

Lecico Egypt
(S.A.E.)

Consolidated Financial Statements
And Review Report
For The Period Ended September 30, 2018

Lecico Egypt
(S.A.E.)
Consolidated Financial Statements
And Review Report
For The Period Ended September 30, 2018

<u>Contents</u>	<u>Page no.</u>
- Review report	1-2
- Consolidated Financial Position	3
- Consolidated Statement of income	4
- Consolidated Statement of Comprehensive income	5
- Consolidated Statement of Changes In Shareholders' Equity	6
- Consolidated Cash Flows Statement	7
- Notes to the Consolidated Interim Financial Statements	8-33



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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 September 30, 2018 and the related consolidated statements of income and 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 September 30, 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


KPMG Hazem Hassan

Public Accountant
Alexandria on November 12, 2018

**Lecico Egypt
(S.A.E.)
Consolidated Financial Position at September 30, 2018**

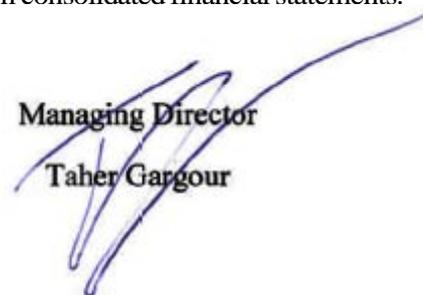
	Note No.	September 30, 2018 LE	December 31, 2017 LE
<u>Non-Current Assets</u>			
Property, plant and equipment	(11)	639 509 024	690 699 324
Projects in progress	(12)	52 265 272	21 866 338
Intangible assets	(13)	28 800 395	29 183 877
Other investments	(14)	13 352 482	13 221 600
Long-term notes receivable	(15)	22 290 689	27 144 059
Total Non-Current Assets		756 217 862	782 115 198
<u>Current Assets</u>			
Inventory	(16)	1 165 132 933	1 133 779 159
Trade and other receivables	(17)	937 645 236	782 930 154
Cash and cash equivalents	(18)	356 010 250	261 296 342
Total Current Assets		2 458 788 419	2 178 005 655
Total Assets		3 215 006 281	2 960 120 853
<u>Equity</u>			
Share capital	(20)	400 000 000	400 000 000
Reserves	(21)	574 104 097	558 501 332
Retained Earnings	(22)	19 831 656	38 524 669
Net (loss) profit for the period / year		(21 459 383)	37 220 802
Total equity attributable to equity holders of the company		972 476 370	1 034 246 803
Treasury shares	(23)	--	(48 182 065)
		972 476 370	986 064 738
Non-controlling Interests		18 875 142	18 665 774
Total Equity		991 351 512	1 004 730 512
<u>Non-Current Liabilities</u>			
Long term loans and borrowings	(24)	5 000 000	20 000 000
Deferred income tax	(26)	17 608 653	22 783 102
Provision	(27)	9 336 647	10 580 500
Total Non-Current Liabilities		31 945 300	53 363 602
<u>Current Liabilities</u>			
Banks overdrafts	(18)	1 615 184 422	1 390 477 701
Loans and borrowings	(28)	33 441 681	46 604 181
Trade and other payables	(29)	542 703 366	457 492 063
Provisions	(27)	380 000	7 452 794
Total Current Liabilities		2 191 709 469	1 902 026 739
Total Liabilities		2 223 654 769	1 955 390 341
Total Equity and Liabilities		3 215 006 281	2 960 120 853

- Notes from no (1) to no (37) are an integral part of these interim consolidated financial statements.
- Limited review attached,
- Date: November 12 , 2018

Finance Director
Mohamed Hassan



Managing Director
Taher Gargour



Lecico Egypt

(S.A.E.)

