

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

**Interim Consolidated Financial Statements**  
**and Review Report**  
**For The Period Ended March 31, 2014**

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

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**and Review Report**  
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<b><u>Contents</u></b>	<b><u>Page no.</u></b>
- Review Report	1-2
- Consolidated Balance Sheet	3
- Consolidated Income Statement	4
- Consolidated Statement of Changes In Shareholders' Equity	5
- Consolidated Cash Flows Statement	6
- Notes to the Consolidated Financial Statements	7-33



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

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

#### ***Introduction***

We have performed a limited review for the accompanying consolidated balance sheet of Lecico Egypt (S.A.E.) and its subsidiaries as at March 31, 2014 and the related consolidated statements of income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our limited review.

#### ***Scope of Limited Review***

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

#### ***Conclusion***

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2014, and of its consolidated financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.



Hazem Hassan

***Emphasis of Matter***

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

- 1- Note no. (16) to the interim consolidated financial statements. The management intends to reinvest, indefinitely, the earnings of the foreign subsidiaries. These earnings might be subject to tax at different rates upon distribution, depending on subsidiaries' country of incorporation.
- 2- Note no.(37) to the interim consolidated financial statements. As at October 31, 2013 Lecico started the process of liquidation proceedings of all its French subsidiaries, accordingly , as of that date , a court appointed administrator has taken over the management of Lecico France, Lecico Distribution and Sarreguemine Batiments.

  
**KPMG** Hazem Hassan  
Hatem Montaser  
CPA no. 13309

Capital Markets Register No. 225

**Public Accountants and consultants**

Alexandria on 11 May 2014



**Lecico Egypt  
(S.A.E.)  
Consolidated Income Statement for the Period Ended March 31, 2014**

<i>In Egyptian Pound</i>	<b>Note <u>No.</u></b>	<b>31 March <u>2014</u></b>	<b>31 March <u>2013</u></b>
Net sales		383 752 706	331 883 809
Cost of sales		(267 560 100)	(240 848 138)
<b>Gross Profit</b>		<b>116 192 606</b>	<b>91 035 671</b>
Other Income	(23)	3 117 978	3 322 696
Distribution Expenses		(14 640 970)	(17 314 850)
Administrative Expenses		(29 451 388)	(29 542 601)
Other Expenses	(24)	(4 024 942)	(5 129 396)
<b>Result from operating activities</b>		<b>71 193 284</b>	<b>42 371 520</b>
Investment income		(100)	(4 521)
Finance income	(25)	1 757 344	8 814 390
Finance expenses	(26)	(23 331 583)	(23 587 296)
		49 618 945	<b>27 594 093</b>
Employees' participation in profit		(8 050 292)	(6 552 553)
<b>Profit before tax</b>		<b>41 568 653</b>	<b>21 041 540</b>
Current income tax expense		(5 363 298)	(5 082 371)
Deferred income tax		(958 730)	(526 655)
<b>Net Profit for the Period</b>		<b>35 246 625</b>	<b>15 432 514</b>
<b><u>Attributable to :</u></b>			
Equity holders of the company		35 014 944	16 283 470
Non-controlling interest		231 681	(850 956)
<b>Profit for the Period</b>		<b>35 246 625</b>	<b>15 432 514</b>
<b>Earnings per share (LE/Share)</b>	(27)	<b>0.43</b>	<b>0.20</b>

- Notes from (1) to (37) are an integral part of these consolidated financial statements.

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

**Consolidated Statement of Changes in Shareholders' Equity for the Period Ended March 31, 2014**

<i>In Egyptian Pound</i>	<b>Issued &amp; Paid up Capital</b>	<b>Reserves</b>	<b>Retained Earnings</b>	<b>Profit for the period</b>	<b>Equity of the parent company's shareholders</b>	<b>Non- controlling Interest</b>	<b>Total Equity</b>
<b>Balance at December 31, 2012</b>	<b>400 000 000</b>	<b>321 168 632</b>	<b>75 333 185</b>	<b>62 806 604</b>	<b>859 308 421</b>	<b>1 535 996</b>	<b>860 844 417</b>
Transfer to retained earnings	--	--	62 806 604	(62 806 604)	--	--	--
Transfer to legal reserve	--	4 472 686	(4 472 686)	--	--	--	--
Dividends declared	--	--	(40 000 000)	--	(40 000 000)	--	(40 000 000)
Adjustments	--	--	626 602	--	626 602	414 560	1 041 162
Translation adjustment of foreign subsidiaries	--	13 588 349	--	--	13 588 349	--	13 588 349
Net Profit for the Period	--	--	--	16 283 470	16 283 470	(850 956)	15 432 514
<b>Balance at March 31, 2013</b>	<b>400 000 000</b>	<b>339 229 667</b>	<b>94 293 705</b>	<b>16 283 470</b>	<b>849 806 842</b>	<b>1 099 600</b>	<b>850 906 442</b>
<b>Balance at December 31, 2013</b>	<b>400 000 000</b>	<b>350 310 154</b>	<b>94 298 871</b>	<b>(18 009 743)</b>	<b>826 599 282</b>	<b>3 651 333</b>	<b>830 250 615</b>
Transfer to retained earnings	--	--	(18 009 743)	18 009 743	--	--	--
Transfer to legal reserve	--	2 028 670	(2 028 670)	--	--	--	--
Dividends declared	--	--	(44 000 000)	--	(44 000 000)	--	(44 000 000)
Adjustments	--	--	9 399 735	--	9 399 735	(227 306)	9 172 429
Translation adjustment of foreign subsidiaries	--	437 778	--	--	437 778	--	437 778
Net Profit for the Period	--	--	--	35 014 944	35 014 944	231 681	35 246 625
<b>Balance at March 31, 2014</b>	<b>400 000 000</b>	<b>352 776 602</b>	<b>39 660 193</b>	<b>35 014 944</b>	<b>827 451 739</b>	<b>3 655 708</b>	<b>831 107 447</b>

