

Lecico Egypt
(S.A.E.)

Consolidated Financial Statements
And Auditor's Report
For The Year Ended December 31, 2018

Lecico Egypt
(S.A.E.)

Consolidated Financial Statements
And Auditor's Report
For The Year Ended December 31, 2018

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Hazem Hassan

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Independent Auditor's Report

To the Shareholders of Lecico Egypt Company

Opinion

We have audited the consolidated financial statements of Lecico Egypt Company and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board of Accountants Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion we draw attention to the following notes:

- 1- note no. (22) to the 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.



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2- note no. (36) to the consolidated financial statements. which describes the planned restructuring of the Company. The ultimate outcome of the restructuring cannot presently be determined and involves certain uncertainties yet management believes that it will reflect positively on the results and cash flows for the future. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision

During the year the company provided for expected claims for an amount of EGP 32.1 million also an amount of EGP 40.1 million was utilized out of the provision balance for the realized claims.	- We obtained a list of expected claims. - We ensured that the expected claims are provided for where there is need for that. - We ensured that the utilized portion of the provision is against realized claims.
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Other Information

Management is responsible for the other information. The other information comprises the information included in the Board of Directors report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and presented fairly the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



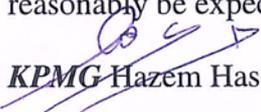
Hazem Hassan

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide management with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


KPMG Hazem Hassan

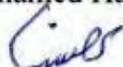
Hossam Abdel Wahab
CPA no. 8581
Capital Market Register No. 380

Alexandria on February 27, 2019

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

	Note	December 31,	December 31,
	No.	2018	2017
		LE	LE
<u>Non-Current Assets</u>			
Property, plant and equipment	(11)	676 839 170	690 699 324
Projects in progress	(12)	6 193 098	21 866 338
Intangible assets	(13)	31 812 753	29 183 877
Other investments	(14)	13 352 482	13 221 600
Long-term notes receivable	(15)	16 167 323	27 144 059
Total Non-Current Assets		744 364 826	782 115 198
<u>Current Assets</u>			
Inventory	(16)	1 087 160 690	1 133 779 159
Trade and other receivables	(17)	788 153 388	782 930 154
Cash and cash equivalents	(18)	186 869 031	261 296 342
Total Current Assets		2 062 183 109	2 178 005 655
Total Assets		2 806 547 935	2 960 120 853
<u>Equity</u>			
Share capital	(20)	400 000 000	400 000 000
Reserves	(21)	573 385 524	558 501 332
Retained Earnings	(22)	21 302 879	38 524 669
Net (Loss) / profit for the year		(114 332 969)	37 220 802
Total equity attributable to equity holders of the company		880 355 434	1 034 246 803
Treasury shares	(23)	--	(48 182 065)
		880 355 434	986 064 738
Non-controlling Interests		22 752 335	18 665 774
Total Equity		903 107 769	1 004 730 512
<u>Non-Current Liabilities</u>			
Long term loans and borrowings	(24)	--	20 000 000
Deferred income tax	(26)	23 361 118	22 783 102
Provision	(27)	9 319 107	10 580 500
Total Non-Current Liabilities		32 680 225	53 363 602
<u>Current Liabilities</u>			
Banks overdrafts	(18)	1 332 049 775	1 390 477 701
Loans and borrowings	(28)	20 009 181	46 604 181
Trade and other payables	(29)	517 920 985	457 492 063
Provisions	(27)	780 000	7 452 794
Total Current Liabilities		1 870 759 941	1 902 026 739
Total Liabilities		1 903 440 166	1 955 390 341
Total Equity and Liabilities		2 806 547 935	2 960 120 853

- Notes from no (1) to no (38) are an integral part of these consolidated financial statements.
- Auditor's report attached,
- Date: February 27, 2019