Consolidated Income Statement for the Period Ended September 30, 2018

	Note	2018		2017	
		From July 1, To September 30, <u>LE</u>	From January 1, To September 30, <u>LE</u>	From July 1, To September 30, <u>LE</u>	From January 1, To September 30, <u>LE</u>
Net sales		691 210 793	2 049 225 727	633 592 675	1 765 364 030
Cost of sales	(4)	(585 978 360)	(1 676 011 561)	(508 064 264)	(1 374 684 202)
Gross Profit		105 232 433	373 214 166	125 528 411	390 679 828
Other Income	(5)	4 810 251	91 331 112	4 264 226	12 382 668
Distribution Expenses		(41 150 610)	(120 608 515)	(39 715 903)	(110 444 384)
Administrative Expenses		(47 629 078)	(136 705 863)	(41 570 906)	(123 254 598)
Other Expenses	(6)	(15 972 379)	(37 188 396)	(12 737 161)	(33 290 375)
Results from operating activities		5 290 617	170 042 504	35 768 667	136 073 139
Investment income		5 091 458	5 094 607	6 390 533	6 393 053
Finance income	(7)	1 352 585	4 313 234	2 929 235	17 927 092
Finance expenses	(8)	(57 743 399)	(180 771 295)	(44 579 672)	(110 691 828)
(Loss) / Profit before tax		(46 008 739)	(1 320 949)	508 763	49 701 456
Current income tax expense	(9)	(8 531 443)	(29 205 501)	(4 024 922)	(19 815 395)
Deferred income tax		333 395	5 200 696	482 881	837 573
Net (loss) Profit for the Period		(54 206 787)	(25 325 754)	(3 033 278)	30 723 634
Attributable to :					
(Loss) Profit equity holders of the company		(50 774 210)	(21 459 383)	(5 177 736)	27 162 831
Non-controlling interests		(3 432 577)	(3 866 371)	2 144 458	3 560 803
Net (loss) / profit for the period		(54 206 787)	(25 325 754)	(3 033 278)	30 723 634
(Loss) earnings per share (LE/Share)	(10)		(0.27)		0.36

▪ 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 September 30, 2018**

	2018		2017	
	From July 1, to September 30, <u>LE</u>	From January 1, to September 30, <u>LE</u>	From July 1, to September 30, <u>LE</u>	From January 1, to September 30, <u>LE</u>
<u>Other Comprehensive Income</u>				
Net (loss) profit for the period	(54 206 787)	(25 325 754)	(3 033 278)	30 723 634
<u>Items that may be reclassified subsequently to income statement</u>				
Foreign operations – Foreign currency translation differences	991 000	22 384 790	(4 385 021)	(1 353 412)
Total comprehensive income	<u>(53 215 787)</u>	<u>(2 940 964)</u>	<u>(7 418 299)</u>	<u>29 370 222</u>
<u>Total comprehensive income attributable to :</u>				
Equity holders of the company	(50 398 615)	(5 856 619)	(9 295 230)	18 701 980
Non-controlling interests	(2 817 172)	2 915 655	1 876 931	10 668 242
Total comprehensive income	<u>(53 215 787)</u>	<u>(2 940 964)</u>	<u>(7 418 299)</u>	<u>29 370 222</u>

