

Lecico Egypt
(S.A.E.)
Consolidated Financial Statements
And Review Report
For The Period Ended September 30, 2019

Lecico Egypt Lecico Egypt
(S.A.E.)
Consolidated Financial Statements
And Review Report
For The Period Ended September 30, 2019

<u>Contents</u>	<u>Page no.</u>
- Limited 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 Financial Statements	8-34



Hazem Hassan

Public Accountants & Consultants

12, Nouh Effendi St., from Sultan Hussein St.,
El Pharaana
Alexandria

Telephone: (203) 485 32 51 / 485 32 52
Telefax : (203) 485 32 50

Report on Limited Review of Interim Consolidated Financial Statements

To the Board of Directors 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, 2019 and the related consolidated statements of income and other comprehensive income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our limited review.

Scope of Limited Review

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

Conclusion

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2019, 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
KPMG Hazem Hassan
Public Accountants and consultants
Hossam Abdel Wahab

CPA no. 8581

Capital Market Register No. 380

Alexandria on November 13, 2019

**Lecico Egypt
(S.A.E.)
Consolidated Financial Position at September 30, 2019**

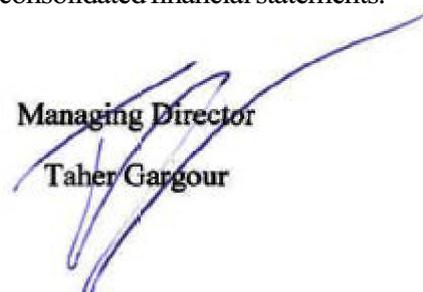
	Note No.	September 30, 2019 LE	December 31, 2018 LE
<u>Non-Current Assets</u>			
Property, plant and equipment	(11)	604 577 593	676 839 170
Projects in progress	(12)	44 453 317	6 193 098
Intangible assets	(13)	27 981 372	31 812 753
Other investments	(14)	12 131 713	13 352 482
Long-term notes receivable	(15)	24 505 081	16 167 323
Total Non-Current Assets		<u>713 649 076</u>	<u>744 364 826</u>
<u>Current Assets</u>			
Inventory	(16)	1 014 640 391	1 087 160 690
Trade and other receivables	(17)	726 795 092	788 153 388
Cash and cash equivalents	(18)	133 006 587	186 869 031
Total Current Assets		<u>1 874 442 070</u>	<u>2 062 183 109</u>
Total Assets		<u>2 588 091 146</u>	<u>2 806 547 935</u>
<u>Equity</u>			
Share capital	(20)	400 000 000	400 000 000
Reserves	(21)	467 210 859	573 385 524
Retained Earnings	(22)	16 999 846	21 302 879
Net (Loss) for the period /year		(203 008 400)	(114 332 969)
Total equity attributable to equity holders of the company		<u>681 202 305</u>	<u>880 355 434</u>
Non-controlling interest		16 629 101	22 752 335
Total Equity		<u>697 831 406</u>	<u>903 107 769</u>
<u>Non-Current Liabilities</u>			
Loans and borrowings	(23)	58 572 000	--
Non-current liability arisen from leased assets	(24)	4 964 648	--
Deferred income tax	(25)	24 568 146	23 361 118
Provisions	(26)	8 582 928	9 319 107
Total Non-Current Liabilities		<u>96 687 722</u>	<u>32 680 225</u>
<u>Current Liabilities</u>			
Banks overdrafts	(18)	1 234 874 376	1 332 049 775
Loans and borrowings	(27)	24 533 181	20 009 181
Current installments due next year of leased assets	(24)	2 292 586	--
Trade and other payables	(28)	530 523 377	517 920 985
Provisions	(26)	1 348 498	780 000
Total Current Liabilities		<u>1 793 572 018</u>	<u>1 870 759 941</u>
Total Liabilities		<u>1 890 259 740</u>	<u>1 903 440 166</u>
Total Equity and Liabilities		<u>2 588 091 146</u>	<u>2 806 547 935</u>

- Notes from no (1) to no (36) are an integral part of these interim consolidated financial statements.
- Review report attached,
- Date: November 13, 2019.

Finance Director
Mohamed Hassan



Managing Director
Taher Gargour



Lecico Egypt

(S.A.E.)