Finance Director
Mohamed HassanManaging Director
Taher Gargour

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

		December 31,	December 31,
	Note	2018	2017
	<u>No.</u>	<u>LE</u>	<u>LE</u>
Net sales		2 705 549 187	2 406 460 883
Cost of sales	(4)	<u>(2 235 133 055)</u>	<u>(1 874 520 476)</u>
Gross Profit		470 416 132	531 940 407
Other Income	(5)	71 675 334	24 607 332
Distribution Expenses		(157 277 540)	(146 616 199)
Administrative Expenses		(192 651 089)	(177 048 433)
Other Expenses	(6)	<u>(41 503 723)</u>	<u>(51 001 252)</u>
Results from operating activities		150 659 114	181 881 855
Investment income		5 104 787	6 377 963
Finance income	(7)	5 495 761	24 331 817
Finance expenses	(8)	<u>(233 631 825)</u>	<u>(160 531 090)</u>
(Loss) Profit before tax		(72 372 163)	52 060 545
Current income tax expense	(9)	(38 749 031)	(17 448 689)
Deferred income tax		<u>(535 295)</u>	<u>3 220 514</u>
Net (loss) profit for the year		<u>(111 656 489)</u>	<u>37 832 370</u>
<u>Attributable to :</u>			
Equity holders of the company		(114 332 969)	37 220 802
Non-controlling interests		<u>2 676 480</u>	<u>611 568</u>
Net (loss) profit for the year		<u>(111 656 489)</u>	<u>37 832 370</u>
(Loss) Earnings per share (LE/Share)	(10)	<u>(1.49)</u>	<u>0.49</u>

- Notes from no (1) to no (38) are an integral part of these consolidated financial statements.

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

	December 31, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
<u>Other Comprehensive Income</u>		
Net (loss) profit for the year	(111 656 489)	37 832 370
<u>Items that may be reclassified subsequently to income statement</u>		
Foreign operations – Foreign currency translation differences	<u>21 664 841</u>	<u>(16 514 015)</u>
Total (loss) other comprehensive income	<u>(89 991 648)</u>	<u>21 318 355</u>
<u>Total comprehensive income attributable to :</u>		
Equity holders of the company	(99 448 778)	14 583 239
Non-controlling interests	<u>9 457 130</u>	<u>6 735 116</u>
Total (loss) other comprehensive income	<u>(89 991 648)</u>	<u>21 318 355</u>

- Notes from no (1) to no (38) are an integral part of these consolidated financial statements

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

Consolidated Statement of Changes in Shareholders' Equity for the year Ended December 31, 2018

	Note No.	Issued & Paid up Capital LE	Reserves LE	Retained Earnings LE	Net (Loss) for the year LE	Treasury shares LE	Equity of the parent company's shareholders LE	Non-controlling Interests LE	Total Equity 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)	--	--	--	--	--
Acquisition of treasury shares	(23)	--	--	--	--	(48 182 065)	(48 182 065)	--	(48 182 065)
Adjustments		--	--	24 461 418	--	--	24 461 418	6 688 205	31 149 623
Translation adjustment of foreign subsidiaries		--	(22 637 565)	--	--	--	(22 637 565)	6 123 548	(16 514 017)
Net profit for the Year		--	--	--	37 220 802	--	37 220 802	611 568	37 832 370
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 parent's shareholders		--	--	(48 182 065)	--	48 182 065	--	--	--
Adjustments		--	--	(6 260 527)	--	--	(6 260 527)	(5 370 568)	(11 631 095)
Translation adjustment of foreign subsidiaries		--	14 884 192	--	--	--	14 884 192	6 780 649	21 664 841
Net Loss for the Year		--	--	--	(114 332 969)	--	(114 332 969)	2 676 480	(111 656 489)
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

▪ Notes from no (1) to no (38) are an integral part of these consolidated financial statements.