- 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 September 30, 2018

	Note	Issued & Paid up Capital	Reserves	Retained Earnings	Net profit / (Loss) for the period	Treasury shares	Equity of the parent company's shareholders	Non- controlling Interests	Total Equity
	No.	LE	LE	LE	LE	LE	LE	LE	LE
Balance at December 31, 2016		400 000 000	579 743 746	65 577 244	(50 118 842)	--	995 202 148	5 242 453	1 000 444 601
Transfer to retained earnings		--	--	(50 118 842)	50 118 842	--	--	--	--
Transfer to legal reserve		--	1 395 151	(1 395 151)	--	--	--	--	--
Acquiring treasury shares		--	--	--	--	(48 182 065)	(48 182 065)	--	(48 182 065)
Adjustments		--	--	24 293 223	--	--	24 293 223	(14 411 253)	9 881 970
Translation adjustment of foreign subsidiaries		--	(8 460 852)	--	--	--	(8 460 852)	7 107 439	(1 353 413)
Net Loss for the period		--	--	--	27 162 831	--	27 162 831	3 560 803	30 723 634
Balance at September 30, 2017		400 000 000	572 678 045	38 356 474	27 162 831	(48 182 065)	990 015 285	1 499 442	991 514 727
Balance at December 31, 2017		400 000 000	558 501 332	38 524 669	37 220 802	(48 182 065)	986 064 738	18 665 774	1 004 730 512
Transfer to retained earnings		--	--	37 220 802	(37 220 802)	--	--	--	--
Distributing treasury shares as stock dividends is the parent's shareholders		--	--	(48 182 065)	--	48 182 065	--	--	--
Adjustments		--	--	(7 731 750)	--	--	(7 731 750)	(2 706 287)	(10 438 037)
Translation adjustment of foreign subsidiaries		--	15 602 765	--	--	--	15 602 765	6 782 026	22 384 790
Net profit for the Period		--	--	--	(21 459 383)	--	(21 459 383)	(3 866 371)	(25 325 754)
Balance at September 30, 2018		400 000 000	574 104 096	19 831 656	(21 459 383)	--	972 476 370	18 875 142	991 351 512

▪ 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 September 30, 2018

	Note	September 30, 2018	September 30, 2017
	<u>No.</u>	<u>LE</u>	<u>LE</u>
<u>Cash Flow from Operating Activities</u>			
Net profit for the period		(21 459 383)	27 162 831
<u>Adjustments Provided to Reconcile Net loss to Net Cash Provided by Operating Activities</u>			
Fixed assets depreciation and translation differences	(11)	79 161 539	76 693 037
Intangible assets amortization and translation differences		383 482	(470 108)
Provided provisions and translation differences		--	19 432 739
Employees' participation in net profit		36 542 718	27 133 521
Long term prepaid rent expense		--	157 335
Capital (gain) loss		(50 910 451)	1 668 749
Income tax expense		29 205 501	19 815 395
Deferred income tax		(5 174 449)	(598 092)
Reversal of inventory impairment		(55 240)	(961 714)
Discounting of long term notes receivables		(2 556 630)	(566 311)
Increase in non-controlling interests		209 368	(3 743 011)
Change in translation reserve		7 871 014	15 832 363
		<u>100 449 595</u>	<u>181 556 734</u>
<u>Changes in Working Capital</u>			
Change in inventory		(31 434 317)	(194 844 945)
Change in receivables		(155 605 535)	(70 884 133)
Change in payables		66 355 802	68 611 274
Paid income tax		11 153 968	(12 367 232)
Utilized provisions		(32 859 288)	(34 939 131)
Net cash used in operating activities		<u>65 952 711</u>	<u>(62 867 433)</u>
<u>Cash Flow from Investing Activities</u>			
Payments for acquiring property, plant & equipment		68 430 975	(83 288 136)
Proceeds from other current investments		(130 882)	429 002
Proceeds from selling property, plant & equipment		61 013 000	1 592 073
Decrease in long-term notes receivable		7 410 000	4 650 000
Net cash from (used in) investing activities		<u>(138 857)</u>	<u>(76 617 061)</u>
<u>Cash Flow from Financing Activities</u>			
(Payments) for long term loans		(28 162 500)	(36 566 250)
Payments to acquire treasury shares		--	(48 182 065)
Payments for employees' share in net profit		(35 738 745)	(34 295 600)
Net cash used in financing activities		<u>(63 901 245)</u>	<u>(119 043 915)</u>
Net change in cash and cash equivalents during the period		<u>(129 992 813)</u>	<u>(258 528 409)</u>
Cash and cash equivalents at first of January	(18)	<u>(1 129 181 359)</u>	<u>(826 994 925)</u>
Cash and cash equivalents at end of September 30	(18)	<u>(1 259 174 172)</u>	<u>(1 085 523 334)</u>

- 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 September 30, 2018

1- Reporting Entity

The consolidated financial statements of the company as at and for the period ended September 30, 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	
		30/9/2018	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

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).