▪ Notes from (1) to (37) are an integral part of these consolidated financial statements.

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

**Consolidated Statement of Cash Flows for the Period ended March 31, 2014**

<i>In Egyptian Pound</i>	<b>Note No.</b>	<b>31 March 2014</b>	<b>31 March 2013</b>
<b><u>Cash Flow from Operating Activities</u></b>			
Net profit for the Period		35 014 944	16 283 470
<b><u>Adjustments Provided to Reconcile Net Profit to Net Cash Provided by Operating Activities</u></b>			
Fixed assets depreciation and translation differences	(4)	24 637 714	21 421 562
Intangible assets amortization and translation differences	(6)	58 058	(74 784)
Employees participation in net profit		8 050 290	6 552 553
Long term prepaid rent expense		59 000	59 000
Capital gain		(69 805)	(16 338)
Provided provisions, inventory impairment and translation differences		1 279 757	4 465 434
Income tax expense		5 363 298	5 082 371
Deferred income tax		573 746	526 655
Reversal of expired provision		(1 279 759)	(2 387 518)
Discounting of long term notes receivables		146 891	3 038 370
Increase in minority interest		4 375	(436 396)
Change in translation reserve		(6 175 204)	14 142 162
		<u>67 663 305</u>	<u>68 656 541</u>
<b><u>Changes in Working Capital</u></b>			
Increase in inventory		(40 904 506)	(44 331 225)
Increase in receivables		(9 667 095)	(9 189 239)
Increase in payables		42 474 985	46 662 232
Proceeds (Payments) for other long-term liabilities		( 174 286)	(58 004)
Paid income tax		(1 714 431)	(1 274 994)
Utilized provisions		(433 382)	(403 716)
Change in current investments		4 795 978	(3 979 360)
<b>Net cash provided by operating activities</b>		<b><u>62 040 568</u></b>	<b><u>56 082 235</u></b>
<b><u>Cash Flow from Investing Activities</u></b>			
Payments for property, plant & equipment additions and projects in progress		(13 495 931)	(33 783 713)
Payments for intangible assets		(64 381)	(63 729)
Payment for other current investments		(14 889)	(342 412)
Proceeds from sales of property, plant & equipment		96 407	359 611
Payment for long-term notes receivable		(5 055 002)	(22 291 000)
<b>Net cash (used in) investing activities</b>		<b><u>(18 533 796)</u></b>	<b><u>(56 121 243)</u></b>
<b><u>Cash Flow from Financing Activities</u></b>			
Payments for long term loans and its current portion		(5 832 762)	(6 137 991)
<b>Net cash (used in) financing activities</b>		<b><u>(5 832 762)</u></b>	<b><u>(6 137 991)</u></b>
Net change in cash and cash equivalents during the period		37 674 010	(6 176 999)
Cash and cash equivalents at beginning of the period	(13)	(593 106 574)	(599 654 865)
<b>Cash and cash equivalents at the end of the period</b>	(13)	<b><u>(555 432 564)</u></b>	<b><u>(605 831 864)</u></b>

▪ 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 Period ended March 31, 2014**

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**1. Reporting Entity**

The consolidated financial statements of the company as at and for the year ended March 31, 2014 comprise the parent company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”)

**1.1. Lecico Egypt (the Parent)**

Lecico Egypt (S.A.E.) was established on November 1st, 1975 according to the resolution of Ministry of Economics and Economic Co-operation number 142 of 1975. The company is subject to law number 8 of 1997. The parent company’s purpose is the production of all ceramic products including the production of sanitary ware and all kinds of tiles and entering into capital lease transactions.