Consolidated Income Statement for the Period Ended September 30, 2019

	Note	2019		2018	
		From July 1, To September 30, LE	From January 1, To September 30, LE	From July 1, To September 30, LE	From January 1, To September 30, LE
Net sales		590 831 848	1 827 480 679	691 210 793	2 049 225 727
Cost of sales	(4)	(536 141 426)	(1 590 722 359)	(585 978 360)	(1 676 011 561)
Gross Profit		54 690 422	236 758 320	105 232 433	373 214 166
Other Income	(5)	3 041 882	10 305 170	4 810 251	91 331 112
Distribution Expenses		(35 514 713)	(110 103 393)	(41 150 610)	(120 608 515)
Administrative Expenses		(45 535 126)	(136 326 805)	(47 629 078)	(136 705 863)
Other Expenses	(6)	(10 289 307)	(31 846 888)	(15 972 379)	(37 188 396)
Results from operating activities		(33 606 842)	(31 213 596)	5 290 617	170 042 504
Investment income		2 412 296	4 904 393	5 091 458	5 094 608
Finance income	(7)	963 201	3 414 744	1 352 585	4 313 234
Finance expenses	(8)	(52 101 514)	(157 168 524)	(57 743 399)	(180 771 295)
Loss before tax		(82 332 859)	(180 062 983)	(46 008 739)	(1 320 949)
Current income tax expense	(9)	(4 353 631)	(21 065 248)	(8 531 443)	(29 205 501)
Deferred income tax		(327 483)	(1 545 725)	333 395	5 200 696
Net loss for the Period		(87 013 973)	(202 673 956)	(54 206 787)	(25 325 754)
Attributable to :					
Equity holders of the company		(88 062 500)	(203 008 400)	(50 774 210)	(21 459 383)
Non-controlling interests		1 048 527	334 444	(3 432 577)	(3 866 371)
Net loss for the period		(87 013 973)	(202 673 956)	(54 206 787)	(25 325 754)
Losses per share (LE/Share)	(10)		(2.54)		(0.27)

- Notes from no (1) to no (36) 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, 2019**

	2019		2018	
	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 for the period	(87 013 973)	(202 673 956)	(54 206 787)	(25 325 754)
<u>Items that may be reclassified subsequently to income statement</u>				
Foreign operations – Foreign currency translation differences	(2 599 778)	(100 156 452)	991 000	22 384 790
Total other comprehensive income	<u>(89 613 751)</u>	<u>(302 830 408)</u>	<u>(53 215 787)</u>	<u>(2 940 964)</u>
<u>Total comprehensive income attributable to :</u>				
Equity holders of the company	(90 654 222)	(309 183 065)	(50 398 615)	(5 856 619)
Non-controlling interests	1 040 471	6 352 657	(2 817 172)	2 915 655
Total other comprehensive income	<u>(89 623 751)</u>	<u>(302 830 408)</u>	<u>(53 215 787)</u>	<u>(2 940 964)</u>

- Notes from no (1) to no (36) 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, 2019

	Note No.	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
		<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
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 to the shareholders		--	--	(48 182 065)	--	48 182 065	--	--	--
Adjustments	(23)	--	--	(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	22 384 791
Net loss for the Period		--	--	--	(21 459 383)	--	(21 459 383)	(3 866 371)	(25 325 754)
Balance at September 30, 2018		400 000 000	574 104 097	19 831 656	(21 459 383)	--	972 476 370	18 875 142	991 351 512
Balance at December 31, 2018		400 000 000	573 385 524	21 302 879	(114 332 969)	--	880 355 434	22 752 335	903 107 769
Transfer to retained earnings		--	--	(114 332 969)	114 332 969	--	--	--	--
Cumulative effect of applying IFRS (16) on lease contracts		--	--	(1 773 534)	--	--	(1 773 534)	--	(1 773 534)
Adjustments		--	--	111 803 470	--	--	111 803 470	(12 475 891)	99 327 579
Translation adjustment of foreign subsidiaries		--	(106 174 665)	--	--	--	(106 174 665)	6 018 213	(100 156 452)
Net loss for the Period		--	--	--	(203 008 400)	--	(203 008 400)	334 444	(202 673 956)
Balance at September 30, 2019		400 000 000	467 210 859	16 999 846	(203 008 400)	--	681 302 305	16 629 101	697 831 406

▪ Notes from no (1) to no (36) 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, 2019