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2018

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

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2018

3- Information about operating Segments

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

	September 30, 2018	September 30, 2017
<u>First: Sanitary ware Segment</u>		
<u>Sales Volume (in 000 pcs)</u>		
Egypt	1 332	1 406
Lebanon	82	109
Export	2 603	2 231
Total Sales Volume (in 000 pcs)	4 017	3 746
Sales Revenues (Million LE)	1 239.5	1 092.9
Average Selling Price (LE/pc)	308.5	291.8
Total Cost of Sales (Million LE)	935.87	740.74
Gross Profit (Million LE)	303.6	352.1
<u>Second: Tile Segment</u>		
<u>Sales Volume (in 000 m²)</u>		
Egypt	15 411	14 720
Lebanon	346	427
Export	3 501	2 330
Total Sales Volume (000 m²)	19 288	17 477
Sales Revenues (Million LE)	752.1	614.7
Average Selling Price (LE/ m ²)	39.0	35.2
Total Cost of Sales (Million LE)	701.2	599.2
Gross (Loss) Profit (Million LE)	50.9	15.5
<u>Third: Brassware segment</u>		
<u>Sales volume (pcs)</u>		
Egypt	71 287	82 401
Export	1 924	160
Total Sales Volume (PCS)	73 211	82 561
Sales Revenues (Million LE)	57.6	57.8
Average Selling Price (LE/ PC)	7872	700.6
Total Cost of Sales (Million LE)	38.9	34.5
Gross Profit (Million LE)	18.7	23.3

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2018

4- Cost of sales before reclassification

	2018		2017	
	From July 1, To September 30, <u>LE</u>	From January 1, To September 30, <u>LE</u>	From July 1, To September 30, <u>LE</u>	From January 1, To September 30, <u>LE</u>
Cost of sales before reclassification	572 491 533	1 640 572 790	499 463 302	1 348 434 730
<u>Add:</u>				
Employees' share in net profit	13 486 827	35 438 771	8 600 962	26 249 472
	585 978 360	1 676 011 561	508 064 264	1 374 684 202

5- Other Income

Capital Gains – net	900	50 910 451	--	--
Scrap Sales	2 134 354	6 293 714	1 402 139	4 872 529
Other Revenues	2 101 961	31 570 317	3 852 901	6 943 828
Discounting long term notes receivables to its present value	573 036	2 556 630	(939 640)	566 311
Reversal of expired provision	--	--	(51 174)	--
	4 810 251	9 133 182	4 264 226	12 382 668

6- Other Expenses

Capital loss – net	--	--	1 668 749	1 668 749
Provided for potential losses and claims provision	7 987 985	24 472 625	8 170 665	23 268 870
Amortization of Intangible Assets	(3 316)	--	12 442	23 651
Miscellaneous expenses	6 107 813	7 110 695	283 505	1 384 012
Remuneration of the parent company's board of directors	1 879 897	5 605 076	2 601 800	6 945 093
	15 972 379	37 188 396	12 737 161	33 290 375

7- Finance Income

Interest revenues	1 352 585	4 313 234	1 883 549	6 326 297
Foreign exchange differences	--	--	1 045 686	11 600 795
	1 352 585	4 313 234	2 929 235	17 927 092

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2018

8- Finance Expenses

	<u>2018</u>		<u>2017</u>	
	From July 1, To September 30, <u>LE</u>	From January 1, To September 30, <u>LE</u>	From July 1, To September 30,	From January 1, To September 30,
Interest expenses	55 845 348	173 947 376	44 579 672	110 691 828
Foreign exchange differences	1 898 051	6 823 919	--	--
	<u>57 743 399</u>	<u>180 771 295</u>	<u>44 579 672</u>	<u>110 691 828</u>

9- Current income tax

Current income tax for the period	8 531 443	29 100 726	4 024 992	15 891 895
Dividends' Tax	--	104 775	--	3 923 500
	<u>8 531 443</u>	<u>29 205 501</u>	<u>4 024 922</u>	<u>19 815 395</u>

