

Lecico Egypt
(S.A.E.)
Consolidated Financial Statements
And Auditor's Report
For The Year Ended December 31, 2019

Lecico Egypt Lecico Egypt
(S.A.E.)
Consolidated Financial Statements
And Auditor's Report
For The Year Ended December 31, 2019

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Hazem Hassan

Public Accountants & Consultants

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

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

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 2019, 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, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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 Qualified Opinion

- 1- As described in note (3) regarding the situation in Lebanon, the management included Lecico Lebanon unaudited figures. Lecico Lebanon management was required to submit unaudited financials because, due to the Lebanese situation, their auditors are unable till now to complete their audits in Lebanon due the questions raised about asset values and business sustainability across the entire Market. We were not provided with sufficient and appropriate evidence regarding this financial information.
- 2- The auditor's report of one of the subsidiaries (Lecico UK) included a qualification regarding the balance of the goodwill included in the intangible assets with an amount of EGP 10 million as they did not have access to the information on what this balance relates to or how it arose

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.

- 2- As more fully explained in note 3 to the financial statements, Lebanon is facing instability politically which generally affected the Lebanese economy and led to the reduction in the economic activities. Accordingly this might have a significant effect on the value of the assets and liabilities and the results of operations of Lecico's Lebanese subsidiary. It is this uncertainty that has prevented the subsidiary's auditor from completing their audits. Consequently, we cannot determine the effect of the Lebanese situation on the consolidated financial statements

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 EGP 21.3 million also an amount of EGP 21.4 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in The Group's annual report for the year ended 31 December 2019, other than the consolidated financial statements and our auditors' report thereon.

We obtained the Board of Directors' report before the date of the audit report and expect to receive the rest of the annual report after that date.

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.

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.



Hazem Hassan

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.

- 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.



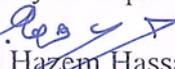
Hazem Hassan

- 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

KPMG Hazem Hassan

Public Accountants and consultants

Alexandria on 26 February 2020

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

Consolidated Financial Position at December 31, 2019

	Note No.	December 31, 2019 LE	December 31, 2018 LE
<u>Non-Current Assets</u>			
Property, plant and equipment	(12)	2 318 305 805	676 839 170
Projects in progress	(13)	3 990 491	6 193 098
Intangible assets	(14)	29 504 140	31 812 753
Other investments	(15)	11 959 754	13 352 482
Long-term notes receivable	(16)	21 336 215	16 167 323
Total Non-Current Assets		<u>2 385 096 405</u>	<u>744 364 826</u>
<u>Current Assets</u>			
Inventory	(17)	944 985 555	1 087 160 690
Trade and other receivables	(18)	674 942 987	788 153 388
Cash and cash equivalents	(19)	128 991 066	186 869 031
Total Current Assets		<u>1 748 919 608</u>	<u>2 062 183 109</u>
Total Assets		<u>4 134 016 013</u>	<u>2 806 547 935</u>
<u>Equity</u>			
Share capital	(21)	400 000 000	400 000 000
Reserves	(22)	2 117 209 955	573 385 524
Retained Earnings	(23)	19 482 351	21 302 879
Net (Loss) for the year		(298 317 810)	(114 332 969)
Total equity attributable to equity holders of the company		<u>2 238 374 496</u>	<u>880 355 434</u>
Non-controlling interest		46 925 260	22 752 335
Total Equity		<u>2 285 299 756</u>	<u>903 107 769</u>
<u>Non-Current Liabilities</u>			
Loans and borrowings	(24)	52 932 000	--
Non-current liability arisen from leased assets	(25)	3 783 582	--
Deferred income tax	(26)	22 968 652	23 361 118
Provisions	(27)	8 495 528	9 319 107
Total Non-Current Liabilities		<u>88 179 762</u>	<u>32 680 225</u>
<u>Current Liabilities</u>			
Banks overdrafts	(19)	1 186 180 017	1 332 049 775
Loans and borrowings	(28)	22 133 239	20 009 181
Trade and other payables	(29)	551 638 157	517 920 985
Provisions	(27)	585 082	780 000
Total Current Liabilities		<u>1 760 536 495</u>	<u>1 870 759 941</u>
Total Liabilities		<u>1 848 716 257</u>	<u>1 903 440 166</u>
Total Equity and Liabilities		<u>4 134 016 013</u>	<u>2 806 547 935</u>

- Notes from no (1) to no (36) are an integral part of these consolidated financial statements.
- Review report attached,
- Date: February 26, 2020.