	Note	September 30, 2019	September 30, 2018
	No.	LE	LE
Cash Flow from Operating Activities			
Net (loss)/ profit for the period		(203 008 400)	(21 459 383)
Adjustments Provided to Reconcile Net loss to Net Cash Provided by Operating Activities			
Fixed assets depreciation and translation differences	(11)	89 722 129	79 161 539
Intangible assets amortization and translation differences		2 394 613	383 482
Provided provisions and translation differences		5 415 345	25 568 873
Employees participation in net profit		44 988 044	36 542 718
Net of capital gains		(85 965)	(50 910 451)
		855 714	--
Income tax expense		21 065 248	29 205 501
Deferred tax		1 207 028	(5 174 449)
Reversal of inventory impairment		(73 782)	(55 240)
Discounting of long term notes receivables		2 712 242	(2 556 630)
Change in non-controlling interests		(6 123 234)	209 368
Change in translation reserve		5 628 826	7 871 014
		(35 302 192)	98 744 595
Changes in Working Capital			
Change in inventory		73 863 792	(31 434 317)
Change in receivables		70 836 876	(155 605 535)
Change in payables		30 123 676	66 355 802
Paid income tax		(36 635 661)	(11 153 968)
Utilized provisions		(16 331 320)	(32 859 288)
Net cash used in operating activities		86 555 171	(65 952 711)
Cash Flow from Investing Activities			
Payments for acquiring property, plant & equipment		(48 824 041)	(68 430 975)
Proceeds (payments) from/ to other current investments		(702 524)	(130 882)
		1 220 769	--
Proceeds from selling property, plant & equipment and intangibles		1 488 623	61 013 000
(Increase) Decrease in long-term notes receivable		(11 050 000)	7 410 000
Net cash (used in) from investing activities		(57 867 173)	(138 857)
Cash Flow from Financing Activities			
Proceeds (payments) from/to long term loans		63 096 000	(28 162 500)
Payments for employees' share in net profit		(48 471 042)	(35 738 745)
Net cash from (used in) financing activities		14 624 958	(63 901 248)
Net change in cash and cash equivalents during the period		43 312 956	(129 992 816)
Cash and cash equivalents at beginning of period	(18)	(1 145 180 744)	(1 129 181 359)
Cash and cash equivalents at the end of period	(18)	(1 101 867 788)	(1 259 174 175)

- The notes from no. (1) to no. (36) 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, 2019

1- Reporting Entity

The consolidated financial statements of the company as at and for the period ended September 30, 2019 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 the investment law no. 72 of 2017 that superseded law no. 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	
		30/9/2019	31/12/2018
		%	%
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
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
Sarguemines (S.A.E) (previously named “Lecico Plus for Trading”)	Egypt	99.85	99.85
Burg Armaturen Fabrik Sarrdesign (S.A.E.)	Egypt	69.85	69.85

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2019

2- Basis of Preparation

2-1 Statement of Compliance

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

2-2 Functional and presentation currency

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

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

2-3 Use of Estimates and Judgments

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

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

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, 2019

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, 2019	September 30, 2018
<u>First: Sanitary ware Segment</u>		
<u>Sales Volume (in 000 pcs)</u>		
Egypt	1 116	1 332
Lebanon	99	82
Export	2 395	2 603
Total Sales Volume (in 000 pcs)	3 610	4 017
Sales Revenues (Million LE)	1 109.4	1 239.5
Average Selling Price (LE/pc)	307.3	308.5
Total Cost of Sales (Million LE)	937.5	935.87
Gross Profit (Million LE)	171.9	303.6
<u>Second: Tile Segment</u>		
<u>Sales Volume (in 000 m²)</u>		
Egypt	12 321	15 411
Lebanon	486	346
Export	3 881	3 501
Total Sales Volume (000 m²)	16 688	19 288
Sales Revenues (Million LE)	660.8	752.1
Average Selling Price (LE/ m ²)	39.6	39.0
Total Cost of Sales (Million LE)	629.9	701.2
Gross Profit (Loss) (Million LE)	30.9	50.9
<u>Third: Brassware segment</u>		
<u>Sales volume (pcs)</u>		
Egypt	61 631	71 287
Export	12	1 924
Total Sales Volume (PCS)	61 643	73 211
Sales Revenues (Million LE)	56.7	57.6
Average Selling Price (LE/ PC)	920.5	787.2
Total Cost of Sales (Million LE)	32.3	38.9
Gross Profit (Million LE)	24.4	18.7

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2019

4- **Cost of sales**

	From July 1, 2019 To September 30, 2019 <u>LE</u>	From January 1, 2019 To September 30, 2019 <u>LE</u>	From July 1, 2018 To September 30, 2018 <u>LE</u>	From January 1, 2018 To September 30, 2018 <u>LE</u>
Cost of sales	521 283 234	1 547 083 911	572 491 533	1 640 572 790
Add:				
Employees' share in net profit	14 858 192	43 638 448	13 486 827	35 438 771
	536 141 426	1 590 722 359	585 978 360	1 676 011 561

5- **Other Income**

Capital Gains – net	--	85 965	900	50 910 451
Scrap Sales	1 088 152	4 621 324	2 134 354	6 293 714
Other Revenues	1 953 730	5 597 881	2 101 961	31 570 317
Discounting long term notes receivables to its present value	--	--	573 036	2 556 630
	3 041 882	10 305 170	4 810 251	91 331 112