10- (Loss) / Earnings Per Share

The (loss) earning per share for the period ended September 30, 2018 was computed as follows:

	September 30, 2018	September 30, 2017
Net (loss) profit for the period (in LE)	(21 459 383)	27 162 831
Weighted average of the number of outstanding shares	80 000 000	76 666 667
Earnings per share (LE / share)	<u>(0.27)</u>	<u>0.36</u>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the period ended September 30, 2018

11- Property, plant and equipment

	Land	Buildings	Leasehold Improvements	Machinery & Equipment	Motor Vehicles	Tools	Furniture, Office Equipment & Computers	Total
<u>Cost</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
At 01/01/2018	175 396 704	415 525 396	14 503 854	1 177 749 400	73 077 430	132 022 431	37 323 896	2 025 599 111
Translation differences	(3 892)	(1 180 991)	(85 587)	1 908 487	(42 656)	--	63 827	659 188
Period additions	--	9 882 785	501 965	11 249 558	2 369 135	13 205 673	821 425	38 030 541
Period disposals	(10 093 140)	--	--	(2 298 228)	(35 000)	--	(13 645)	(12 440 013)
At 30/9/2018	165 299 672	424 227 190	14 920 232	1 188 609 217	75 368 909	145 228 104	38 195 503	2 051 848 827
<u>Accumulated Depreciation</u>								
At 01/01/2018	--	199 203 165	10 697 679	924 454 014	67 093 940	100 518 683	32 932 296	1 334 899 777
Translation differences	--	(514 706)	(66 002)	1 783 706	27 512	--	58 021	1 288 531
Period depreciation	--	13 650 733	1 687 650	50 284 199	2 263 799	9 536 798	1 066 380	78 489 559
Accumulated depreciation of disposals	--	--	--	(2 298 228)	(35 000)	--	(4 836)	(2 338 064)
At 30/9/2018	--	212 339 192	12 319 237	974 223 691	69 350 251	110 055 481	34 051 861	1 412 339 803
<u>Net Book Value at</u>								
At 30/9/2018	165 299 672	211 887 998	2 600 905	214 385 526	6 018 658	35 172 623	4 143 642	639 509 024

- 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 September 30, 2018

	Land	Buildings	Leasehold Improvements	Machinery & Equipment	Motor Vehicles	Tools	Furniture, Office Equipment & Computers	Total
<u>Cost</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
At 01/01/2017	168 814 987	404 105 737	12 882 851	1 144 963 409	72 199 566	116 145 081	35 883 276	1 954 994 907
Translation differences	408 167	4 834 561	220 197	(5 626 601)	(331 657)	--	(160 519)	(655 852)
Year additions	6 173 550	10 429 616	1 400 806	68 932 444	1 529 411	15 877 350	1 603 538	105 946 715
Year disposals	--	(3 844 518)	--	(30 519 862)	(319 890)	--	(2 399)	(34 686 669)
At 31/12/2017	175 396 704	415 525 396	14 503 854	1 177 749 390	73 077 430	132 022 431	37 323 896	2 025 599 101
<u>Accumulated Depreciation</u>								
At 01/01/2017	--	180 913 647	7 647 716	892 045 133	64 426 643	89 006 285	31 713 864	1 265 753 288
Translation differences	--	1 479 916	133 705	(5 206 239)	(350 807)	--	(160 558)	(4 103 983)
Year depreciation	--	17 377 594	2 916 258	68 126 620	3 262 927	11 512 398	1 379 930	104 575 727
Disposals' accumulated depreciation	--	(567 992)	--	(30 511 500)	(244 823)	--	(940)	(31 325 255)
At 31/12/2017	--	199 203 165	10 697 679	924 454 014	67 093 940	100 518 683	32 932 296	1 334 899 777
<u>Net Book Value at</u>								
At 31/12/2017	175 396 704	216 322 231	3 806 175	253 295 376	5 983 490	31 503 748	4 391 600	690 699 324
At 31/12/2016	168 814 987	223 192 090	5 235 135	252 918 276	7 772 923	27 138 796	4 169 412	689 241 619

