 013 285</b>	<b>6 158 875</b>	<b>719 869 862</b>
<b>31/12/2012</b>	<b>166 554 623</b>	<b>221 933 299</b>	<b>790 093</b>	<b>299 811 127</b>	<b>11 857 528</b>	<b>25 141 680</b>	<b>6 074 289</b>	<b>732 162 639</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.
- The Lebanese Ceramic Industries Company S.A.L. (a subsidiary) granted a first ranking mortgage on plots 732 and 25 in Kfarshima in Lebanon against credit facilities.

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

## Consolidated Financial Statements Notes For the period ended September 30, 2013

**5. Projects In Progress**

<i>In Egyptian Pound</i>	<b>30 September <u>2013</u></b>	<b>31 December <u>2012</u></b>
Machinery under installation	33 893 911	36 333 612
Buildings under construction	5 783 301	1 737 723
Advance payment	434 638	2 075 015
Letters of credit for purchase of fixed assets	677 987	1 591 453
	<b><u>40 789 837</u></b>	<b><u>41 737 803</u></b>

**6. Intangible Assets**

<i>In Egyptian Pound</i>	<b>Goodwill</b>	<b>Trademarks</b>	<b>Development &amp; Other Costs</b>	<b>Other Intangibles</b>	<b>Total</b>
<b><u>Cost</u></b>					
Balance at 01/01/2013	<b>20 188 006</b>	<b>2 740 783</b>	<b>5 014 288</b>	<b>793 752</b>	<b>28 736 829</b>
Translation differences	403 877	294 607	470 491	68 750	1 237 725
Period additions	--	--	68 036	--	68 036
<b>Balance at 30/09/2013</b>	<b><u>20 591 883</u></b>	<b><u>3 035 390</u></b>	<b><u>5 552 815</u></b>	<b><u>862 502</u></b>	<b><u>30 042 590</u></b>
<b><u>Amortisation &amp; Impairment</u></b>					
<b><u>Losses</u></b>					
Balance at 01/01/2013	--	466 717	3 968 915	--	4 435 632
Translation differences	--	41 714	397 815	--	439 529
Period amortisation	--	54 527	344 310	--	398 837
<b>Balance at 30/09/2013</b>	<b><u>--</u></b>	<b><u>562 958</u></b>	<b><u>4 711 040</u></b>	<b><u>--</u></b>	<b><u>5 273 998</u></b>
<b>Carrying Amount at 30/09/2013</b>	<b><u>20 591 883</u></b>	<b><u>2 472 432</u></b>	<b><u>841 775</u></b>	<b><u>862 502</u></b>	<b><u>24 768 592</u></b>
<b>Carrying Amount at 31/12/2012</b>	<b><u>20 188 006</u></b>	<b><u>2 274 066</u></b>	<b><u>1 045 373</u></b>	<b><u>793 752</u></b>	<b><u>24 301 197</u></b>

**7. Other Investments**

<i>In Egyptian Pound</i>	<b>Ownership %</b>	<b>30 September <u>2013</u></b>	<b>31 December <u>2012</u></b>
Murex Industries and Trading (S.A.L.)	40	5 135 828	4 726 451
El-Khaleeg for Trading and Investment	99.9	99 900	99 900
Other Investments	--	21 137	21 111
		<b><u>5 256 865</u></b>	<b><u>4 847 462</u></b>

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

## Consolidated Financial Statements Notes For the period ended September 30, 2013

**8. Long term notes receivables**

<i>In Egyptian Pound</i>	<b>30 September 2013</b>	<b>31 December 2012</b>
Face value of long term notes receivables	56 775 000	32 739 000
Discounting notes receivables to its present value*	<u>(10 350 825)</u>	<u>(6 952 313)</u>
<b>Present value of long term notes receivables</b>	<b><u>46 424 175</u></b>	<b><u>25 786 687</u></b>