6- **Other Expenses**

Provided for potential losses and claims provision	5 252 889	15 672 150	7 987 985	24 472 625
Amortization of Intangible Assets	--	--	(3 316)	--
Miscellaneous expenses	2 331 112	8 097 636	6 107 813	7 110 695
Remuneration of the parent company's board of directors	1 733 851	5 364 860	1 879 897	5 605 076
Difference arisen from discounting the long term notes receivables to its present value	971 455	2 712 242		
	10 289 307	31 846 888	15 972 379	37 188 396

7- **Finance Income**

Interest revenues	963 201	3 414 744	1 352 585	4 313 234
	963 201	3 414 744	1 352 585	4 313 234

8- **Finance Expenses**

Foreign exchange differences	48 483 550	143 964 367	55 845 348	173 947 376
Interest expenses	3 617 964	13 204 157	1 898 051	6 823 919
	52 101 514	157 168 524	57 743 399	180 771 295

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2019

9- Current income tax

	From July 1, 2019 To September 30, 2019	From January 1, 2019 To September 30, 2019	From July 1, 2018 To September 30, 2018	From January 1, 2018 To September 30, 2018
Current income tax for the period	4 353 631	17 461 523	8 531 443	29 100 726
Dividends' Tax	--	3 603 725	--	104 775
	<u>4 353 631</u>	<u>21 065 248</u>	<u>8 531 443</u>	<u>29 205 501</u>

10- (Loss) Earnings Per Share

The (loss) earnings per share for the period ended September 30, 2019 was computed as follows:

	September 30, 2019 <u>LE</u>	September 30, 2018 <u>LE</u>
Net (loss) for the period (in LE)	(203 008 400)	(21 459 383)
Weighted average of the number of outstanding shares	<u>80 000 00</u>	<u>80 000 000</u>
(Loss) Earnings per share (LE / share)	<u>(2.54)</u>	<u>(0.27)</u>

Lecico Egypt (S.A.E.)
Consolidated Financial Statements Notes for the year ended September 30, 2019

11- Property, plant and equipment

Cost	Land		Buildings		Leasehold Improvements		Machinery & Equipment		Motor Vehicles		Tools		Furniture, Office Equipment & Computers		Right Of use		Total	
	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE
At 01/01/2019	165 163 420	415 857 233	15 210 821	1 221 491 343	74 760 986	150 526 040	38 800 668	1 221 491 343	74 760 986	150 526 040	38 800 668	1 221 491 343	74 760 986	150 526 040	38 800 668	--	2 081 810 511	
Translation differences	(3 219 096)	(10 170 006)	(507 532)	(19 547 989)	(2 076 134)	--	(19 547 989)	(19 547 989)	(2 076 134)	--	(615 389)	--	(615 389)	--	(615 389)	--	(36 136 146)	
Period additions	--	254 125	1 357 276	366 875	802 755	7 269 789	513 002	366 875	802 755	7 269 789	513 002	513 002	802 755	7 269 789	513 002	13 683 253	24 247 075	
Period disposals	--	--	--	(3 785 305)	(384 181)	--	(3 785 305)	(384 181)	--	--	--	--	--	--	--	--	(4 169 486)	
At 30/9/2019	161 944 324	405 941 352	16 060 565	1 198 524 924	73 103 426	157 795 829	38 698 281	1 198 524 924	73 103 426	157 795 829	38 698 281	1 198 524 924	73 103 426	157 795 829	38 698 281	13 683 253	2 065 751 954	
Accumulated Depreciation																		
At 01/01/2019	--	211 287 535	13 194 314	964 050 648	68 665 064	113 397 878	34 375 902	964 050 648	68 665 064	113 397 878	34 375 902	964 050 648	68 665 064	113 397 878	34 375 902	--	1 404 971 341	
Translation differences	--	(4 749 954)	(332 658)	(17 941 801)	(2 018 015)	--	(17 941 801)	(17 941 801)	(2 018 015)	--	(557 177)	--	(557 177)	--	(557 177)	--	(25 599 605)	
Cumulative effect of applying IFRS (16) on lease contracts	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	6 667 439	6 667 439	
Period depreciation	--	12 912 355	1 185 345	50 690 143	1 963 933	9 990 266	889 282	50 690 143	1 963 933	9 990 266	889 282	50 690 143	1 963 933	9 990 266	889 282	1 554 268	79 185 592	
Disposals' accumulated depreciation	--	--	--	(3 666 225)	(384 181)	--	(3 666 225)	(3 666 225)	(384 181)	--	--	--	(384 181)	--	--	--	(4 050 406)	
At 30/9/2019	--	219 449 936	14 047 001	993 132 765	68 226 801	123 388 144	34 708 007	993 132 765	68 226 801	123 388 144	34 708 007	993 132 765	68 226 801	123 388 144	34 708 007	8 221 707	1 461 174 361	
Net Book Value at																		
At 30/9/2019	161 944 324	186 491 416	2 013 564	2 053 921 159	4 876 625	34 407 685	3 990 274	2 053 921 159	4 876 625	34 407 685	3 990 274	2 053 921 159	4 876 625	34 407 685	3 990 274	5 461 546	604 577 593	