Lecico Egypt

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Consolidated Statement of Cash Flows for the year Ended December 31, 2018

	Note	December 31, 2018	December 31, 2017
	No.	<u>LE</u>	<u>LE</u>
<u>Cash Flow from Operating Activities</u>			
Net profit (loss) for the year		(114 332 969)	37 220 802
<u>Adjustments Provided to Reconcile Net loss to Net Cash Provided by Operating Activities</u>			
Fixed assets depreciation and translation differences	(11)	108 983 649	101 127 595
Intangible assets amortization and translation differences		(2 460 685)	(583 536)
Provided provisions and translation differences		33 154 594	31 868 288
Employees participation in net profit		50 434 178	35 921 547
Long term prepaid rent expense		--	157 335
Capital gains		(51 152 151)	1 326 520
Income tax expense		38 749 031	17 448 689
Deferred income tax		578 016	(2 996 483)
Reversal of expired provision		--	(2 115 844)
Reversal of inventory impairment		(59 094)	(5 749 374)
Discounting of long term notes receivables		(3 823 264)	2 281 951
Increase in non-controlling interests		4 086 561	13 423 321
Change in translation reserve		9 168 706	1 823 844
		<u>73 326 572</u>	<u>231 154 655</u>
<u>Changes in Working Capital</u>			
Change in inventory		46 541 692	(237 740 247)
Change in receivables		(6 108 068)	(21 858 078)
Change in payables		26 177 271	31 201 017
Paid income tax		(19 192 812)	(12 955 782)
Utilized provisions		(40 068 075)	(46 530 689)
Net cash used in operating activities		<u>80 676 580</u>	<u>(56 729 124)</u>
<u>Cash Flow from Investing Activities</u>			
Payments for acquiring property, plant & equipment and projects in progress		(90 094 615)	(114 153 459)
Payments for intangible assets		(713 232)	--
Proceeds from other current investments		(130 882)	368 003
Proceeds from selling property, plant & equipment		61 796 510	2 034 894
Decrease in long-term notes receivable		14 800 000	(4 850 000)
Net cash used in investing activities		<u>(14 342 219)</u>	<u>(116 600 562)</u>
<u>Cash Flow from Financing Activities</u>			
Payments for long term loans		(46 595 000)	(48 065 000)
Payments to acquire treasury shares		--	(48 182 065)
Payments for employees' share in net profit		(35 738 746)	(32 609 683)
Net cash used in financing activities		<u>(82 333 746)</u>	<u>(128 856 748)</u>
Net change in cash and cash equivalents during the year		<u>(15 999 385)</u>	<u>(302 186 434)</u>
Cash and cash equivalents at beginning of the year	(18)	<u>(1 129 181 359)</u>	<u>(826 994 925)</u>
Cash and cash equivalents at the end of the year	(18)	<u>(1 145 180 744)</u>	<u>(1 129 181 359)</u>

- The notes from no. (1) to no. (38) are an integral part of these consolidated financial statements.

Lecico Egypt (S.A.E.)
Consolidated Financial Statements Notes for the year ended December 31, 2018

1- Reporting Entity

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

1-1 Lecico Egypt (the Parent)

Lecico Egypt (S.A.E.) was established on November 1st, 1975 according to the resolution of Ministry of Economics and Economic Co-operation number 142 of 1975. The company is subject to 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	
		31/12/2018	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
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

- This subsidiary was liquidated and its accounts was closed as at October 4, 2018 as per the liquidator report in Algeria.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the year ended December 31, 2018

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 year ended December 31, 2018

3- Information about operating Segments

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

	December 31, 2018	December 31, 2017
<u>First: Sanitary ware Segment</u>		
<u>Sales Volume (in 000 pcs)</u>		
Egypt	1 728	1 825
Lebanon	106	146
Export	3 486	3 091
Total Sales Volume (in 000 pcs)	5 320	5 062
Sales Revenues (Million LE)	1617,2	1497.3
Average Selling Price (LE/pc)	303,9	295.8
Total Cost of Sales (Million LE)	1236,86	1025.66
Gross Profit (Million LE)	380,30	471.6
<u>Second: Tile Segment</u>		
<u>Sales Volume (in 000 m²)</u>		
Egypt	20 666	18 994
Lebanon	478	558
Export	4 611	3 618
Total Sales Volume (000 m²)	25 755	23 170
Sales Revenues (Million LE)	1002.4	830.7
Average Selling Price (LE/ m ²)	38.9	35.9
Total Cost of Sales (Million LE)	941.4	803.0
Gross Profit (Loss) (Million LE)	61	27.7
<u>Third: Brassware segment</u>		
<u>Sales volume (pcs)</u>		
Egypt	106 371	108 471
Export	1 940	160
Total Sales Volume (PCS)	108 311	108 631
Sales Revenues (Million LE)	86	78.5
Average Selling Price (LE/ PC)	793.6	722.5
Total Cost of Sales (Million LE)	56.9	45.9
Gross Profit (Million LE)	29.1	32.6