**1.2. Subsidiaries**

The following is a list of the subsidiaries comprising the consolidated financial statements together with the respective percentage owned by the Parent:-

	Country of Incorporation	Ownership Interest	
		31/3/2014 %	31/12/2013 %
Lecico for Ceramics Industries (S.A.E.)	Egypt	99.99	99.99
TGF for Consulting and Trading (S.A.E.)	Egypt	99.83	99.83
Lecico for Financial Investments (S.A.E.)	Egypt	99.33	99.33
Lecico (UK) Ltd.	United Kingdom	100	100
Lecico for Investments Company Ltd.	United Kingdom	100	100
The Lebanese Ceramics Industries (S.A.L.)	Lebanon	94.77	94.77
International Ceramics (S.A.E.)	Egypt	99.97	99.97
Lecico for Trading and Distribution of Ceramics (S.A.E.)	Egypt	70	70
European Ceramics (S.A.E)	Egypt	99.97	99.97
Lecico Plus for Trading (S.A.E)	Egypt	99.85	99.85
Burg Armaturen Fabrik Sarrdesign (S.A.E.)	Egypt	69.85	69.85

## **2. Basis of Preparation**

### **2.1. Statement of Compliance**

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

### **2.2. Basis of Measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

### **2.3. Functional and Presentation Currency**

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

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

### **2.4. Use of Estimates and Judgments**

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

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

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

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

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

##### - **Subsidiaries**

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

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

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

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

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

### **3.2. Foreign Currency**

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

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

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

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

### **3.3. Financial Instruments**

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

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

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

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

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

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

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

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

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

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

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

***Other***

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

**(ii) *Share capital******Ordinary shares***

Ordinary shares are classified as equity.

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

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

**3.4. Property, plant and equipment****(i) *Recognition and measurement***

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

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

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

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

**(ii) *Subsequent costs***

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

**(iii) Depreciation**

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

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

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

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

**3.5. Leased Assets**

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

***Finance Lease Payments***

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

### 3.6. Projects In Progress

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

### 3.7. Intangible Assets

#### *Goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment

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

#### *Intangible Assets*

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

### 3.8. Investments

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

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

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



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

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

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

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

### **3.9. Inventories**

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

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

### **3.10. Cash and Cash Equivalents**

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

### **3.11. Provisions**

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

**3.11.1. End of Services Indemnity**

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

**3.11.2. Restructuring**

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

**3.12. Income tax**

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

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

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**3.13. Revenue Recognition**

***Goods Sold and Services Rendered***

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

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

**3.14. Borrowing Cost**

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

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

**3.15. Employees Benefits**

**3.15.1. End of Services Benefit Fund (Defined contribution plan)**

The parent company and two of its subsidiaries (Lecico for Ceramic Industries and European Ceramics) contributed to an employees End of Services Benefit fund. This contribution represents 3 % of the annual salaries. In addition, 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.

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

**3.16. Segment Reporting**

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

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

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

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

#### ***Impairment***

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

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

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

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

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

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

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes for the Period Ended March 31, 2014

**4. Property, plant and equipment**

<i>In Egyptian Pound</i>	Land	Buildings	Leasehold Improvements	Machinery & Equipment	Motor Vehicles	Tools	Furniture, Office Equipment & Computers	Total
<b><u>Cost</u></b>								
At 01/01/2014 before adjustments	151 022 915	339 779 308	3 222 144	897 433 830	60 722 826	82 829 179	30 320 876	1 565 331 078
Translation differences	37 786	121 245	3 522	227 073	87 861	--	5 925	483 412
Period additions	--	122 223	288 616	211 374	582 337	2 872 806	348 380	4 425 736
Period disposals	--	--	--	--	(503 626)	--	--	(503 626)
<b>At 31/3/2014</b>	<b>151 060 701</b>	<b>340 022 776</b>	<b>3 514 282</b>	<b>897 872 277</b>	<b>60 889 398</b>	<b>85 701 985</b>	<b>30 675 181</b>	<b>1 569 736 600</b>
<b><u>Accumulated Depreciation</u></b>								
At 01/01/2014	--	114 495 344	2 350 365	581 178 791	47 198 584	56 201 970	24 174 624	825 599 678
Translation differences	--	34 736	2 735	207 946	35 432	--	5 973	286 822
Period depreciation	--	3 680 648	126 206	16 562 444	1 475 924	2 562 226	426 854	24 834 302
Disposals acc. Depreciation	--	--	--	--	(477 024)	--	--	(477 024)
<b>At 31/3/2014</b>	<b>--</b>	<b>118 210 728</b>	<b>2 479 306</b>	<b>597 949 181</b>	<b>48 232 916</b>	<b>58 764 196</b>	<b>24 607 451</b>	<b>850 243 778</b>
<b><u>Net Book Value at</u></b>								
<b>31/3/2014</b>	<b>151 060 701</b>	<b>221 812 048</b>	<b>1 034 976</b>	<b>299 923 096</b>	<b>12 656 482</b>	<b>26 937 789</b>	<b>6 067 730</b>	<b>719 492 822</b>
<b>31/12/2013</b>	<b>151 022 915</b>	<b>225 283 964</b>	<b>871 779</b>	<b>316 255 039</b>	<b>13 524 242</b>	<b>26 627 209</b>	<b>6 146 252</b>	<b>739 731 400</b>

- The Land and Buildings include properties at a cost of LE 1.8 million and LE 6.5 million respectively which were purchased by the Parent Company with an unregistered deed.
- The Lebanese Ceramic Industries Company S.A.L. (a subsidiary) granted a first ranking mortgage on plots 732 and 25 in Kfarshima in Lebanon against credit facilities.