Finance Director

Mohamed Hassan



Managing Director

Taher Gargour



Lecico Egypt**(S.A.E.)****Consolidated Income Statement for the year Ended December 31, 2019**

	Note	December 31,	December 31,
	No.	2019	2018
		<u>LE</u>	<u>LE</u>
Net sales		2 349 814 322	2 705 549 187
Cost of sales	(5)	<u>(2 098 075 597)</u>	<u>(2 235 133 055)</u>
Gross Profit		251 738 725	470 416 132
Other Income	(6)	23 170 767	71 675 334
Distribution Expenses		(141 691 785)	(157 277 540)
Administrative Expenses		(184 234 365)	(192 651 089)
Other Expenses	(7)	<u>(37 199 968)</u>	<u>(41 503 723)</u>
(loss)/ profit from operating activities		(88 216 626)	150 659 114
Investment income		4 834 320	5 104 787
Finance income	(8)	4 037 437	5 495 761
Finance expenses	(9)	<u>(199 026 504)</u>	<u>(233 631 825)</u>
Loss before tax		(278 371 373)	(72 372 163)
Current income tax expense	(10)	(22 813 569)	(38 749 031)
Deferred income tax		201 983	(535 295)
Net loss for the year		<u>(300 982 959)</u>	<u>(111 656 489)</u>
<u>Attributable to :</u>			
Equity holders of the company		(298 317 810)	(114 332 969)
Non-controlling interests		<u>(2 665 149)</u>	<u>2 676 480</u>
Net loss for the year		<u>(300 982 959)</u>	<u>(111 656 489)</u>
Losses per share (LE/Share)	(11)	<u>(3.73)</u>	<u>(1.49)</u>

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

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Consolidated Statement of Comprehensive Income for the year Ended December 31, 2019

	December 31, 2019 <u>LE</u>	December 31, 2018 <u>LE</u>
<u>Other Comprehensive Income</u>		
Net loss for the year	(300 982 959)	(111 656 489)
<u>Items that may be reclassified subsequently to income statement</u>		
Foreign operations – Foreign currency translation differences	97 139 926	21 664 841
Revaluation surplus of group company's land	1 687 792 447	--
Total other comprehensive income	<u>1 483 949 414</u>	<u>(89 991 648)</u>
<u>Total comprehensive income attributable to :</u>		
Equity holders of the company	1 461 702 545	(99 448 778)
Non-controlling interests	22 246 869	9 457 130
Total other comprehensive income	<u>1 483 949 414</u>	<u>(89 991 648)</u>

- Notes from no (1) to no (37) 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, 2019

	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, 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
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		--	--	114 285 975	--	--	114 285 975	(10 126 080)	104 159 895
Translation adjustment of foreign subsidiaries		--	(103 165 995)	--	--	--	(103 165 995)	6 026 068	(97 139 927)
Revaluation surplus of group company's land		--	1 656 854 361	--	--	--	1 656 854 361	30 938 086	1 687 792 447
Closing the share of the land sold by the parent company in the revaluation surplus in the income statement		--	(9 863 935)	--	--	--	(9 863 935)	--	(9 863 935)
Net loss for the year		--	--	--	(298 317 810)	--	(298 317 810)	(2 665 149)	(300 982 959)
Balance at December 31, 2019		400 000 000	2 117 209 995	19 482 351	(298 317 810)	--	2 238 374 496	46 925 260	2 285 299 756