- 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 right of use represent the present value of right of use arisen from lease contracts of a number of outlets in different governments in Egypt. These contracts were signed on behalf of Lecico for trading and distribution of ceramics "one of the subsidiaries of Lecico Egypt"

Lecico Egypt (S.A.E.)
Consolidated Financial Statements Notes for the year ended September 30, 2019

<u>Cost</u>	<u>Land</u>		<u>Buildings</u>		<u>Leasehold Improvements</u>		<u>Machinery & Equipment</u>		<u>Motor Vehicles</u>		<u>Tools</u>		<u>Furniture, Office Equipment & Computers</u>		<u>Total</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>	<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	1 177 749 390	73 077 430	132 022 431	37 323 896	2 025 599 101								
Translation differences	(140 144)	(9 896 741)	(154 337)	1 200 260	(75 373)	--	63 837	(9 002 498)								
Year additions	--	10 228 578	865 804	71 519 708	3 220 952	18 503 609	1 429 204	105 767 855								
Year disposals	(10 093 140)	--	(4 500)	(28 978 015)	(1 462 023)	--	(16 269)	(40 553 947)								
At 31/12/2018	165 163 420	415 857 233	15 210 821	1 221 491 343	74 760 986	150 526 040	38 800 668	2 081 810 511								
<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	--	(5 723 284)	(117 733)	1 157 918	1 806	--	58 030	(4 623 263)								
Year depreciation	--	17 807 654	2 616 168	66 878 721	3 031 341	12 879 195	1 391 336	104 604 415								
Disposals' accumulated depreciation	--	--	(1 800)	(28 440 005)	(1 462 023)	--	(5 760)	(29 909 588)								
At 31/12/2018	--	211 287 535	13 194 314	964 050 648	68 665 064	113 397 878	34 375 902	1 404 971 341								
<u>Net Book Value at</u>																
At 31/12/2018	165 163 420	204 569 698	2 016 507	257 440 695	6 095 922	37 128 162	4 424 766	676 839 170								
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								

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2019

12- Projects In Progress

	September 30, 2019	December 31, 2018
	<u>LE</u>	<u>LE</u>
Machinery under installation	24 393 425	2 713 630
Buildings under construction	17 815 583	1 124 905
Advance payments for purchasing fixed assets	90 521	175 426
Letter of credit for purchase fixed assets	2 153 788	2 179 137
	<u>44 453 317</u>	<u>6 193 098</u>

13- Intangible Assets

	Goodwill	Development & Other Costs	Other Intangibles	Total
Cost	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
Balance at 01/01/2019	25 972 656	15 275 024	2 238 756	43 486 436
Translation differences	(1 295 037)	(1 943 040)	(99 464)	(3 337 541)
Period addition	--	702 524	--	702 524
Period disposals	--	--	(2 139 292)	(2 139 292)
Balance at 30/9/2019	<u>24 677 619</u>	<u>14 034 508</u>	<u>--</u>	<u>38 712 127</u>
<u>Amortisation & Impairment</u>				
<u>Losses</u>				
Balance at 01/01/2019	--	11 673 683	--	11 673 683
Translation differences	--	(1 485 402)	--	(1 485 402)
Period amortisation	--	542 474	--	542 474
Balance at 30/9/2019	--	<u>10 730 755</u>	<u>--</u>	<u>10 730 75</u>
Carrying Amount at 30/9/2019	<u>24 677 619</u>	<u>3 303 753</u>	<u>--</u>	<u>27 981 372</u>
Carrying Amount at 31/12/2018	<u>25 972 656</u>	<u>3 601 341</u>	<u>2 238 756</u>	<u>31 812 753</u>

14- Other Investments

	Ownership %	September 30, 2019	December 31, 2018
		<u>LE</u>	<u>LE</u>
Murex Industries and Trading (S.A.L.)	40.0	12 110 135	13 330 826
El-Khaleeg for Trading and Investment	99.9	99 900	99 900
Other Investments	--	21 578	21 656
		<u>12 231 613</u>	<u>13 452 382</u>
(Less):-			
Impairment of investment in "El- Khaleeg for Trading and Investment"		(99 900)	(99 900)
		<u>12 131 713</u>	<u>13 352 482</u>