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

## Consolidated Financial Statements Notes For the period ended March 31, 2014

5. Projects In Progress

<i>In Egyptian Pound</i>	<b>31 March <u>2014</u></b>	<b>31 December <u>2013</u></b>
Machinery under installation	21 561 187	17 934 351
Buildings under construction	5 992 358	2 911 197
Advance payment	4 865 632	3 200 211
Letters of credit for purchase of fixed assets	2 062 242	1 365 470
	<b><u>34 481 419</u></b>	<b><u>25 411 229</u></b>

6. Intangible Assets

<i>In Egyptian Pound</i>	<b>Goodwill</b>	<b>Trademarks</b>	<b>Development &amp; Other Costs</b>	<b>Other Intangibles</b>	<b>Total</b>
<b><u>Cost</u></b>					
Balance at 01/01/2014	20 757 105	131 858	5 889 534	870 002	27 648 499
Translation differences	50 485	144	44 494	2 500	97 623
Period additions	--	--	64 383	--	64 383
<b>Balance at 31/3/2014</b>	<b><u>20 807 590</u></b>	<b><u>132 002</u></b>	<b><u>5 998 411</u></b>	<b><u>872 502</u></b>	<b><u>27 810 505</u></b>
<b><u>Amortisation &amp; Impairment</u></b>					
<b><u>Losses</u></b>					
Balance at 01/01/2014	--	120 117	4 965 675	--	5 085 792
Translation differences	--	(2 094)	2 158	--	64
Period amortisation	--	2 838	152 781	--	155 619
<b>Balance at 31/3/2014</b>	<b><u>--</u></b>	<b><u>120 861</u></b>	<b><u>5 120 614</u></b>	<b><u>--</u></b>	<b><u>5 241 475</u></b>
<b>Carrying Amount at 31/3/2014</b>	<b><u>20 807 590</u></b>	<b><u>11 141</u></b>	<b><u>877 797</u></b>	<b><u>872 502</u></b>	<b><u>22 569 030</u></b>
<b>Carrying Amount at 31/12/2013</b>	<b><u>20 757 105</u></b>	<b><u>11 741</u></b>	<b><u>923 859</u></b>	<b><u>870 002</u></b>	<b><u>22 562 707</u></b>

7. Other Investments

<i>In Egyptian Pound</i>	<b>Ownership %</b>	<b>31 March <u>2014</u></b>	<b>31 December <u>2013</u></b>
Murex Industries and Trading (S.A.L.)	40.0	5 195 376	5 180 488
El-Khaleeg for Trading and Investment	99.9	99 900	99 900
Other Investments	--	21 141	21 140
		<b><u>5 316 417</u></b>	<b><u>5 301 528</u></b>

**Lecico Egypt (S.A.E.)**  
**Consolidated Financial Statements Notes For the period ended March 31, 2014**

**8. Long term notes receivables**

<i>In Egyptian Pound</i>	<b>31 March 2014</b>	<b>31 December 2013</b>
Face value of long term notes receivables	54 990 000	49 934 998
Discounting notes receivables to its present value*	<u>(10 041 301)</u>	<u>(9 894 410)</u>
<b>Present value of long term notes receivables</b>	<b><u>44 948 699</u></b>	<b><u>40 040 588</u></b>

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

**9. Inventory**

<i>In Egyptian Pound</i>	Note	<b>31 March 2014</b>	<b>31 December 2013</b>
Raw materials, consumables and spare parts		194 656 996	184 417 045
Work in process		37 117 056	38 399 549
Finished products		<u>386 519 745</u>	<u>357 113 229</u>
		<b><u>618 293 797</u></b>	<b><u>579 929 823</u></b>
<b><u>Less:</u></b>			
Impairment of inventory		<u>(26 719 610)</u>	<u>(27 477 672)</u>
		<b><u>591 574 187</u></b>	<b><u>552 452 151</u></b>
Letters of credit for purchasing goods		<u>17 983 408</u>	<u>15 442 876</u>
		<b><u>609 557 595</u></b>	<b><u>567 895 027</u></b>