4- Cost of sales after reclassification

Cost of sales before reclassification	2 186 207 456	1 839 777 661
<u>Add:</u>		
Employees' share in net profit	48 925 599	34 742 815
	2 235 133 055	1 874 520 476

Lecico Egypt (S.A.E.)
Consolidated Financial Statements Notes for the year ended December 31, 2018

5- <u>Other Income</u>	December 31, 2018	December 31, 2017
Capital Gains	51 152 151	342 229
Scrap Sales	8 256 585	7 374 213
Other Revenues	8 443 334	14 775 046
Reversal of expired provisions	--	2 115 844
Discounting long receivables to its present value	3 823 264	--
	<u>71 675 334</u>	<u>24 607 332</u>
6- <u>Other Expenses</u>		
Capital losses	--	1 668 749
Provided for potential losses and claims provision	32 055 738	30 717 995
Provided for end of service indemnity provision	--	2 450 000
Provided for impairment of clients	--	1 971 240
Amortization of Intangible Assets	--	6 212
Miscellaneous expenses	1 712 792	1 929 717
Remuneration of the parent company's board of directors	7 735 193	9 975 388
Discounting long term notes receivables to its present value	--	2 281 951
	<u>41 503 723</u>	<u>51 001 252</u>
7- <u>Finance Income</u>		
Interest revenues	5 495 761	8 026 180
Foreign exchange differences	--	16 305 637
	<u>5 495 761</u>	<u>24 331 817</u>
8- <u>Finance Expenses</u>		
Forging exchange differences	8 558 415	--
Interest expenses	225 073 410	160 531 090
	<u>233 631 825</u>	<u>160 531 090</u>
9- <u>Current income tax</u>		
Current income tax for the year	38 644 256	13 525 189
Tax imposed on dividends of the last years	104 775	3 923 500
	<u>38 749 031</u>	<u>17 448 689</u>
10- <u>(Loss) Earnings Per Share</u>		

The (loss) earnings per share for the year ended December 31, 2018 was computed as follows:

	December 31, 2018	December 31, 2017
Net (loss) profit for the year (in LE)	(114 332 969)	37 220 802
Weighted average of the number of outstanding shares	76 666 667	76 666 667
(Loss) Earnings per share (LE / share)	<u>(1.49)</u>	<u>0.49</u>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the year ended December 31, 2018

11- Property, plant and equipment

	Land	Buildings	Leasehold Improvements	Machinery & Equipment	Motor Vehicles	Tools	Furniture, Office Equipment & Computers	Total
Cost	LE	LE	LE	LE	LE	LE	LE	LE
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

- 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.

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	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

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12- Projects In Progress

	December 31, 2018 LE	December 31, 2017 LE
Machinery under installation	2 713 630	5 241 816
Buildings under construction	1 124 905	165 960
Advance payments for purchasing fixed assets	175 426	2 103 753
Letter of credit for purchase fixed assets	2 179 137	14 354 809
	<u>6 193 098</u>	<u>21 866 338</u>

13- Intangible Assets

Cost	Goodwill LE	Trademarks LE	Development & Other Costs LE	Other Intangibles LE	Total LE
Balance at 01/01/2018	26 477 797	63 823	13 114 069	2 216 918	41 872 607
Translation Year addition differences	(505 141)	(1 039)	5 509 812	21 838	5 025 470
Year disposals	--	--	713 232	--	713 232
Translation differences	--	(62 784)	(4 062 089)	--	(4 124 873)
Balance at 31/12/2018	<u>25 972 656</u>	<u>--</u>	<u>15 275 024</u>	<u>2 238 756</u>	<u>43 486 436</u>