15- Long term notes receivables

Fair value of long term notes receivables	31 100 000	20 050 000
Discounting notes receivables to its present value*	(6 594 919)	(3 882 677)
Present value of long term notes receivables	<u>24 505 081</u>	<u>16 167 323</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, 2019

16- Inventory

	September 30, 2019	December 31, 2018
	<u>LE</u>	<u>LE</u>
Raw materials, consumables and spare parts	318 110 060	341 429 846
Work in process	71 458 970	73 695 994
Finished products	626 369 139	685 706 334
	<u>1 015 938 169</u>	<u>1 100 832 174</u>
<u>Less:</u>		
Impairment of inventory	(32 249 858)	(33 593 351)
	983 688 311	1 067 238 823
Letters of credit for purchasing inventory	30 952 080	19 921 867
	<u>1 014 640 391</u>	<u>1 087 160 690</u>

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

	Balance in 1/1/2019	Translation Differences	Impairment Reversal	Balance in 30/9/2019
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
Impairment of inventory	33 593 351	(1 269 711)	(73 782)	32 249 858
	<u>33 593 351</u>	<u>(1 269 711)</u>	<u>(73 782)</u>	<u>32 249 858</u>

17- Trade and other receivables

	Note No.	September 30, 2019	December 31, 2018
		<u>LE</u>	<u>LE</u>
Trade Receivables		483 362 308	551 465 310
Notes Receivable		74 187 598	124 391 015
Sundry Debtors		62 347 321	51 672 048
Suppliers – Debit Balances		2 748 778	4 204 592
Due from related parties - net	(29)	29 463 635	23 055 249
Tax Administration – Tax withheld		58 270	520 397
Tax Administration – Advance payment		7 734 464	3 305 130
Tax Administration – Sales tax		22 264 985	15 659 651
Other Debit Balances		145 661 775	127 509 721
Social security authority		1 171 672	--
Other prepaid expenses		11 855 020	9 703 541
Accrued Revenues		18 491	224 540
		<u>840 874 317</u>	<u>911 711 194</u>
<u>Less:</u>			
Impairment of Receivables		(114 079 225)	(123 557 806)
		<u>726 795 092</u>	<u>788 153 388</u>

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

	Balance in 1/1/2019	Translation Differences	Impairment Reversal	Balance in 30/9/2019
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
Impairment of receivables	123 557 806	(8 358 878)	(1 119 703)	114 079 225
	<u>123 557 806</u>	<u>(8 358 878)</u>	<u>(1 119 703)</u>	<u>114 079 225</u>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period ended September 30, 2019

Transactions with Key Management

- The balances of the Board of Directors of the Parent Company amounted to LE 50 036 (debit balances), LE 155 113 (credit balances). 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, 2019 charged to the other operating expenses in the consolidated income statement amounted to LE 5 364 860 (September 30, 2018: 5 605 076).

18- Cash and cash equivalents

	September 30, 2019	December 31, 2018
	<u>LE</u>	<u>LE</u>
Banks - Time Deposits	--	127 647 685
Banks - Current Accounts	113 553 012	53 601 164
Cash On Hand	19 453 575	5 620 182
	<u>133 006 587</u>	<u>186 869 031</u>
<u>Less:</u>		
Bank Overdrafts	<u>(1 234 874 376)</u>	<u>(1 332 049 775)</u>
Cash and cash equivalent for the purpose of cash flows statement	<u>(1 101 867 789)</u>	<u>(1 145 180 744)</u>

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 1 185 028 555.

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, 2019

21- Reserves

	Legal Reserve		Other* Reserves		Special Reserve Premium		Land** Revaluation Surplus		Translation Reserve		Total
	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	
Balance at December 31, 2017	50 915 481	15 571 032	181 164 374	52 765 085	258 085 360	558 501 332					
Transferred to legal reserve	--	--	--	--	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>					
Balance at December 31, 2018	50 915 481	15 571 032	181 164 374	52 765 085	272 969 552	573 385 524					
Translation adjustment for foreign subsidiaries	--	--	--	--	(106 174 665)	(106 174 665)					
Balance at September 30, 2019	<u>50 915 481</u>	<u>15 571 032</u>	<u>181 164 374</u>	<u>52 765 085</u>	<u>166 794 887</u>	<u>467 210 859</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 year Ended September 30, 2019

22- Retained Earnings

At September 30, 2019 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- Loans and borrowings