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

**9. Inventory**

<i>In Egyptian Pound</i>	<b>30 September 2013</b>	<b>31 December 2012</b>
Raw materials, consumables and spare parts	183 841 518	169 468 104
Work in process	42 722 468	40 685 088
Finished products	<u>439 546 952</u>	<u>383 137 539</u>
	<b>666 110 938</b>	<b>593 290 731</b>
<b><u>Less:</u></b>		
Impairment of inventory	<u>(26 516 394)</u>	<u>(25 573 504)</u>
	<b>639 594 544</b>	<b>567 717 227</b>
Letters of credit for purchasing goods	<u>20 712 020</u>	<u>8 393 412</u>
	<b><u>660 306 564</u></b>	<b><u>576 110 639</u></b>

**10. Trade and other receivables**

<i>In Egyptian Pound</i>	<b>Note</b>		
Trade Receivables		264 420 323	215 497 136
Notes Receivable		102 093 684	116 757 168
Sundry Debtors		36 423 932	32 337 854
Suppliers – Debit Balances		2 834 554	2 491 096
Due from related parties	28	90 166 935	70 438 131
Tax Administration – Other taxes		23 907	20 845
Tax Administration – Tax withheld		563 121	413 683
Tax Administration – Advance payment		663 708	389 790
Tax Administration – Sales tax		313 838	2 064 043
Other Debit Balances		36 106 433	26 436 789
Social security		--	103 418
Other prepaid expenses		18 226 517	10 317 960
Accrued Revenues		<u>119 169</u>	<u>420 378</u>
		<b>551 956 121</b>	<b>477 688 291</b>
<b><u>Less:</u></b>			
Impairment of Receivables		<u>(68 747 771)</u>	<u>(65 944 493)</u>
		<b><u>483 208 350</u></b>	<b><u>411 743 798</u></b>

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

## Consolidated Financial Statements Notes For the period ended September 30, 2013

**Transactions with Key Management**

- The balances of the Board of Directors of the Parent Company amounted to LE 58 846 (debit balances) and LE 19 260 (credit balances) as at September 30, 2013. These balances are included in sundry debtors and creditors in receivables and 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 September 30, 2013 charged to the other operating expenses in the consolidated income statement amounted to LE 3 203 443 (September 30, 2012: LE 3 117 537).

**11. Trading Investments**

<i>In Egyptian Pound</i>	<b>30 September 2013</b>	<b>31 December 2012</b>
Treasury bonds (Held for Trading)	5 000 000	5 000 000
Callable Money Market Securities	55 534 416	51 938 800
	<b><u>60 534 416</u></b>	<b><u>56 938 800</u></b>

**12. Cash and cash equivalents**

<i>In Egyptian Pound</i>		
Banks - Time Deposit	148 440 869	38 360 287
Banks - Current Accounts	167 615 905	113 265 000
Cash On Hand	7 598 774	4 129 642
	<b><u>323 655 548</u></b>	<b><u>155 754 929</u></b>

**13. Cash & Cash Equivalents for the Purpose of Preparing Cash Flows Statement**

<i>In Egyptian Pound</i>		
Banks - Time Deposits	148 440 869	38 360 287
Banks - Current Accounts	167 615 905	113 265 000
Cash on Hand	7 598 774	4 129 642
	<b><u>323 655 548</u></b>	<b><u>155 754 929</u></b>
<b><u>Less:</u></b>		
Bank Overdrafts	(939 314 860)	(755 409 794)
	<b><u>(615 659 312)</u></b>	<b><u>(599 654 865)</u></b>

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

**Consolidated Financial Statements Notes For the period ended September 30, 2013**

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**13.1. Bank overdrafts**

Bank overdrafts represent credit facilities partially secured by certain notes receivables and inventories. The authorized facilities limit in respect of all overdrafts is LE 1 152 million, and the unutilized amount is LE 245 million.

**14. Share capital**

**14.1. 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.

**14.2. 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.

Part of the shares is in the form of Global Depository Receipts (GDRs) listed on the London Stock Exchange and is held by the Bank of New York as a Depository Bank.

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. All rights relating to shares temporarily held by the parent company (treasury shares) if any are suspended until those shares are reissued.