Amortisation & Impairment

Losses

Balance at 01/01/2018	--	50 626	12 638 104	--	12 688 730
Translation differences	--	(55 529)	2 489 969	--	2 434 440
Year amortisation	--	4 903	125 426	--	130 329
	--	--	(3 579 816)	--	(3 579 816)
Balance at 31/12/2018	--	--	<u>11 673 683</u>	--	<u>11 673 683</u>
Carrying Amount at 31/12/2018	<u>25 972 656</u>	<u>--</u>	<u>3 601 341</u>	<u>2 238 756</u>	<u>31 812 753</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 %	December 31, 2018 LE	December 31, 2017 LE
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
Accumulation amortization of disposals		13 452 382	13 321 500
(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	20 050 000	34 850 000
Discounting notes receivables to its present value*	(3 882 677)	(7 705 941)
Present value of long term notes receivables	<u>16 167 323</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.

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16- Inventory

	Note <u>No.</u>	December 31, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Raw materials, consumables and spare parts		341 429 846	329 685 286
Work in process		73 695 994	77 945 641
Finished products		685 706 334	730 862 343
		<u>1 100 832 174</u>	<u>1 138 493 270</u>
<u>Less:</u>			
Impairment of inventory		(33 593 351)	(33 516 574)
		<u>1 067 238 823</u>	<u>1 104 976 696</u>
Letters of credit for purchasing inventory		19 921 867	28 802 463
		<u>1 087 160 690</u>	<u>1 133 779 159</u>

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

	Balance in 1/1/2018 <u>LE</u>	Translation Differences <u>LE</u>	Impairment Reversal <u>LE</u>	Balance in 31/12/2018 <u>LE</u>
Impairment of inventory	33 516 576	135 869	(59 094)	33 593 351
	<u>33 516 576</u>	<u>135 869</u>	<u>(59 094)</u>	<u>33 593 351</u>

17- Trade and other receivables

		December 31, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Trade Receivables		551 465 310	600 165 542
Notes Receivable		124 391 015	103 972 898
Sundry Debtors		51 672 048	48 071 485
Suppliers – Debit Balances		4 204 592	497 552
Due from related parties - net	(30)	23 055 249	38 678 906
Tax Administration – Tax withheld		520 397	446 520
Tax Administration – Advance payment		3 305 130	6 117 065
Tax Administration – Sales tax		15 659 651	6 859 712
Other Debit Balances		127 509 721	90 264 321
Social security authority		--	1 825 026
Other prepaid expenses		9 703 541	8 337 058
Accrued Revenues		224 540	367 040
		<u>911 711 194</u>	<u>905 603 125</u>
<u>Less:</u>			
Impairment of Receivables		(123 557 806)	(122 672 971)
		<u>788 153 388</u>	<u>782 930 154</u>

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

	Balance in 1/1/2018 <u>LE</u>	Translation Differences <u>LE</u>	Impairment Reversal <u>LE</u>	Balance in 31/12/2018 <u>LE</u>
Impairment of receivables	122 672 971	890 453	(5 618)	123 557 806
	<u>122 672 971</u>	<u>890 453</u>	<u>(5 618)</u>	<u>123 557 806</u>

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Transactions with Key Management

- The balances of the Board of Directors of the Parent Company amounted to LE 50 000 (debit balances), LE 12 531 (credit balances) as at December 31, 2018. These balances are included in sundry debtors in receivables and sundry creditors in payables.
- The Board of Directors of the Parent Company control 0.04% of the voting shares of the Parent company.
- Emoluments for the Board of Directors of the parent company, for the year ended December 31, 2018 charged to the other operating expenses in the consolidated income statement amounted to LE 7 735 193 (December 31, 2017: LE 9 975 388).