**10. Trade and other receivables**

<i>In Egyptian Pound</i>			
Trade Receivables		258 648 010	238 537 453
Notes Receivable		112 511 701	119 845 768
Sundry Debtors		33 250 594	27 282 931
Suppliers – Debit Balances		700 866	3 437 790
Due from related parties	(28)	58 503 824	74 766 547
Tax Administration – Tax withheld		422 377	1 338 792
Tax Administration – Advance payment		1 015 287	859 793
Tax Administration – Sales tax		446 246	383 237
Other Debit Balances		37 207 740	41 811 957
Social security		--	1 229
Other prepaid expenses		24 192 898	8 613 999
Accrued Revenues		<u>1 045 940</u>	<u>1 398 032</u>
		<b><u>527 945 483</u></b>	<b><u>518 277 528</u></b>
<b><u>Less:</u></b>			
Impairment of Receivables		<u>(69 354 602)</u>	<u>(69 252 661)</u>
		<b><u>458 590 881</u></b>	<b><u>449 024 867</u></b>

**Lecico Egypt (S.A.E.)****Consolidated Financial Statements Notes For the period ended March 31, 2014****Transactions with Key Management**

- The balances of the Board of Directors of the Parent Company amounted to LE 20 000 (debit balances) and LE 19 780 (credit balances) as at March 31, 2014. These balances are included in sundry debtors and creditors in receivables and payables.
- The Board of Directors of the Parent Company control 0.04% of the voting shares of the Parent company.
- Emoluments for the Board of Directors of the parent company, for the Year ended March 31, 2014 charged to the other operating expenses in the consolidated income statement amounted to LE 1 133 317 (March 31, 2013: LE 1 149 401).

**11. Trading Investments**

<i>In Egyptian Pound</i>	<b>31 March <u>2014</u></b>	<b>31 December <u>2013</u></b>
Treasury bonds (Held for Trading)	--	5 000 000
Callable Money Market Securities	56 733 224	56 529 202
	<b><u>56 733 224</u></b>	<b><u>61 529 202</u></b>

**12. Cash and cash equivalents**

<i>In Egyptian Pound</i>		
Banks - Time Deposit	139 026 565	169 429 755
Banks - Current Accounts	170 690 616	115 289 401
Cash On Hand	8 027 389	3 753 871
	<b><u>317 744 570</u></b>	<b><u>288 473 027</u></b>

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

<i>In Egyptian Pound</i>		
Banks - Time Deposits	139 026 565	169 429 755
Banks - Current Accounts	170 690 616	115 289 401
Cash on Hand	8 027 389	3 753 871
	<b><u>317 744 570</u></b>	<b><u>288 473 027</u></b>
<b><u>Less:</u></b>		
Bank Overdrafts	<u>(873 177 134)</u>	<u>(881 579 601)</u>
	<b><u>(555 432 564)</u></b>	<b><u>(593 106 574)</u></b>



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

**Consolidated Financial Statements Notes For the period ended March 31, 2014**

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**13.1. Bank overdrafts**

Bank overdrafts represent credit facilities partially secured by certain notes receivables and inventories. The authorized facilities limit in respect of all overdrafts is LE 1 147 million, and the unutilized amount is LE 274 million.

**14. Share capital**

**14.1. Authorized capital**

The authorized capital was determined to be LE 500 million distributed over 100 million shares with par value of LE 5 per share.

**14.2. Issued and paid up capital**

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

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the parent company. All shares rank equally with regards to the parent Company's residual assets. All rights relating to shares temporarily held by the parent company (treasury shares) if any are suspended until those shares are reissued.

Lecico Egypt (S.A.E.)  
 Consolidated Financial Statements Notes For the period Ended March 31, 2014

15. Reserves

<i>In Egyptian Pound</i>	Legal Reserve	Other** Reserves	Special Reserve Premium	Land** Revaluation Surplus	Translation Reserve	Total
<b>Balance at December 31, 2012</b>	<b>35 385 371</b>	<b>15 571 032</b>	<b>181 164 374</b>	<b>52 765 085</b>	<b>36 282 770</b>	<b>321 168 632</b>
Transferred to legal reserve	4 472 686	--	--	--	--	4 472 686
Translation adjustment for foreign subsidiaries	--	--	--	--	13 588 349	13 588 349
<b>Balance at March 31, 2013</b>	<b>39 858 057</b>	<b>15 571 032</b>	<b>181 164 374</b>	<b>52 765 085</b>	<b>49 871 119</b>	<b>339 229 667</b>
<b>Balance at December 31, 2013</b>	<b>39 858 057</b>	<b>15 571 032</b>	<b>181 164 374</b>	<b>52 765 085</b>	<b>60 951 606</b>	<b>350 310 154</b>
Transferred to legal reserve	2 028 670	--	--	--	--	2 028 670
Translation adjustment for foreign subsidiaries	--	--	--	--	437 778	437 778
<b>Balance at March 31, 2014</b>	<b>41 886 727</b>	<b>15 571 032</b>	<b>181 164 374</b>	<b>52 765 085</b>	<b>61 389 384</b>	<b>352 776 602</b>

\* Other reserves include the Parent Company's share of the premium (LE 9.9 Million) received by Lecico for Ceramics Industries (subsidiary) for admitting a new shareholder through an increase in capital, such amount is not distributable according to local laws and regulations.