	September 30,	December 31,
	2019	2018
	<u>LE</u>	<u>LE</u>
- <u>Commercial International Bank (CIB)</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.	5 000 000	20 000 000
<p>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%.</p> <p>The loan will be repaid in one installment on October 2019.</p> <p>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.</p>		
- The outstanding counter value loan granted from the CIB to the parent company amounted to USD 5.4 million. The loan will be repaid over 18 consecutive installments each amounting USD 300 000 starting from June 2019 till September, 2023. The interest rate is variable equal 6.7%.	78 096 000	--
	<u>83 096 000</u>	<u>20 000 000</u>
<u>Less:</u>		
Installments due within one year which are classified as current liabilities (note 28).	(24 524 000)	(20 000 000)
	<u>58 572 000</u>	<u>--</u>
All of the available balances under these loans from banks were drawn down.		

24- Other Long-Term Liabilities

	September 30,	December 31,
	2019	2018
	<u>LE</u>	<u>LE</u>
Liability arisen from the present value of the rights of use	7 257 234	--
		--
<u>Less :</u>		
Installments due within one year which are classified as current liabilities.	(2 292 586)	--
Total Other Long-Term Liabilities	<u>4 964 648</u>	<u>--</u>

Lecico Egypt (S.A.E.)
Consolidated Financial Statements Notes For the Period ended September 30, 2019

25- Deferred Income Tax Assets and Liabilities

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

	30/9/2019		31/12/2018	
	Assets	Liabilities	Assets	Liabilities
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
Accumulated losses carried forward	1 180 130	--	841 433	--
Property, plant and equipment	--	29 957 434	--	28 237 221
Inventory	4 209 158	--	4 034 670	--
Total Deferred Income tax (assets) / liabilities	5 389 288	29 957 434	4 876 103	28 237 221
Net Deferred Income Tax Liabilities	--	24 568 146	--	23 361 118

26- Provisions

	Balance at 1/1/2019	Translation Differences	Provided Provisions	Utilised Provisions	Balance at 30/9/2019
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
<u>Provisions Disclosed in the Non-Current Liabilities</u>					
End of Service Indemnity Provision	7 100 714	(425 078)	--	(107 965)	6 567 671
Claims provision	2 218 393	(203 136)	--	--	2 015 257
	9 319 107	(628 214)	--	(107 965)	8 582 928
<u>Provision Disclosed in the Current Liabilities</u>					
Potential Losses and Claims Provision	780 000	--	15 672 150	(15 103 652)	1 348 498
	780 000	--	15 672 150	(15 103 652)	1 348 498
Total	10 099 107	(628 214)	15 672 150	(15 211 617)	9 931 426

27- Loans and borrowings

	September 30, 2019	December 31, 2018
	<u>LE</u>	<u>LE</u>
Current portion of long-term loan	24 524 000	20 000 000
Current portion of sales tax	9 181	9 181
	24 533 181	20 009 181

Lecico Egypt (S.A.E.)
Consolidated Financial Statements Notes For the Period ended September 30, 2019

28- Trade and other payables

	Note	September 30, 2019	December 31, 2018
	No.	LE	LE
Trade payable		140 110 837	149 739 119
Notes payable		44 102 496	41 618 116
Due to related parties	(29)	3 158 571	1 617 900
Social insurance authority and tax authority		11 740 828	10 327 013
Income tax payable		13 671 004	29 241 417
Accrued expenses		140 284 586	136 839 780
Deposits due to others		24 701	24 701
Sundry creditors		105 647 900	58 651 108
Sales Tax Administration - Current account		13 852 520	21 044 176
Dividends payable		389 928	389 929
Creditors for purchasing fixed assets		1 641 380	1 666 130
Profit sharing provision for employees of certain group companies		55 898 626	59 381 611
Liabilities arisen from foreign currencies hedge contracts		--	7 379 985
		530 523 377	517 920 985

29- Related Parties

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

	Nature of Transaction	Transaction Amount	September 30, 2019	December 31, 2018
		LE	LE	LE
Due from Related Parties				
Murex Industries and Trading (S.A.L)	Sales	54 502 603	29 463 635	21 622 449
	Notes Receivables	--	--	1 432 800
			29 763 735	23 055 249
El-khaleeg for Trading and Investment	Current	--	300 100	300 100
			29 463 635	23 355 349
Total of debit balance				
Less:				
Impairment for balance of "El-khaleeg for Trading and Investment"			(300 100)	(300 100)
			29 463 635	23 055 249
Net of debit balances				
Due to Related Parties				
Murex Industries and Trading (S.A.L)	Purchases	3 376 214	437 353	57 110
LIFCO	Rent	--	1 295 124	1 425 672
Ceramics Management Services Ltd. (CMS)	Technical Assistance Fees	--	1 426 094	135 118
			3 158 571	1 617 900
Total of credit balances due from related parties				

Lecico Egypt (S.A.E.)
Consolidated Financial Statements Notes For the Period ended September 30, 2019

30- Contingent Liabilities

30-1 Letters of Guarantee

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

<u>Currency</u>	September 30, 2019	December 31, 2018
LE	18 593 020	19 533 312

30-2 Letters of Credit

<u>Currency</u>	September 30, 2019	December 31, 2018
LE	7 067 252	10 258 525

31- 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 9.7 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.