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

## Consolidated Financial Statements Notes For the period Ended September 30, 2013

15. Reserves

<i>In Egyptian Pound</i>	Legal Reserve	Other* Reserves	Special Reserve Premium	Land** Revaluation Surplus	Translation Reserve	Total
<b>Balance at December 31, 2011</b>	<b>34 292 410</b>	<b>15 571 032</b>	<b>181 164 374</b>	<b>52 765 085</b>	<b>19 089 845</b>	<b>302 882 746</b>
Transferred to legal reserve	1 092 961	--	--	--	--	1 092 961
Translation adjustment for foreign subsidiaries	--	--	--	--	2 273 567	2 273 567
<b>Balance at September 30, 2012</b>	<b>35 385 371</b>	<b>15 571 032</b>	<b>181 164 374</b>	<b>52 765 085</b>	<b>21 363 412</b>	<b>306 249 274</b>
<b>Balance at December 31, 2012</b>	<b>35 385 371</b>	<b>15 571 032</b>	<b>181 164 374</b>	<b>52 765 085</b>	<b>36 282 770</b>	<b>321 168 632</b>
Transferred to legal reserve	4 472 686	--	--	--	--	4 472 686
Translation adjustment for foreign subsidiaries	--	--	--	--	23 584 812	23 584 812
<b>Balance at September 30, 2013</b>	<b>39 858 057</b>	<b>15 571 032</b>	<b>181 164 374</b>	<b>52 765 085</b>	<b>59 867 582</b>	<b>349 226 130</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 September 30, 2013

**16. Retained Earnings**

At September 30, 2013 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.

**17. Loans and borrowings**

<i>In Egyptian Pound</i>	<b>30 September 2013</b>	<b>31 December 2012</b>
- <b><u>Audi Bank</u></b>		
The outstanding counter value of the loan granted to the parent company from Audi Bank, is to be repaid over 13 quarterly installments; the next installment will be due at 10 November 2013 and the last installment will be due at 10 May 2016. with a variable interest rate. The loan purpose is restructuring of the parent company financial position. This loan is guaranteed by a subsidiary company, Lecico for Ceramic Industries	70 588 236	88 235 295
	70 588 236	88 235 295
<b><u>Less:</u></b> Installments due within one year which are classified as current liabilities (note 21).	(23 529 412)	(23 529 412)
	<b>47 058 824</b>	<b>64 705 883</b>

The group had drawn down all availability under this loan agreement from bank.

**18. Other Long-Term Liabilities**

<i>In Egyptian Pound</i>	<b>30 September 2013</b>	<b>31 December 2012</b>
<b>18-1</b> Lease obligation to finance certain assets of Lecico (UK) Ltd. and its subsidiaries.	2 973 728	2 274 661
<b><u>Less:</u></b> Installments due within one year, which are classified as current liabilities (Note 21).	(1 606 849)	(1 259 359)
	1 366 879	1 015 302
<b>18-2</b> Sales Tax Department (deferred sales tax related to imported machinery) Notes payable – long term	288 578 326 074	874 118 521 412
	614 652	1 395 530
<b><u>Less:</u></b> Installments due within one year which are classified as current liabilities (Note 21).	(288 578)	(706 041)
	326 074	689 489
<b>Total Other Long-Term Liabilities</b>	<b>1 692 953</b>	<b>1 704 791</b>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the period ended September 30, 2013

**19. Deferred Income Tax Assets and Liabilities**

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

<i>In Egyptian Pound</i>	30/09/2013		31/12/2012	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Accumulated losses carried forward	(206 536)	--	(224 977)	--
Property, plant and equipment	--	25 380 029	--	24 104 718
Inventory	(3 462 610)	--	(3 566 864)	--
<b>Total Deferred Income tax (assets) / liabilities</b>	<b>(3 669 146)</b>	<b>25 380 029</b>	<b>(3 791 841)</b>	<b>24 104 718</b>
<b>Net Deferred Income Tax Liabilities</b>	<b>--</b>	<b>21 710 883</b>	<b>--</b>	<b>20 312 877</b>