\*\* Land revaluation surplus is represented in the adjusted value of the Parent Company's land in Khorshid and Abou-Quir that was revalued to reflect its fair value at the date of revaluation in the year 1997. The revaluation result was included in the revaluation surplus in the shareholders' equity and is not distributable or transferable to capital.

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the period Ended March 31, 2014

**16. Retained Earnings**

At December 31, 2013 the retained earnings represent the retained earnings of the parent company and its share of the retained earnings of the consolidated subsidiaries. The parent company's management expects to reinvest the retained earnings in its subsidiaries.

**17. Loans and borrowings**

<i>In Egyptian Pound</i>	<b>31 March <u>2014</u></b>	<b>31 December <u>2013</u></b>
- <b><u>Audi Bank</u></b>		
The outstanding counter value of the loan granted to the parent company from Audi Bank, is to be repaid over 13 quarterly installments; the next installment will be due at 10 November 2013 and the last installment will be due at 10 May 2016. with a variable interest rate. The loan purpose is restructuring of the parent company financial position. This loan is guaranteed by a subsidiary company, Lecico for Ceramic Industries	58 823 530	64 705 883
	<u>58 823 530</u>	<u>64 705 883</u>
<b><u>Less:</u></b> Installments due within one year which are classified as current liabilities (note 21).	(23 529 412)	(23 529 412)
	<u>35 294 118</u>	<u>41 176 471</u>

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

**18. Other Long-Term Liabilities**

<i>In Egyptian Pound</i>	<b>31 March <u>2014</u></b>	<b>31 December <u>2013</u></b>
<b>18-1</b> Lease obligation to finance certain assets of Lecico (UK) Ltd. and its subsidiaries.	1 641 894	1 744 410
<b>18-2</b> Sales Tax Department (deferred sales tax related to imported machinery) Notes payable – long term	9 181 206 710 <u>215 891</u>	161 833 278 372 <u>440 205</u>
<b><u>Less :</u></b> Installments due within one year which are classified as current liabilities (Note 21).	(9 181) <u>206 710</u>	(161 833) <u>278 372</u>
<b>Total Other Long-Term Liabilities</b>	<u><u>1 848 604</u></u>	<u><u>2 022 782</u></u>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended March 31, 2014

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

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

<i>In Egyptian Pound</i>	<b>31/3/2014</b>		<b>31/12/2013</b>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Accumulated losses carried forward	409 745	--	(259 872)	--
Property, plant and equipment	--	29 120 713	--	28 390 306
Inventory	3 491 082	--	(3 484 287)	--
<b>Total Deferred Income tax (assets) / liabilities</b>	<b>3 900 827</b>	<b>29 120 713</b>	<b>(3 744 159)</b>	<b>28 390 306</b>
<b>Net Deferred Income Tax Liabilities</b>	<b>--</b>	<b>25 219 886</b>	<b>--</b>	<b>24 646 147</b>

**20. Provisions**

<i>In Egyptian Pound</i>	<b>Balance at 1/1/2014</b>	<b>Translation Differences</b>	<b>Utilised Provisions</b>	<b>Provided Provisions</b>	<b>Reversed provisions</b>	<b>Balance at 31/3/2014</b>
<b><u>Provisions Disclosed in the Non Current Liabilities</u></b>						
End of Service Indemnity Provision	9 240 403	13 060	(9 626)	69 319	--	9 313 156
Claims provision	1 558 070	4 478	--	--	--	1 562 548
	<b>10 798 473</b>	<b>17 538</b>	<b>(9 626)</b>	<b>69 319</b>	<b>--</b>	<b>10 875 704</b>
<b><u>Provision Disclosed in the Current Liabilities</u></b>						
Potential Losses and Claims Provision	46 575 351	--	(423 755)	1 050 000	(480 000)	46 721 596
	<b>46 575 351</b>	<b>--</b>	<b>(423 755)</b>	<b>1 050 000</b>	<b>(480 000)</b>	<b>46 721 596</b>
<b>Total</b>	<b>57 373 824</b>	<b>17 538</b>	<b>(433 381)</b>	<b>1 119 319</b>	<b>(480 000)</b>	<b>57 597 300</b>

**21. Loans and borrowings**

<i>In Egyptian Pound</i>	<b>Note</b>	<b>31 March 2014</b>	<b>31 December 2013</b>
Current portion of long-term loans	(17)	23 529 412	23 529 412
Current portion of other long-term liabilities	(18)	1 178 258	1 128 668
		<b>24 707 670</b>	<b>24 658 080</b>