32- Capital Commitment

There were no the capital commitments' as at September 30, 2019 (There were no capital commitments as at December 31, 2018).

33- 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.

34- Financial Instruments Risk Management

34-1 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, 2019

34-2 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.

34-3 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.

35- Significant accounting policies

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

35-1 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, 2019

35-2 Foreign currency

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.

a. 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.

35-3 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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2019

35-4 Employee benefits

35-4-1 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.

35-4-2 Profitability of the employee's share of profit is recognized in the respective year.

35-5 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.

35-6 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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2019

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.

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.

35-7 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.

35-8 Property, plant & equipment

35-8-1 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.

35-8-2 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.

35-8-3 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, 2019

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.

35-9 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.

35-10 Intangible assets

35-10-1 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.

35-10-2 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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2019

35-10-3 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.

35-11 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.

35-11-1 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.

35-11-2 Initial measurement of the usufruct asset:

The cost of an usufruct asset is the right of use of:

- A- The initial measurement amount of the lease obligation, at the present value of the unpaid lease payments at that date. Lease payments are discounted using the interest rate implicit in the lease, if that rate can be easily determined. If this rate cannot be determined, the lessee must use the interest rate on the additional tenant's borrowing.
- B- Any lease payments made on or before the lease commencement date less any lease incentives received;
- C- Any initial direct costs incurred by the lessee.
- D- An estimate of the costs to be incurred by the lessee in dismantling and removing the asset subject to the contract, returning the location where the asset is to the original state or returning the same asset to the required condition in accordance with the terms and conditions of the lease, unless those costs are incurred to produce the inventory. On the date of commencement of the lease or because of the use of the underlying asset within a certain period.

Subsequent measurement of the lease obligation:

After the start date of the lease, the following are:

- 1- Minus any accumulated depreciation and any accumulated impairment losses;
- 2- Amended by any re-measurement of the lease obligation.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2019

- Initial measurement of lease obligation:

At the inception of the lease, the lease liability is measured at the present value of the unpaid lease payments at that date. Lease payments are discounted using the interest rate implicit in the lease if that rate can be easily determined. If this rate cannot be easily determined, the lessee must use the company's additional borrowing rate as a lessee.

- Subsequent measurement of the lease obligation:

After the start date of the lease, the following are:

- 1- Increase the book amount of the obligation to reflect the interest on the lease obligation;
- 2- Reducing the book amount of the obligation to reflect rental payments.
- 3- Re-measure the book amount of the obligation to reflect any reassessment or adjustment of the lease contract or to reflect the fixed lease payments in its adjusted core.

The principal of the right of use and the obligations of leases are displayed in the financial position list separately from other assets and liabilities.

Leases contracts include the tenant's maintenance and insurance of the leased asset and the lease does not involve any arrangements for the transfer of ownership at the end of the lease period.

For a contract with a rental component with one or more rental components, (if any), the compensation in the contract is allocated to each rental component on the basis of the independent proportional price of the rental component and the total independent price of non-rental components. As a practical means, and within the scope of what the standard allows, the company as a tenant may choose by the category of the asset in place of the contract not to separate non-rental components from the rental components, and thus account for each rental component and any associated non-rental components as a single rental component.

Operating leases:

Recognition and measurement

Lease payments from operating leases are recognized as an expense either in a fixed-rate manner or on another regular basis. The lessor must apply another regular basis if that basis is more an expression of the pattern in which the benefit of using the contract-in-the-contract asset is diminishing.

35-12 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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2019

35-12-1 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.

35-12-2 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.

35-12-3 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.

35-12-4 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.

35-12-5 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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2019

35-12-6 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.

35-13 Share capital

35-13-1 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.

35-13-2 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.

35-14 Impairment

35-14-1 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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2019

35-14-2 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.

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.

a. 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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2019

35-14-3 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.

35-15 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.

35-15-1 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.

35-15-2 The group policy on Employees' Profit Participation is to accrue these employees benefits in the year to which it relates.

35-16 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.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended September 30, 2019

35-17 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.

35-18 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.

35-19 Consolidated Cash Flows Statement

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

36 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.
	2013/2018	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.