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2018

12- Projects In Progress

	September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Machinery under installation	42 088 065	5 241 816
Buildings under construction	6 832 375	165 960
Advance payments for purchasing fixed assets	552 503	2 103 753
Letter of credit for purchase fixed assets	2 792 329	14 354 809
	<u>52 265 272</u>	<u>21 866 338</u>

13- Intangible Assets

	Goodwill <u>LE</u>	Trademarks <u>LE</u>	Development & Other Costs <u>LE</u>	Other Intangibles <u>LE</u>	Total <u>LE</u>
Cost					
Balance at 01/01/2018	26 477 797	63 823	13 114 069	2 216 918	41 872 607
Translation differences	(280 132)	(2 200)	(372 049)	21 838	(632 543)
Balance at 30/9/2018	<u>26 197 665</u>	<u>61 623</u>	<u>12 742 020</u>	<u>2 238 756</u>	<u>41 240 064</u>

Amortisation & Impairment

Losses

Balance at 01/01/2018	--	50 626	12 638 104	--	12 688 730
Translation differences	--	(1 939)	(363 196)	--	(365 135)
Period amortisation	--	4 956	111 118	--	116 074
Balance at 30/9/2018	--	<u>53 643</u>	<u>12 386 026</u>	--	<u>12 439 669</u>
Carrying Amount at 30/9/2018	<u>26 197 665</u>	<u>7 980</u>	<u>355 994</u>	<u>2 238 756</u>	<u>28 800 395</u>
Carrying Amount at 31/12/2017	<u>26 477 797</u>	<u>13 197</u>	<u>475 965</u>	<u>2 216 918</u>	<u>29 183 877</u>

14- Other Investments

	Ownership %	September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Murex Industries and Trading (S.A.L.)	40.0	13 330 826	13 200 788
El-Khaleeg for Trading and Investment	99.9	99 900	99 900
Other Investments	--	21 656	20 812
		<u>13 452 382</u>	<u>13 321 500</u>
(Less):-			
Impairment of investment in "El- Khaleeg for Trading and Investment"		(99 900)	(99 900)
		<u>13 352 482</u>	<u>13 221 600</u>

15- Long term notes receivables

Face value of long term notes receivables	27 440 000	34 850 000
Discounting notes receivables to its present value*	(5 149 311)	(7 705 941)
Present value of long term notes receivables	<u>22 290 689</u>	<u>27 144 059</u>

* 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 September 30, 2018

16- Inventory

	Note No,	September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Raw materials, consumables and spare parts		389 608 848	329 685 286
Work in process		75 918 272	77 945 641
Finished products		701 907 999	730 862 343
		<u>1 167 435 119</u>	<u>1 138 493 270</u>
Less:			
Impairment of inventory		(33 597 117)	(33 516 574)
		<u>1 133 838 002</u>	<u>1 104 976 696</u>
Letters of credit for purchasing inventory		31 294 931	28 802 463
		<u>1 165 132 933</u>	<u>1 133 779 159</u>

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

	Balance in 1/1/2018 <u>LE</u>	Translation Differences <u>LE</u>	Impairment Reversal <u>LE</u>	Balance in 30/9/2018 <u>LE</u>
Impairment of inventory	33 516 576	135 781	(55 240)	33 597 117
	<u>33 516 576</u>	<u>135 781</u>	<u>(44 240)</u>	<u>33 597 117</u>

17- Trade and other receivables

		September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Trade Receivables		685 592 964	600 165 542
Notes Receivable		119 578 096	103 972 898
Sundry Debtors		55 920 148	49 896 511
Suppliers – Debit Balances		3 075 495	497 552
Due from related parties - net	(30)	35 022 479	38 678 906
Tax Administration – Tax withheld		489 856	446 520
Tax Administration – Advance payment		7 404 353	6 117 065
Tax Administration – Sales tax		16 009 454	6 859 712
Other Debit Balances		123 579 412	90 264 321
Other prepaid expenses		14 375 448	8 337 058
Accrued Revenues		160 955	367 040
		<u>1 061 208 660</u>	<u>905 603 125</u>
Less:			
Impairment of Receivables		(123 563 424)	(122 672 971)
		<u>937 645 236</u>	<u>782 930 154</u>