**20. Provisions**

	<u>Balance at 1/1/2013</u>	<u>Translation Differences</u>	<u>Utilised Provisions</u>	<u>Provided Provisions</u>	<u>Reversed provisions</u>	<u>Balance at 30/09/2013</u>
<b><u>Provisions Disclosed in the Non Current Liabilities</u></b>						
End of Service Indemnity Provision	11 350 447	676 307	(177 059)	1 478 581	--	13 328 276
Claims provision	1 467 728	126 699	(49 656)	--	--	1 544 771
	<u>12 818 175</u>	<u>803 006</u>	<u>(226 715)</u>	<u>1 478 581</u>	<u>--</u>	<u>14 873 047</u>
<b><u>Provision Disclosed in the Current Liabilities</u></b>						
Potential Losses and Claims Provision	51 810 888	--	(5 475 490)	2 250 000	(5 878 183)	42 707 215
	<u>51 810 888</u>	<u>--</u>	<u>(5 475 490)</u>	<u>2 250 000</u>	<u>(5 878 183)</u>	<u>42 707 215</u>
<b>Total</b>	<u>64 629 063</u>	<u>803 006</u>	<u>(5 702 205)</u>	<u>3 728 581</u>	<u>(5 878 183)</u>	<u>57 580 262</u>

**21. Loans and borrowings**

<i>In Egyptian Pound</i>	Note	30 September 2013	31 December 2012
Current portion of long-term loans	(17)	23 529 412	23 529 412
Current portion of other long-term liabilities	(18)	1 895 427	1 965 400
		<u>25 424 839</u>	<u>25 494 812</u>

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

## Consolidated Financial Statements Notes For the period ended September 30, 2013

**22. Trade and other Payables***In Egyptian Pound*

	Note	30 September 2013	31 December 2012
Trade payable		88 023 397	72 144 737
Notes payable		51 926 776	59 221 194
Due to related parties	(28)	12 602 136	854 274
Social insurance authority and tax authority		11 061 544	5 828 186
Income tax payable		10 500 274	3 617 141
Accrued expenses		122 965 793	45 266 950
Deposits due to others		22 701	22 701
Sundry creditors		30 454 267	24 239 223
Current account for sales tax department		5 380 739	3 894 674
Dividends payable		389 929	389 929
Creditors for purchasing fixed assets		1 930 402	1 955 322
Profit sharing provision for employees of certain group companies		24 377 482	19 949 319
		<b>359 635 439</b>	<b>237 383 650</b>

**23. Other Income***In Egyptian Pound*

	From July 1, 2013 to September 30, 2013	From January 1, 2013 to September 30, 2013	From July 1, 2012 to September 30, 2012	From January 1, 2012 to September 30, 2012
Capital (loss)Gain – net	(12 055)	4 206 095	12 004	74 380
Scrap sales	611 924	1 778 460	370 457	1 331 748
Other revenues	434 318	1 318 358	22 640	413 373
Reversal of expired provision	2 417 266	5 878 184	--	2 000 000
	<b>3 451 453</b>	<b>13 181 097</b>	<b>405 101</b>	<b>3 819 501</b>

**24. Other Expenses***In Egyptian Pound*

Provided for potential losses and claims Provision	750 000	2 250 000	690 000	4 070 000
End of service indemnity Provision	253 283	1 478 581	60 463	180 595
Amortization of Intangible Assets	165 216	419 518	125 236	376 706
Miscellaneous expenses	(1 533 629)	3 398 512	293 170	1 430 500
Board of directors remuneration	1 119 388	3 203 443	1 037 116	3 117 537
	<b>754 258</b>	<b>10 750 054</b>	<b>2 205 985</b>	<b>9 175 338</b>

**25. Finance Income***In Egyptian Pound*

Interest revenues	455 965	1 492 941	1 206 467	3 754 970
Foreign exchange difference	(4 575 946)	9 833 881	--	--
Changes in fair value of investments held for trading	--	--	390 342	1 379 990
	<b>(4 119 981)</b>	<b>11 326 822</b>	<b>1 596 809</b>	<b>5 134 960</b>