18- Cash and cash equivalents

	December 31, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Banks - Time Deposits	127 647 685	190 216 079
Banks - Current Accounts	53 601 164	63 366 395
Cash On Hand	5 620 182	7 713 868
	<u>186 869 031</u>	<u>261 296 342</u>
<u>Less:</u>		
Bank Overdrafts	(1 332 049 775)	(1 390 477 701)
Cash and cash equivalent for the purpose of cash flows statement	<u>(1 145 180 744)</u>	<u>(1 129 181 359)</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 2 049 439 000 and the unutilized amount is LE 1 124 278 497.

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 year ended December 31, 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	--	--	--	--	(22 637 565)	(22 637 565)
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	--	--	--	--	14 884 192	14 884 192
Balance at December 31, 2018	50 915 481	15 571 032	181 164 374	52 765 085	272 969 552	573 385 524

* 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.

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22- Retained Earnings

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

23- Treasury Shares

	No. of shares Acquired	December 31, 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's shareholders had resolved on March 28, 2018 to distribute the treasury shares on the parent's shareholder's as stock dividends on the rate of one share as stock dividends for 9 original shares taking into consideration to round up fractions for the small shareholders. The previous action was approved from the General regulatory Authority on 30/5/2018 the action was executed in the Egyptian stock exchange on 9/7/2018 through Misr for central clearing and depositing registry the treasury shares was closed in the retained earnings in the parent's records.

24- Loans and borrowings

- **Commercial International Bank (CIB)**

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

	20 000 000	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 8 consecutive quarterly installments starting from January 2018 till October 2019.

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

- The outstanding counter value loan granted from the CIB to the parent company amounted to USD 1.5 million. The loan will be repaid over 4 consecutive quarterly installments starting from March 2018 till December, 2018. The interest rate is variable and equal the LIBOR rate for 3 months plus margin.	--	26 595 000
---	----	------------

Total	<u>20 000 000</u>	<u>66 595 000</u>
Less:		
Installments due within one year which are classified as current liabilities (note 28).	(20 000 000)	(46 595 000)
	<u> -- </u>	<u> 20 000 000 </u>

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

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25- Other Long-Term Liabilities

	December 31, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Sales Tax Department (deferred sales tax related to imported machinery)	9 181	9 181
	<u>9 181</u>	<u>9 181</u>
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:

	31/12/2018		31/12/2017	
	Assets <u>LE</u>	Liabilities <u>LE</u>	Assets <u>LE</u>	Liabilities <u>LE</u>
Accumulated losses carried forward	841 433	--	844 154	--
Property, plant and equipment	--	28 237 221	--	27 543 519
Inventory	4 034 670	--	3 876 263	--
Total Deferred Income tax (assets) / liabilities	<u>4 876 103</u>	<u>28 237 221</u>	<u>4 760 417</u>	<u>27 543 519</u>
Net Deferred Income Tax Liabilities	<u><u>--</u></u>	<u><u>23 361 118</u></u>	<u><u>--</u></u>	<u><u>22 783 102</u></u>

27- Provisions

	Balance at 1/1/2018 <u>LE</u>	Translation Differences <u>LE</u>	Provided Provisions <u>LE</u>	Utilised Provisions <u>LE</u>	Balance at 31/12/2018 <u>LE</u>
<u>Provisions Disclosed in the Non-Current Liabilities</u>					
End of Service Indemnity Provision	7 430 440	47 275	--	(377 001)	7 100 714
Claims provision	3 150 060	25 257	--	(956 924)	2 218 393
	<u>10 580 500</u>	<u>72 532</u>	<u>--</u>	<u>(1 333 925)</u>	<u>9 319 107</u>
<u>Provision Disclosed in the Current Liabilities</u>					
Potential Losses and Claims Provision	7 452 794	--	32 055 738	(38 728 532)	780 000
	<u>7 452 794</u>	<u>--</u>	<u>32 055 738</u>	<u>(38 728 532)</u>	<u>780 000</u>
Total	<u><u>18 033 294</u></u>	<u><u>72 532</u></u>	<u><u>32 055 738</u></u>	<u><u>40 062 457</u></u>	<u><u>10 099 107</u></u>

28- Loans and borrowings

	December 31, 2018 <u>LE</u>	December 31, 2017 <u>LE</u>
Current portion of long-term loan	20 000 000	46 595 000
Current portion of other long-term liabilities	9 181	9 181
	<u>20 009 181</u>	<u>46 604 181</u>