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

## Consolidated Financial Statements Notes For the Period ended March 31, 2014

**22. Trade and other Payables**

<i>In Egyptian Pound</i>	Note	<b>31 March 2014</b>	<b>31 December 2013</b>
Trade payable		96 392 655	82 748 495
Notes payable		69 416 411	76 837 681
Due to related parties	(28)	10 291 871	11 228 272
Social insurance authority and tax authority		11 145 267	10 545 700
Income tax payable		21 629 640	17 980 773
Accrued expenses		110 502 352	75 945 980
Deposits due to others		22 701	22 701
Sundry creditors		26 212 689	24 387 825
Current account for sales tax department		6 450 294	6 236 164
Dividends payable		44 389 927	389 929
Creditors for purchasing fixed assets		1 911 409	1 917 842
Profit sharing provision for employees of certain group companies		22 923 617	30 886 028
		<b>421 288 833</b>	<b>339 127 390</b>

**23. Other Income**

<i>In Egyptian Pound</i>	<b>31 March 2014</b>	<b>31 March 2013</b>
Capital Gain – net	69 805	16 338
Scrap Sales	1 028 486	523 239
Other Revenues	740 663	395 599
Reversal of expired provision	1 279 024	2 387 520
	<b>3 117 978</b>	<b>3 322 696</b>

**24. Other Expenses**

<i>In Egyptian Pound</i>		
Provided for potential losses and claims Provision	1 050 000	750 000
End of service indemnity Provision	69 320	65 719
Amortization of Intangible Assets	113 613	125 906
Miscellaneous expenses	1 511 801	3 038 370
Other	146 891	--
Board of directors remuneration	1 133 317	1 149 401
	<b>4 024 942</b>	<b>5 129 396</b>

**25. Finance Income**

<i>In Egyptian Pound</i>		
Interest revenues	1 181 191	574 738
Foreign exchange difference	522 886	8 239 652
Changes in fair value of investments held for trading	53 267	--
	<b>1 757 344</b>	<b>8 814 390</b>

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

## Consolidated Financial Statements Notes For the Period ended March 31, 2014

**26. Finance Expenses**

<i>In Egyptian Pound</i>	<b>31 March 2014</b>	<b>31 March 2013</b>
Interest expense	23 331 583	23 292 698
Changes in fair value of investments held for trading	--	294 598
	<b><u>23 331 583</u></b>	<b><u>23 587 296</u></b>

**27. Earnings Per Share**

The earnings per share for the period ended March 31, 2014 was computed as follows:

<i>In Egyptian Pound</i>	<b>31 March 2014</b>	<b>31 March 2013</b>
Net profit for the period (in LE)	35 014 944	16 283 470
Number of outstanding shares	80 000 000	80 000 000
<b>Earnings per share ( LE / share)</b>	<b><u>0.43</u></b>	<b><u>0.20</u></b>

**28. Related Parties**

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

<i>In Egyptian Pound</i>	<b>Nature of Transaction</b>	<b>Transaction Amount</b>	<b>31 March 2014</b>	<b>31 December 2013</b>
<b><u>Due from Related Parties</u></b>				
Murex Industries and Trading (S.A.L)	Sales Notes Receivable	5 582 930	29 755 962 1 308 676 <u>31 064 638</u>	31 350 707 2 403 788 <u>33 754 495</u>
Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.)	Current	--	7 978	7 955
Lecico Saudi Arabia (Branch)	Sales		27 131 108	40 703 997
El-khaleeg for Trading and Investment	Current	-	300 100	300 100
<b>Total Debit Balances</b>			<b><u>58 503 824</u></b>	<b><u>74 766 547</u></b>
<b><u>Due to Related Parties</u></b>				
Murex Industries and Trading (S.A.L)	Purchase	106 768	332 698	262 509
LIFCO	Rent	139 701	416 716	277 015
Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.)	Current		104 683	104 388
Ceramics Management Services Ltd. (CMS)	Technical Assistance Fees	-	9 437 774	10 584 360
<b>Total Credit Balances</b>			<b><u>10 291 871</u></b>	<b><u>11 228 272</u></b>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended March 31, 2014

**29. Information about Business Segments**

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

	<u>31/3/2014</u>	<u>31/3/2013</u>
<b><u>Sanitary ware Segment</u></b>		
<b><u>Sales Volumes (in 000 pcs)</u></b>		
Egypt	473	670
Lebanon	25	36
Export	796	655
<b>Total Sales Volume (in 000 pcs)</b>	<b><u>1 294</u></b>	<b><u>1 361</u></b>
<b>Sales Revenues (LE million)</b>	<b>172.4</b>	<b>168.5</b>
Average Selling Price (LE/pc)	133.2	123.8
<b>Total Cost of Sales (LE million)</b>	<b>130.04</b>	<b>134.94</b>
<b>Gross Profit (LE million)</b>	<b>42.3</b>	<b>33.5</b>
<b><u>Tile Segment</u></b>		
<b><u>Sales Volumes (in 000 m<sup>2</sup>)</u></b>		
Egypt	6 525	5 070
Lebanon	521	424
Export	1 744	1 714
<b>Total Sales Volume (000 m<sup>2</sup>)</b>	<b><u>8 790</u></b>	<b><u>7 208</u></b>
<b>Sales Revenues (LE million)</b>	<b>199.4</b>	<b>152.4</b>
Average Selling Price (LE/ m <sup>2</sup> )	22.7	21.1
<b>Total Cost of Sales (LE million)</b>	<b>128.9</b>	<b>96.6</b>
<b>Gross Profit (LE million)</b>	<b>70.5</b>	<b>55.8</b>
<b><u>Brassware segment</u></b>		
<b><u>Sales volume (pcs)</u></b>		
Egypt	33 785	38 766
Export	43	155
<b>Total Sales Volume (PCS)</b>	<b><u>33 828</u></b>	<b><u>38 921</u></b>
<b>Sales Revenues (LE million)</b>	<b>12</b>	<b>11</b>
Average Selling Price (LE/ PC)	353.5	282.8
<b>Total Cost of Sales (LE million)</b>	<b>8.6</b>	<b>9.3</b>
<b>Gross Profit (LE million)</b>	<b>3.4</b>	<b>1.7</b>