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

## Consolidated Financial Statements Notes For the period ended September 30, 2013

**26. Finance Expenses**

<i>In Egyptian Pound</i>	From July 1, 2013 to September 30, 2013	From January 1, 2013 to September 30, 2013	From July 1, 2012 to September 30, 2012	From January 1, 2012 to September 30, 2012
Interest expense	28 425 704	79 088 792	24 363 588	72 712 416
Foreign exchange differences	--	--	(2 946 743)	(2 079 979)
Changes in fair value of investments held for trading	89 065	1 380 128	--	--
	<b>28 514 769</b>	<b>80 468 920</b>	<b>21 416 845</b>	<b>70 632 437</b>

**27. Earnings Per Share**

The earnings per share for the period ended September 30, 2013 was computed as follows:

<i>In Egyptian Pound</i>	30 September 2013	30 September 2012
Net profit for the Period (in LE)	67 410 894	43 499 599
Number of outstanding shares	80 000 000	80 000 000
<b>Earnings per share ( LE / share)</b>	<b>0.84</b>	<b>0.54</b>

**28. Related Parties**

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

<i>In Egyptian Pound</i>	Nature of Transaction	Transaction Amount	30 September 2013	31 December 2012
<b><u>Due from Related Parties</u></b>				
Murex Industries and Trading (S.A.L)	Sales	39 305 724	46 706 076	26 549 463
	Notes Receivable	--	2 637 077	2 314 222
			49 343 153	28 863 685
Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.)	Current	--	7 886	7 258
Lecico Saudi Arabia (Branch)	Sales	19 253 887	40 515 796	41 267 088
El-khaleeg for Trading and Investment	Current	--	300 100	300 100
<b>Total Debit Balances</b>			<b>90 166 935</b>	<b>70 438 131</b>
<b><u>Due to Related Parties</u></b>				
Murex Industries and Trading (S.A.L)	Purchase	2 322 126	339 951	341 868
LIFCO	Rent	102 107	137 313	221 144
Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.)	Current	8 249	103 484	95 235
Ceramics Management Services Ltd. (CMS)	Technical Assistance Fees	20 093 728	12 021 388	195 668
Donald Scott	Current	--	--	359
<b>Total Credit Balances</b>			<b>12 602 136</b>	<b>854 274</b>

Lecico Egypt (S.A.E.)

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**29. Information about Business Segments**

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

	<u>30/09/2013</u>	<u>30/09/2012</u>
<b><u>Sanitary ware Segment</u></b>		
<b><u>Sales Volumes (in 000 pcs)</u></b>		
Egypt	1 849	1 491
Lebanon	171	157
Export	2 228	2 155
<b>Total Sales Volume (in 000 pcs)</b>	<b>4 248</b>	<b>3 803</b>
<b>Sales Revenues (LE million)</b>	<b>554.90</b>	<b>464.3</b>
Average Selling Price (LE/pc)	130.60	122.1
<b>Total Cost of Sales (LE million)</b>	<b>436.77</b>	<b>371.3</b>
<b>Gross Profit (LE million)</b>	<b>118.20</b>	<b>93.0</b>
<b><u>Tile Segment</u></b>		
<b><u>Sales Volumes (in 000 m<sup>2</sup>)</u></b>		
Egypt	16 961	15 712
Lebanon	1 497	1 201
Export	5 785	6 994
<b>Total Sales Volume (000 m<sup>2</sup>)</b>	<b>24 243</b>	<b>23 907</b>
<b>Sales Revenues (LE million)</b>	<b>523.80</b>	<b>463.5</b>
Average Selling Price (LE/ m <sup>2</sup> )	21.60	19.4
<b>Total Cost of Sales (LE million)</b>	<b>331.20</b>	<b>303.9</b>
<b>Gross Profit (LE million)</b>	<b>192.50</b>	<b>159.6</b>
<b><u>Brassware segment</u></b>		
<b><u>Sales volume (pcs)</u></b>		
Egypt	94 990	50 361
Export	7 442	590
<b>Total Sales Volume (PCS)</b>	<b>102 432</b>	<b>50 951</b>
<b>Sales Revenues (LE million)</b>	<b>31.20</b>	<b>13.3</b>
Average Selling Price (LE/ PC)	302.40	261.0
<b>Total Cost of Sales (LE million)</b>	<b>23.30</b>	<b>11.4</b>
<b>Gross Profit (LE million)</b>	<b>7.90</b>	<b>1.9</b>