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29- Trade and other payables

	Note	December 31, 2018	December 31, 2017
	No.	LE	LE
Trade payable		149 739 119	149 022 800
Notes payable		41 618 116	36 752 214
Due to related parties	(30)	1 617 900	2 105 730
Social insurance authority and tax authority		10 327 013	12 831 360
Income tax payable		29 241 417	9 685 198
Accrued expenses		136 839 780	127 082 414
Deposits due to others		24 701	24 701
Sundry creditors		58 651 108	52 378 997
Sales Tax Administration - Current account		21 044 176	17 104 696
Dividends payable		389 929	389 929
Creditors for purchasing fixed assets		1 666 130	1 789 030
Profit sharing provision for employees of certain group companies		59 381 611	44 686 177
Liabilities arisen from foreign currencies hedge contracts		7 379 985	3 638 817
		517 920 985	457 492 063

30- Related Parties

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

	<u>Nature of Transaction</u>	Transaction Amount	December 31, 2018	December 31, 2017
		LE	LE	LE
<u>Due from Related Parties</u>				
Murex Industries and Trading (S.A.L)	Sales	93 764 171	21 622 449	38 619 918
	Notes Receivables	--	1 432 800	58 988
		--	23 055 249	38 678 906
El-khaleeg for Trading and Investment	Current		300 100	300 100
Total of debit balance			23 355 349	38 979 006
Impairment for balance of "El-khaleeg for Trading and Investment"			(300 100)	(300 100)
Net of debit balances			23 055 249	38 678 906
<u>Due to Related Parties</u>				
Murex Industries and Trading (S.A.L)	Purchases	8 386 925	57 110	703 882
LIFCO	Rent	354 280	1 425 672	1 058 824
Ceramics Management Services Ltd. (CMS)	Technical Assistance Fees	2 193 231	135 118	343 024
Total of credit balances			1 617 900	2 105 730

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31- Contingent Liabilities

31-1 Letters of Guarantee

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

<u>Currency</u>	December 31, 2018	December 31, 2017
LE	19 533 312	17 846 547

31-2 Letters of Credit

<u>Currency</u>		
LE	10 258 525	26 958 003

32- Litigation

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

33- Capital Commitment

There were no the capital commitments' as at December 31, 2018 (December 31, 2017: EGP 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.

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.

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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- Subsequent events

During 2019, the group management decided to work on implementing an overall strategic restructuring plan for its subsidiary "Lecico Lebanon" due to its negative results and cash flows achieved over the past years. This restructuring plan are covering the financial and operational areas and doing significant shift in the production in addition to a full review of the assets and their respective fair values. Currently, the ultimate outcome of this restructuring plan cannot be estimated, yet the group management expects a positive outlook following the implementation.

37- Significant accounting policies

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

37-1 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.

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37-2 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.

37-3 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.

37-4 Employee benefits

37-4-1 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.

37-4-2 Profitability of the employee's share of profit is recognized in the respective year.

37-5 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.

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37-6 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.

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.

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37-7 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.

37-8 Property, plant & equipment

37-8-1 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.

37-8-2 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.

37-8-3 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.

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.

37-9 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.

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37-10 Intangible assets

37-10-1 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.

37-10-2 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.

37-10-3 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.

37-11 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.

37-11-1 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.

37-12 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.

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37-12-1 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.

37-12-2 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.

37-12-3 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.

37-12-4 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.

37-12-5 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.

37-12-6 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.

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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.

37-13 Share capital

37-13-1 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.

37-13-2 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.

37-14 Impairment

37-14-1 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.

37-14-2 Financial assets measured at amortized cost

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

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

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

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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.

37-14-3 Non-financial assets

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

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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37-15 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.

37-15-1 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.

37-15-2 The group policy on Employees' Profit Participation is to accrue these employees

benefits in the year to which it relates.

37-16 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.

37-17 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.

37-18 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.

37-19 Consolidated Cash Flows Statement

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

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38 **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.