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended March 31, 2014

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**30. Personnel Cost**

The Personnel costs incurred during the year ended March 31, 2014 amounted to LE 60 million (March 31, 2013: LE 58.7 million).

**31. Contingent Liabilities**

**31.1. Letters of Guarantee**

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

<u>Currency</u>	<b>31 March <u>2014</u></b>	<b>31 December <u>2013</u></b>
LE	12 164 683	12 979 343

**31.2. Letters of Credit**

<u>Currency</u>		
LE	17 058 479	7 824 798

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

**32. Litigation**

The Electricity Utility Organization in Lebanon has charged The Lebanese Ceramic Industries S.A.L. (a subsidiary) about LBP 855 million (equivalent to LE 3.9 million) as unpaid electricity charges for the period from March 1996 until August 2003. This Subsidiary has objected to these charges, and raised a legal case requesting the cancellation of such charges. This matter is still pending in the court and its outcome is not known as at the date of issuing the consolidated financial statements. No provisions have been taken by the subsidiary against this claim.

**33. Capital Commitment**

There are no capital commitments for unexecuted portions of contracts as of March 31, 2014 (March 31, 2013 : LE 8.6 million)



### **34. Financial Instruments**

The financial instruments are represented in cash balances, bank overdrafts, debtors and creditors. The book value of these instruments represents a reasonable estimate of their fair value.

The following are the summaries of the major methods and assumptions used in estimating their fair values of financial instruments:

- Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.
- Trade and other receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

### **35. Financial Instruments Risk Management**

#### **35.1. Interest Risk**

The interest risk is represented in changes in interest rates which adversely affect the results of operations and cash flows. In financing its working capital the Parent depends on bank overdrafts at variable interest rates. In financing its expansion projects the Parent Company depends on equity and long-term loans at the best offered rates and conditions available.

#### **35.2. Credit Risk**

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

#### **35.3. Foreign Currency Exchange Rates Fluctuations Risk**

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

Lecico Egypt (S.A.E.)

Consolidated Financial Statements Notes For the Period ended March 31, 2014

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**36. Tax Status**

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

**37. Deconsolidation of Lecico France companies:**

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

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

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

**Consolidated Financial Statements Notes For the Period ended March 31, 2014**

Since Lecico Lost the control over the French subsidiaries, it was decided to deconsolidated the French subsidiaries as of October 31, 2013, and accordingly eliminated the results of French subsidiaries operations from results of operations beginning on that date. The management believe that there is no responsibility for liabilities resulting for the bankruptcy procedures of the French subsidiaries.

The commercial court has set aside a six month period ending April 2014 to find a recovery plan and examine the eventual offers of the investors, accordingly, the acceptance of one of the offers or moving further to the restructuring plan is solely for the commercial court to decide since the date the company started the liquidation proceedings.

Since that date mentioned above, Lecico has surrendered control over Lecico France companies, a write off of the investment has been recognized in Lecico U.K. Limited . This write off amounted to GBP 6.360 million which represents the net assets of the French subsidiaries as well as the net intercompany balances between the group companies and the French subsidiaries which amounted to the equivalent of L.E. 47 million.

The amounts deconsolidated from the financial statements as of March 31, 2014 are as follows:

<b><u>Description</u></b>	<b><u>Amounts in GBP</u></b> <b><u>Thousand GBP</u></b>	<b><u>Amounts In EGP</u></b> <b><u>Thousand EGP</u></b>
Property Plant and Equipment	(513)	(5 893)
Intangible Assets	(224)	(2 577)
Current Assets	(12 773)	(140 910)
Current Liabilities	6 794	75 121
Noncurrent Liabilities	355	3 925
Net assets	<u>(6 361)</u>	<u>(70 334)</u>
Capital gain on disposal	1 320	14 595
Intercompany balances		<u>(47 272)</u>
<b>Losses from deconsolidating the French subsidiaries</b>		<b><u><u>(103 011)</u></u></b>