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

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

Consolidated Statement of Cash Flows for the year Ended December 31, 2019

	Note	December 31, 2019	December 31, 2018
	<u>No.</u>	<u>LE</u>	<u>LE</u>
<u>Cash Flow from Operating Activities</u>			
Net (loss) for the year		(298 317 810)	(114 332 969)
<u>Adjustments Provided to Reconcile Net loss to Net Cash Provided by Operating Activities</u>			
Fixed assets depreciation and translation differences		115 546 035	108 983 650
Intangible assets amortization and translation differences		1 902 726	(2 460 685)
Provided provisions and translation differences	(12)	9 599 735	33 154 594
Employees participation in net profit		60 309 511	50 434 178
Net of capital gains		(837 914)	(51 152 151)
Non cash adjustment for revaluation surplus of group company's hand		(9 863 935)	--
Net of intangible assets loss		843 488	--
Income tax expense		22 813 569	38 749 031
Deferred tax		(392 466)	578 015
Reversal of inventory impairment		(82 877)	(59 094)
Discounting of long term notes receivables		1 456 108	(3 823 264)
Change in non-controlling interests		(6 765 161)	4 086 561
Change in translation reserve		11 119 984	9 168 706
		<u>(92 669 007)</u>	<u>73 326 572</u>
<u>Changes in Working Capital</u>			
Change in inventory		143 705 867	46 541 692
Change in receivables		140 493 050	(6 108 068)
Change in payables		35 832 088	26 177 271
Paid income tax		(38 896 676)	(19 192 812)
Utilized provisions		(39 348 740)	(40 068 075)
Net cash used in operating activities		<u>149 116 582</u>	<u>80 676 580</u>
<u>Cash Flow from Investing Activities</u>			
Payments for acquiring property, plant & equipment		(61 127 980)	(90 094 615)
Payments for intangible assets		(1 702 839)	(713 232)
Proceeds (payments) from/ to other current investments		1 392 728	(130 882)
Proceeds from selling property, plant & equipment and intangibles		3 229 326	61 796 510
(Increase) Decrease in long-term notes receivable		(6 625 000)	14 800 000
Net cash (used in) from investing activities		<u>(64 833 765)</u>	<u>(14 342 219)</u>
<u>Cash Flow from Financing Activities</u>			
Proceeds (payments) from/to long term loans		52 180 000	(46 595 000)
Payments for employees' share in net profit		(48 471 024)	(35 738 746)
Net cash from (used in) financing activities		<u>3 708 976</u>	<u>(82 333 746)</u>
Net change in cash and cash equivalents during the year		87 991 793	(15 999 385)
Cash and cash equivalents at beginning of year	(19)	<u>(1 145 180 744)</u>	<u>(1 129 181 359)</u>
Cash and cash equivalents at the end of year	(19)	<u>(1 057 188 951)</u>	<u>(1 145 180 744)</u>

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

Lecico Egypt (S.A.E.)
Consolidated Financial Statements Notes for the Year ended December 31, 2019

1- Reporting Entity

The consolidated financial statements of the company as at and for the year ended December 31, 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	
		31/12/2019	31/12/2018
		<u>%</u>	<u>%</u>
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
Sarrguemines (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 Year ended December 31, 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 Year ended December 31, 2019

3- The financial statements of Lecico Lebanon (A subsidiary) for the year ended December 31, 2019

Lebanon is facing instability politically which generally affected the Lebanese economy and led to the reduction in the economic activities. Lecico Lebanon's management was required to submit unaudited financials due to Lecico Egypt's reporting timeline as a public company because Lecico Lebanon's auditors are unable till now to complete any audits in Lebanon due the questions raised about asset values and business sustainability across the entire Market. Accordingly, this might have a significant effect on the assets and liabilities and the results of operations of the Lebanese subsidiary in the future. Currently it is not possible for auditors in Lebanon to determine the effect of the Lebanese situation on any business in the Country and their future financial statements. Accordingly, the figures included in the consolidated financial statements are based on unaudited financial statements from the management.