Lecico Egypt (S.A.E.)

**Consolidated Financial Statements Notes For the period ended September 30, 2013****30. Personnel Cost**

The Personnel costs incurred during the Period ended September 30, 2013 amounted to LE 195.2 million (September 30, 2012: LE 162.6 million).

**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>30 September <u>2013</u></b>	<b>31 December <u>2012</u></b>
LE	12 874 592	12 287 273

**31.2. Letters of Credit**

<u>Currency</u>		
LE	14 115 748	12 177 120

**31.3.** The parent company guaranteed one of its overseas subsidiaries in the loan granted to this subsidiary by one of the French Banks (Banque Audi France). The referred to loan is capped at an amount of Euro 2 million (equivalent to LE 18.6 million). There was no outstanding balance under this loan at the consolidated financial statement date.

**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 3.9 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 capital commitment as at September 30, 2013 amounting to LE 4.4 million related to the purchase of fixed assets of the group (December 31, 2012: LE 13.5 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.

#### **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. Tax Status**

<u>Type of tax</u>	<u>Years</u>	<u>Status</u>
Corporate tax	From inception Till 2003	Tax dispute was finalized and all tax obligation was paid.
	2004/2007	The parent company's records were examined and the company was informed by tax claims till 2006 which were objected within the legal period.
	2008/2012	The parent company's records were not examined.
Salary tax	Till 2008	The parent company has obtained a final settlement and paid all the tax obligations for these years.
	2009/2012	The parent company's records were not examined yet.
Stamp duty	From inception Till 2004	Tax dispute was finalized and all tax obligation arisen was paid.
	From 2005 to 30/6/2006	The tax examination occurred, and the parent company was informed by tax claims and has objected during the legal period. The dispute was transferred to the internal committee of the tax department.
	From 1/7/2006 Till now	Not examined yet.
Sales tax	Till 2010	The tax examination occurred and were paid all the tax obligations arisen.
	2011/2012	The parent company's records were not examined yet.

**37. Subsequent Events**

Since Lecico bought Sarreguemes Batiment out of a bankruptcy procedure in 2006, the business has continued to suffer significant losses. Several management changes and restructuring actions have significantly reduced costs but without restoring profitability as difficult market conditions have eroded sales volumes partially offsetting the cost savings.

On October 31, 2013 Lecico started the process of Liquidation proceedings of all its French subsidiaries, consisting of Lecico France, Lecico Distribution and Sarreguemes Batiments. Lecico France and its subsidiaries therefore officially declared 'Cessation de Paiement' and filed with the "Tribunal de Commerce" to approve the commencement of reorganization proceedings under the management of the court appointed an administrator . The works' council of the French entities has been duly informed and consulted in respect of the process. Lecico France, Lecico Distribution and Sarreguemes Batiments will continue to trade during this period.

Upon receipt of the approval from the “Tribunal de Commerce”, Lecico surrendered the management of these companies to the administrator appointed by the court. Ownership of these companies and balances due from them will be written-off with total of approximately LE 130 million upon finalization of the formalities.

Included in the accompanying interim consolidated financial statements the following figures of Lecico France and its subsidiaries:

<u>Description</u>	<u>LE</u>
Long term assets	16 362 885
Current assets	139 525 334
Current liabilities	18 931 053
Sales	39 884 885
Gross profit	4 054 232
Net loss	(25 388 593)