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

	Balance in 1/1/2018 <u>LE</u>	Translation Differences <u>LE</u>	Balance in 30/9/2018 <u>LE</u>
Impairment of receivables	122 672 971	890 453	123 563 424
	<u>122 672 971</u>	<u>890 453</u>	<u>123 563 424</u>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2018

Transactions with Key Management

- The balances of the Board of Directors of the Parent Company amounted to LE 50 000 (debit balances), LE 1 430 (credit balances) as at September 30, 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 September 30, 2018 charged to the other operating expenses in the consolidated income statement amounted to LE 5 605 076 (September 30, 2017: LE 6 945 093).

18- Cash and cash equivalents

	September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Banks - Time Deposits	274 783 314	190 216 079
Banks - Current Accounts	60 530 880	63 366 395
Cash On Hand	20 696 056	7 713 868
	356 010 250	261 296 342
<u>Less:</u>		
Bank Overdrafts	(1 615 184 422)	(1 390 477 701)
Cash and cash equivalent for the purpose of cash flows statement	(1 259 174 172)	(1 129 181 359)

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 2 094 439 000 and the unutilized amount is LE 833 751 543.

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the period ended September 30, 2018

21- Reserves

	Legal Reserve <u>LE</u>	Other* Reserves <u>LE</u>	Special Reserve Premium <u>LE</u>	Land** Revaluation Surplus <u>LE</u>	Translation Reserve <u>LE</u>	Total <u>LE</u>
Balance at December 31, 2016	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	--	--	--	--	(8 460 852)	(8 460 852)
Balance at September 30, 2017	<u>50 915 481</u>	<u>15 571 032</u>	<u>181 164 374</u>	<u>52 765 085</u>	<u>272 262 073</u>	<u>572 678 045</u>
Balance at December 31, 2017	50 915 481	15 571 032	181 164 374	52 765 085	258 085 360	558 501 332
Translation adjustment for foreign subsidiaries	--	--	--	--	15 602 764	15 602 764
Balance at September 30, 2018	<u>50 915 481</u>	<u>15 571 032</u>	<u>181 164 374</u>	<u>52 765 085</u>	<u>273 688 124</u>	<u>574 104 096</u>

* 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, 2018

22- Retained Earnings

At September 30, 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	September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Acquisition cost of the parent company's shares acquired on August 1 st 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
		<u> -- </u>	<u> 48 182 065 </u>

The General Assembly of the parent company's shareholders had resolved on March 28, 2018 to distribute the treasury shares to its shareholders as stock dividends on the rate of one share as stock dividends per 9 original shares, taking into consideration to round up fractions for the favor of minor shareholders. The "Financial Regulatory Authority" approved this distribution on May 30, 2018. "Misr for Central Clearing, Depository & Registry" executed this distribution in the "Egyptian Stock Exchange" on July 9, 2018. The treasury shares balance was charged to the retained earnings in the parent company's books.

24- Loans and borrowings

- **Commercial International Bank (CIB)**

	September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
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.	25 000 000	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 5 consecutive quarterly installments starting from October 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 750 thousands. The loan will be repaid through September and December, 2018. The interest rate is variable and equal the LIBOR rate for 3 months plus margin.	13 432 500	26 595 000
Total	<u> 38 432 500 </u>	<u> 66 595 000 </u>
Less:		
Installments due within one year which are classified as current liabilities (note 28).	(33 432 500)	(46 595 000)
	<u> 5 000 000 </u>	<u> 20 000 000 </u>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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

25- Other Long-Term Liabilities

	September 30, 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>
Less :		
Installments due within one year which are classified as current liabilities (Note 28).	(9 181)	(9 181)
Total Other Long-Term Liabilities	<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:

	30/9/2018		31/12/2017	
	Assets <u>LE</u>	Liabilities <u>LE</u>	Assets <u>LE</u>	Liabilities <u>LE</u>
Accumulated losses carried forward	857 907	--	884 154	--
Property, plant and equipment	--	22 504 481	--	27 543 519
Inventory	4 037 921	--	3 876 263	--
Total Deferred Income tax (assets) / liabilities	<u>4 895 828</u>	<u>22 504 481</u>	<u>4 760 417</u>	<u>27 543 519</u>
Net Deferred Income Tax Liabilities	<u><u>--</u></u>	<u><u>17 608 653</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 30/9/2018 <u>LE</u>
Provisions Disclosed in the Non-Current Liabilities					
End of Service Indemnity Provision	7 430 440	46 663	--	(358 854)	7 118 255
Claims provision	3 150 060	23 347	--	(955 015)	2 218 392
	<u>10 580 500</u>	<u>70 011</u>	<u>--</u>	<u>(1 313 869)</u>	<u>9 336 647</u>
Provision Disclosed in the Current Liabilities					
Potential Losses and Claims Provision	7 452 794	--	24 472 625	(31 545 419)	380 000
	<u>7 452 794</u>	<u>--</u>	<u>24 472 625</u>	<u>(31 545 419)</u>	<u>380 000</u>
Total	<u><u>18 033 294</u></u>	<u><u>70 011</u></u>	<u><u>24 472 625</u></u>	<u><u>(32 859 288)</u></u>	<u><u>9 716 647</u></u>

28- Loans and borrowings

	September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Current portion of long-term loan	33 432 500	46 595 000
Current portion of other long-term liabilities	9 181	9 181
	<u>33 441 681</u>	<u>46 604 181</u>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

29- Trade and other payables

	Note No.	September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Trade payable		155 688 580	149 022 800
Notes payable		64 368 068	36 752 214
Due to related parties	(30)	2 195 558	2 105 730
Social insurance authority and tax authority		10 760 202	12 831 360
Income tax payable		27 736 731	9 685 198
Accrued expenses		155 641 425	127 082 414
Deposits due to others		24 701	24 701
Sundry creditors		60 787 731	52 378 997
Sales Tax Administration - Current account		12 180 958	17 104 696
Dividends payable		389 929	389 929
Creditors for purchasing fixed assets		1 764 280	1 789 030
Profit sharing provision for employees of certain group companies		45 490 147	44 686 177
Liabilities arisen from foreign currencies hedge contracts		5 675 056	3 638 817
		<u>542 703 366</u>	<u>457 492 063</u>

30- Related Parties

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

	<u>Nature of Transaction</u>	Transaction Amount <u>LE</u>	September 30, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
<u>Due from Related Parties</u>				
Murex Industries and Trading (S.A.L)	Sales	72 892 876	35 022 479	38 619 918
	Notes Receivables	--	--	58 988
			<u>35 022 479</u>	<u>38 678 906</u>
El-khaleeg for Trading and Investment	Current	--	300 100	300 100
			<u>35 322 579</u>	<u>38 979 006</u>
			(300 100)	(300 100)
			<u>35 022 479</u>	<u>38 678 906</u>
<u>Due to Related Parties</u>				
Murex Industries and Trading (S.A.L)	Purchases	7 147 537	575 674	703 882
LIFCO	Rent	--	1 069 254	1 058 824
Ceramics Management Services Ltd. (CMS)	Technical Assistance Fees	--	550 630	343 024
			<u>2 195 558</u>	<u>2 105 730</u>
			<u>2 195 558</u>	<u>2 105 730</u>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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>	September 30, 2018	December 31, 2017
LE	19 880 732	17 846 547

31-2 Letters of Credit

<u>Currency</u>	September 30, 2018	December 31, 2017
LE	10 950 835	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 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

There were no capital commitments as at September 30, 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.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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 September 30, 2018

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2018

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.