Considering the circumstances referred to and its consequences that may affect the business in Lebanon generally; the Lebanese subsidiary's auditor did not quantify the effect of such circumstances upon its assets and liabilities included in its separate financial statements as at December 31, 2019. On preparing the accompanying consolidated financial statements as at December 31, 2019; the group management depends on a separate unaudited financial information and data for the Lebanese subsidiary to be entered the consolidated financial statements as at December 2019:

<u>Description</u>	December 31, 2019 <u>LE</u>
<u>Assets</u>	
Non-current assets	648 099 408
Current assets	313 002 148
Total assets	<u>961 101 556</u>
<u>Equity</u>	
Issued & paid up capital	10 974 654
Reserves	722 072 555
Accumulated losses	(70 272 149)
Net loss for the year	(100 479 624)
Deficit in subsidiary's equity	<u>562 295 436</u>
<u>Liabilities</u>	
Non-current liabilities	6 095 147
Current liabilities	392 710 973
Total liabilities	<u>398 806 120</u>
Total equity and liabilities	<u>961 101 556</u>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Year ended December 31, 2019

4- Information about operating Segments

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

	December 31, 2019	December 31, 2018
<u>First: Sanitary ware Segment</u>		
<u>Sales Volume (in 000 pcs)</u>		
Egypt	1 389	1 728
Lebanon	108	106
Export	3 202	3 486
Total Sales Volume (in 000 pcs)	4 699	5 320
Sales Revenues (Million LE)	1 416.1	1617,2
Average Selling Price (LE/pc)	301.4	303,9
Total Cost of Sales (Million LE)	1 238.6	1236,86
Gross Profit (Million LE)	177.6	380,30
<u>Second: Tile Segment</u>		
<u>Sales Volume (in 000 m²)</u>		
Egypt	15 309	20 666
Lebanon	660	478
Export	5 642	4 611
Total Sales Volume (000 m²)	21 611	25 755
Sales Revenues (Million LE)	856.4	1002.4
Average Selling Price (LE/ m ²)	39.6	38.9
Total Cost of Sales (Million LE)	811.8	941.4
Gross Profit (Loss) (Million LE)	44.7	61
<u>Third: Brassware segment</u>		
<u>Sales volume (pcs)</u>		
Egypt	82 933	106 371
Export	12	1 940
Total Sales Volume (PCS)	82 945	108 311
Sales Revenues (Million LE)	77.2	86
Average Selling Price (LE/ PC)	931.3	793.6
Total Cost of Sales (Million LE)	47.7	56.9
Gross Profit (Million LE)	29.5	29.1

Lecico Egypt (S.A.E.)
Consolidated Financial Statements Notes for the Year ended December 31, 2019

5- Cost of sales

	December 31, 2019 <u>LE</u>	December 31, 2018 <u>LE</u>
Cost of sales	2 039 578 958	2 186 207 456
<u>Add:</u>		
Employees' share in net profit	58 496 639	48 925 599
	<u>2 098 075 597</u>	<u>2 235 133 055</u>

6- Other Income

Capital Gains – net	10 701 849	51 152 151
Scrap Sales	5 511 198	8 256 585
Other Revenues	6 957 720	8 443 334
Discounting long term notes receivables to its present value	--	3 823 264
	<u>23 170 767</u>	<u>71 675 334</u>

7- Other Expenses

Provided for potential losses and claims provision	21 295 902	32 055 738
Miscellaneous expenses	9 927 688	1 712 792
Remuneration of the parent company's board of directors	4 520 270	7 735 193
Difference arisen from discounting the long term notes receivables to its present value	1 456 108	--
	<u>37 199 968</u>	<u>41 503 723</u>

8- Finance Income

Interest revenues	4 037 437	5 495 761
	<u>4 037 437</u>	<u>5 495 761</u>

9- Finance Expenses

Interest expenses	183 380 816	225 073 410
Foreign exchange differences	15 645 688	8 558 415
	<u>199 026 504</u>	<u>233 631 825</u>

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10- Current income tax

	December 31, 2019	December 31, 2018
	<u>LE</u>	<u>LE</u>
Current income tax for the year	19 209 844	38 644 256
Dividends' Tax	3 603 725	104 775
	<u>22 813 569</u>	<u>38 749 031</u>

11- Loss Per Share

The loss per share for the year ended December 31, 2019 was computed as follows:

	December 31, 2019	December 31, 2018
	<u>LE</u>	<u>LE</u>
Net (loss) for the year (in LE)	(298 317 810)	(114 332 969)
Weighted average of the number of outstanding shares	<u>80 000 000</u>	<u>76 666 667</u>
Loss per share (LE / share)	<u>(3.73)</u>	<u>(1.49)</u>

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12- Property, plant and equipment

<u>Cost</u>	<u>Land</u> <u>LE</u>	<u>Buildings</u> <u>LE</u>	<u>Leasehold</u> <u>Improvements</u> <u>LE</u>	<u>Machinery</u> <u>&</u> <u>Equipment</u> <u>LE</u>	<u>Motor Vehicles</u> <u>LE</u>	<u>Tools</u> <u>LE</u>	<u>Furniture, Office</u> <u>Equipment</u> <u>& Computers</u> <u>LE</u>	<u>Rights Of use</u> <u>LE</u>	<u>Total</u> <u>LE</u>
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	--	2 081 810 511
Translation differences	(3 377 246)	(9 591 439)	(289 219)	(22 109 914)	(2 223 631)	--	(701 694)	--	(38 293 143)
Year additions	--	1 417 554	3 938 987	46 465 119	902 755	9 876 212	729 956	13 683 253	77 013 836
Year disposals	(454 000)	(2 218 005)	(477 222)	(22 279 963)	(656 482)	--	--	--	(26 085 672)
Revaluation surplus of group company's land	1 687 792 447	--	--	--	--	--	--	--	1 687 792 447
At 31/12/2019	1 849 124 621	405 465 343	18 383 367	1 223 566 585	72 783 628	160 402 252	38 828 930	13 683 253	3 782 237 979
<u>Accumulated Depreciation</u>									
At 01/01/2019	--	211 287 535	13 194 314	964 050 648	68 665 064	113 397 878	34 375 902	--	1 404 971 341
Translation differences	--	(4 470 187)	(182 350)	(20 375 950)	(2 179 477)	--	(636 391)	--	(27 844 355)
Cumulative effect of applying IFRS (16) on lease contracts	--	--	--	--	--	--	--	6 667 439	6 667 439
Year depreciation	--	17 011 906	1 252 802	67 786 590	2 550 751	13 276 295	1 167 988	2 050 915	105 097 247
Disposals' accumulated depreciation	--	(1 792 948)	(347 486)	(22 162 587)	(656 477)	--	--	--	(24 959 498)
At 31/12/2019	--	222 036 306	13 917 280	989 298 701	68 379 861	126 674 173	34 907 499	8 718 354	1 463 932 174
<u>Net Book Value at</u>									
At 31/12/2019	1 849 124 621	183 429 037	4 466 087	234 267 884	4 403 767	33 728 079	3 921 431	4 964 899	2 318 305 805

- 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"

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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 01/01/2018	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

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The company's management decided to adopt the revaluation model as per International Accounting Standard No. 16 "Property, Plant & Equipment" in respect to the land owned by the company and its subsidiaries, which states that:

"After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss."

The result of such change resulted in an excess amount of EGP 1 687 792 447 which is recognised into the Other Comprehensive Income Statement and in the equity under "Reserves" Note.

13- Projects in Progress

	December 31, 2019	December 31, 2018
	<u>LE</u>	<u>LE</u>
Machinery under installation	1 051 884	2 713 630
Buildings under construction	714 086	1 124 905
Advance payments for purchasing fixed assets	70 733	175 426
Letter of credit for purchase fixed assets	2 153 788	2 179 137
	<u>3 990 491</u>	<u>6 193 098</u>

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14- Intangible Assets

<u>Cost</u>	<u>Goodwill</u>	<u>Development & Other Costs</u>	<u>Other Intangibles</u>	<u>Total</u>
<u>LE</u>	<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	(776 103)	(1 159 347)	(130 030)	(2 065 480)
Year addition	--	1 702 839	--	1 702 839
Year disposals	--	--	(2 108 726)	(2 108 726)
Balance at 31/12/2019	25 196 553	15 818 516	--	41 015 069

Amortisation & Impairment

Losses

Balance at 01/01/2019	--	11 673 683	--	11 673 683
Translation differences	--	(875 612)	--	(875 612)
Year amortisation	--	712 858	--	712 858
Balance at 31/12/2019	--	11 510 929	--	11 510 929
Carrying Amount at 31/12/2019	25 196 553	4 307 587	--	29 504 140
Carrying Amount at 31/12/2018	25 972 656	3 601 341	2 238 756	31 812 753

15- Other Investments

	<u>Ownership %</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
		<u>LE</u>	<u>LE</u>
Murex Industries and Trading (S.A.L.)	40.0	11 938 942	13 330 826
El-Khaleeg for Trading and Investment	99.9	99 900	99 900
Other Investments	--	20 812	21 656
		12 059 654	13 452 382
(Less):-			
Impairment of investment in "El- Khaleeg for Trading and Investment"		(99 900)	(99 900)
		11 959 754	13 352 482

16- Long term notes receivables

Fair value of long term notes receivables	26 675 000	20 050 000
Discounting notes receivables to its present value*	(5 338 785)	(3 882 677)
Present value of long term notes receivables	21 336 215	16 167 323

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

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Consolidated Financial Statements Notes for the year ended December 31, 2019

17- Inventory

	December 31, 2019	December 31, 2018
	<u>LE</u>	<u>LE</u>
Raw materials, consumables and spare parts	294 376 439	341 429 846
Work in process	65 737 057	73 695 994
Finished products	600 535 345	685 706 334
	<u>960 648 841</u>	<u>1 100 832 174</u>
<u>Less:</u>		
Impairment of inventory	(32 062 619)	(33 593 351)
	928 586 222	1 067 238 823
Letters of credit for purchasing inventory	16 399 333	19 921 867
	<u>944 985 555</u>	<u>1 087 160 690</u>

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

	Balance in 1/1/2019	Translation Differences	Impairment Reversal	Balance in 31/12/2019
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
Impairment of inventory	33 593 351	(1 447 855)	(82 877)	32 062 619
	<u>33 593 351</u>	<u>(1 447 855)</u>	<u>(82 877)</u>	<u>32 062 619</u>

18- Trade and other receivables

	Note No.	December 31, 2019	December 31, 2018
		<u>LE</u>	<u>LE</u>
Trade Receivables		467 600 501	551 465 310
Notes Receivable		52 778 895	124 391 015
Sundry Debtors		58 339 904	51 672 048
Suppliers – Debit Balances		1 631 809	4 204 592
Due from related parties - net	(30)	19 403 335	23 055 249
Tax Administration – Tax withheld		19 383	520 397
Tax Administration – Advance payment		9 958 110	3 305 130
Tax Administration – Sales tax		25 489 802	15 659 651
Other Debit Balances		130 284 256	127 509 721
Other prepaid expenses		5 652 755	9 703 541
Accrued Revenues		59 392	224 540
		<u>771 218 142</u>	<u>911 711 194</u>
<u>Less:</u>			
Impairment of Receivables		(96 275 155)	(123 557 806)
		<u>674 942 987</u>	<u>788 153 388</u>

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

	Balance in 1/1/2019	Translation Differences	Impairment Reversal	Balance in 31/12/2019
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
Impairment of receivables	123 557 806	(9 531 153)	(17 751 498)	96 275 155
	<u>123 557 806</u>	<u>(9 531 153)</u>	<u>(17 751 498)</u>	<u>96 275 155</u>

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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 year ended December 31, 2019 charged to the other operating expenses in the consolidated income statement amounted to LE 4 520 270 (December 31, 2018: 7 735 193).

19- Cash and cash equivalents

	December 31, 2019 <u>LE</u>	December 31, 2018 <u>LE</u>
Banks – Time Deposits	6 100 000	127 647 685
Banks - Current Accounts *	115 295 647	53 601 164
Cash on Hand	7 595 419	5 620 182
	<u>128 991 066</u>	<u>186 869 031</u>
<u>Less:</u>		
Bank Overdrafts	<u>(1 186 180 017)</u>	<u>(1 332 049 775)</u>
Cash and cash equivalent for the purpose of cash flows statement	<u>(1 057 188 951)</u>	<u>(1 145 180 744)</u>

- * Banks – current accounts include an amount of Euro 1.28 million equivalent to LE 23.1 million represent a cash cover to a letter of guarantee issued in favor of one of the clients of the parent company amounting Euro 4 million equivalent to LE 72 million.

20- Bank overdrafts

Bank overdrafts represent credit facilities partially secured by certain notes receivables and inventories. The authorized facilities limit in respect of all overdrafts LE 1 793 050 000 and the unutilized amount is LE 606 869 980.

21- Share capital

21-1 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.

21-2 Issued and paid up capital

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

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

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22- 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, 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
Translation adjustment for foreign subsidiaries	--	--	--	--	(103 165 995)	(103 165 995)
Closing the share of the land sold by the parent company in the revaluation surplus in the income statement	--	--	--	(9 863 935)	--	(9 863 935)
Revaluation surplus of group company's land	--	--	--	1 656 854 361	--	1 656 854 361
Balance at December 31, 2019	<u>50 915 481</u>	<u>15 571 032</u>	<u>181 164 374</u>	<u>1 699 755 511</u>	<u>169 803 557</u>	<u>2 117 209 955</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.

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23- Retained Earnings

At December 31, 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.

24- Loans and borrowings

	December 31, 2019 <u>LE</u>	December 31, 2018 <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.	--	20 000 000
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 was fully paid in one installment on 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 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%.	72 180 000	--
	<hr/>	<hr/>
	72 180 000	20 000 000
<u>Less:</u>		
Installments due within one year which are classified as current liabilities (note 28).	(19 248 000)	(20 000 000)
	<hr/>	<hr/>
	52 932 000	--

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

25- Other Long-Term Liabilities

	December 31, 2019 <u>LE</u>	December 31, 2018 <u>LE</u>
Liability arisen from the present value of the rights of use	6 659 640	--
<u>Less :</u>		
Installments due within one year which are classified as current liabilities.	(2 876 058)	--
	<hr/>	<hr/>
Total Other Long-Term Liabilities	3 783 582	--

26- Deferred Income Tax Assets and Liabilities

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

	31/12/2019		31/12/2018	
	Assets	Liabilities	Assets	Liabilities
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>
Accumulated losses carried forward	1 031 916	--	841 433	--
Property, plant and equipment	--	28 173 385	--	28 237 221
Inventory	4 172 817	--	4 034 670	--
Total Deferred Income tax (assets) / liabilities	5 204 733	28 173 385	4 876 103	28 237 221
Net Deferred Income Tax Liabilities	--	22 968 652	--	23 361 118

27- Provisions

	Balance at 1/1/2019 <u>LE</u>	Translation Differences <u>LE</u>	Provided Provisions <u>LE</u>	Utilised Provisions <u>LE</u>	Balance at 31/12/2019 <u>LE</u>
<u>Provisions Disclosed in the Non-Current Liabilities</u>					
End of Service Indemnity Provision	7 100 714	(485 532)	--	(106 422)	6 508 760
Claims provision	2 218 393	(231 625)	--	--	1 986 768
	9 319 107	(717 157)	--	(106 422)	8 495 528
<u>Provision Disclosed in the Current Liabilities</u>					
Potential Losses and Claims Provision	780 000	--	21 295 902	(21 490 820)	585 082
	780 000	--	21 295 902	(21 490 820)	585 082
Total	10 099 107	(717 157)	21 295 902	(21 597 242)	9 080 610

28- Loans and borrowings

	December 31, 2019 <u>LE</u>	December 31, 2018 <u>LE</u>
Current portion of long-term loan	19 248 000	20 000 000
Current portion of sales tax	9 181	9 181
	2 876 058	--
	22 133 239	20 009 181

29- Trade and other payables

Note December 31, December 31,

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	No.	2019 LE	2018 LE
Trade payable		140 637 692	149 739 119
Notes payable		34 235 748	41 618 116
Due to related parties	(30)	2 713 723	1 617 900
Social insurance authority and tax authority		13 207 443	10 327 013
Income tax payable		13 158 310	29 241 417
Accrued expenses		133 096 450	136 839 780
Deposits due to others		24 701	24 701
Sundry creditors		135 133 645	58 651 108
Sales Tax Administration - Current account		7 779 173	21 044 176
Dividends payable		389 929	389 929
Creditors for purchasing fixed assets		41 250	1 666 130
Profit sharing provision for employees of certain group companies		71 220 093	59 381 611
Liabilities arisen from foreign currencies hedge contracts		--	7 379 985
		<u>551 638 157</u>	<u>517 920 985</u>

30- Related Parties

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

	<u>Nature of Transaction</u>	Transaction Amount LE	December 31, 2019 LE	December 31, 2018 LE
<u>Due from Related Parties</u>				
Murex Industries and Trading (S.A.L)	Sales Notes Receivables	88 851 104 --	16 195 335 3 208 000	21 622 449 1 432 800
			<u>19 403 335</u>	<u>23 055 249</u>
El-khaleeg for Trading and Investment	Current	--	300 100	300 100
			<u>19 703 435</u>	<u>23 355 349</u>
<u>Less:</u>				
Impairment for balance of "El-khaleeg for Trading and Investment"			(300 100)	(300 100)
			<u>19 403 335</u>	<u>23 055 249</u>
<u>Due to Related Parties</u>				
Murex Industries and Trading (S.A.L)	Purchases	7 947 461	347 219	57 110
LIFCO	Rent	--	1 276 816	1 425 672
Ceramics Management Services Ltd. (CMS)	Technical Assistance Fees	--	1 089 688	135 118
			<u>2 713 723</u>	<u>1 617 900</u>
Total of credit balances due from related parties				

31- Contingent Liabilities

31-1 Letters of Guarantee

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

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Consolidated Financial Statements Notes For the year ended December 31, 2019

Parent depends on bank overdrafts at variable interest rates. In financing its expansion projects the Parent Company depends on equity and long-term loans at the best offered rates and conditions available.

35-2 Credit Risk

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

35-3 Foreign Currency Exchange Rates Fluctuations Risk

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

36- Significant accounting policies

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

36-1 Basis of consolidation

a. Subsidiaries

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

b. Non-controlling interests (NCI)

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

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

c. Lose of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. 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

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eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

36-2 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.

36-3 Revenues

Sale of goods

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

36-4 Employee benefits

36-4-1 Employees' pension

The holding company and two subsidiary companies (Lecico Ceramic Industries and European Ceramics) contribute 3% of the annual remuneration of employees in addition to 0.5% to 1% of the net profit for the year which is recognized

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during the year until approval by the General Assembly of Shareholders for annual distributions.

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

36-5 Finance income and finance costs

The Company's finance income and finance costs include:

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

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

36-6 Income tax

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

a. Current tax

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

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

b. Deferred tax

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

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Company.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

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

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Company has not rebutted this presumption.

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

36-7 Inventories

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

36-8 Property, plant & equipment

36-8-1 Recognition and measurement

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

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

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

36-8-2 Subsequent expenditure

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

36-8-3 Depreciation

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

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

Assets

Years

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

- Leasehold improvements are depreciated over the period of the contract or useful life of the lease which ever is less.

- Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

36-9 Projects In Progress

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

36-10 Intangible assets

36-10-1 Goodwill

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

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

36-10-2 Intangible Assets

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

36-10-3 Amortization

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

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36-11 Leased Assets

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

36-11-1 Finance Lease Payments

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

36-11-2 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.

- 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

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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.

36-12 Financial instruments

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

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

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

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

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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.

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

Financial assets at fair value through profit or loss

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

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

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

36-12-4 Loans and receivables

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

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

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

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

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

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and changes therein, including any interest expense, are recognised in profit or loss.

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

36-13 Share capital

36-13-1 Ordinary shares

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

36-13-2 Repurchase of share capital

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

36-14 Impairment

36-14-1 Non-derivative financial assets

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

Objective evidence that financial assets are impaired includes:

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

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

36-14-2 Financial assets measured at amortized cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then

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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.

36-14-3 Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of

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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.

36-15 Provisions

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

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

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

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

36-16 Cash and Cash Equivalents

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

36-17 Borrowing Cost

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

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

36-18 Segment Reporting

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

36-19 Consolidated Cash Flows Statement

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

37- Tax Status

<u>Type of tax</u>	<u>Years</u>	<u>Status</u>
Corporate tax	From inception Till 2007	Tax dispute was finalized, and all tax obligation was paid.
	2008/2012	The parent company's records were examined and informed by the related tax forms which was objected within the legal dates.
	2013/2018	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.