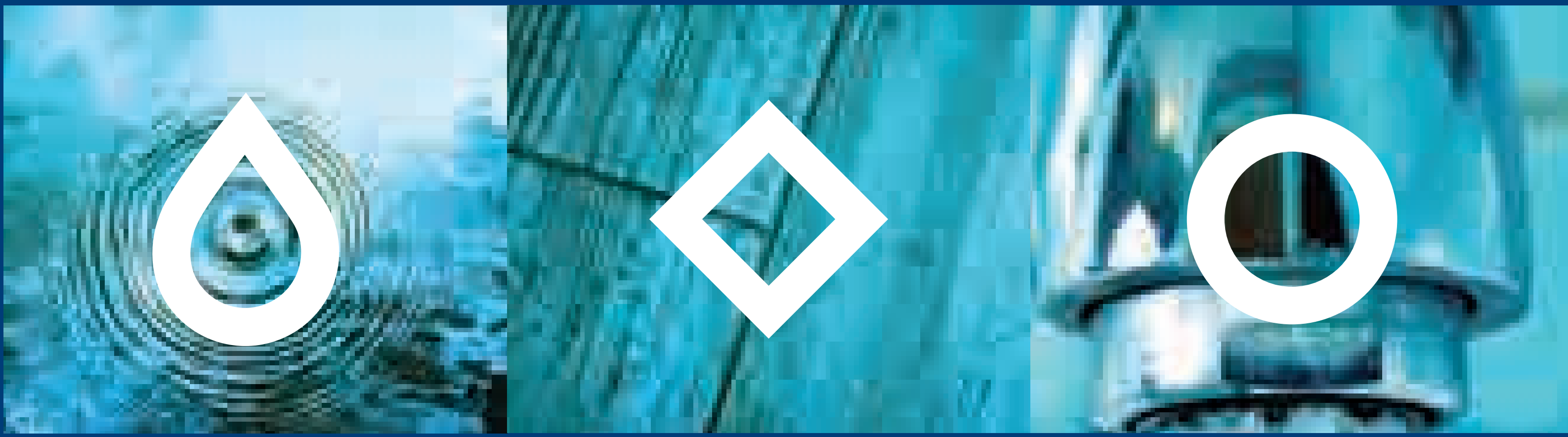
ANNUAL REPORT 2019



Lecico

LECICO IS ONE OF THE WORLD'S LARGEST SANITARY WARE PRODUCERS AND A SIGNIFICANT TILE PRODUCER IN EGYPT AND LEBANON. WITH OVER 50 YEARS IN OPERATION, LECICO HAS DEVELOPED INTO A MAJOR EXPORTER BY PRODUCING COMPETITIVELY PRICED SANITARY WARE TO EXACTING EUROPEAN QUALITY STANDARDS. TODAY, LECICO IS ONE OF THE LARGEST SUPPLIERS OF SANITARY WARE TO EUROPE AND THE MIDDLE EAST.

COMPANY OVERVIEW

OPERATIONAL REVIEW

FINANCIAL STATEMENTS

2019 HIGHLIGHTS

- LECICO LEBANON RESTRUCTURING BEGUN IN 1Q 2019 WITH A USD 2.4 MILLION REDUCTION IN CASH EXPENSES TURNING THE SUBSIDIARY CASH FLOW POSITIVE IN 2H 2019.
- LECICO EGYPT ADOPTS THE REVALUATION MODEL FOR REAL ESTATE ASSETS, WITH FIXED ASSETS AND EQUITY INCREASING LE 1.68 BILLION TO REFLECT FAIR MARKET VALUE.
- SALES FELL 13% TO LE 2,349.8 MILLION. DUE TO WEAKER DEMAND IN EGYPT AND A DROP IN OEM SANITARY WARE SALES.
- GROSS PROFITS DOWN 46% TO LE 251.8 MILLION DUE TO DISECONOMIES OF SCALE AND NON-CASH COSTS FOR RESTRUCTURING LEBANON.
- NET LOSS OF LE 298.3 MILLION COMPARED TO LE 114.3 MILLION LOSS IN 2018 DUE TO WEAKER TOP LINE AND NON-CASH COSTS FOR RESTRUCTURING LEBANON.

-13%
SALES

57%
EXPORTS

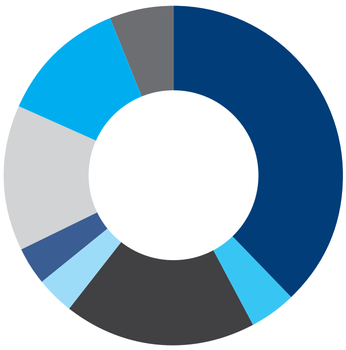
-46%
GROSS PROFIT

298.3M
NET LOSS (LE)

AT A GLANCE

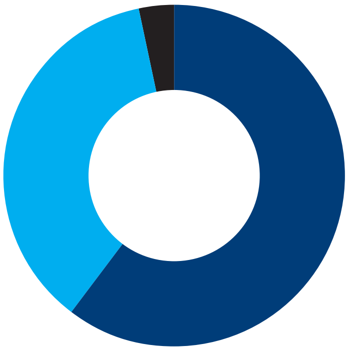
MARKET HIGHLIGHTS

BUSINESS SPLIT
Geographical sales split



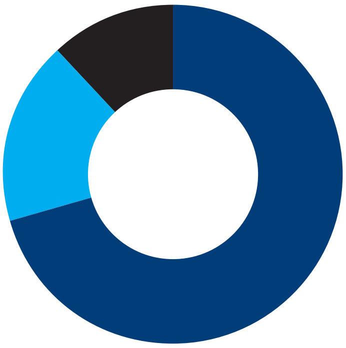
- Egypt **37.9%**
- Lebanon **4.4%**
- UK **18.4%**
- Germany **3.6%**
- Rest of Europe **3.8%**
- OEM **13.8%**
- Middle East **12.2%**
- Other **5.9%**

REVENUE SPLIT
Sanitary ware, Tiles and Brassware



- Sanitary ware **60.3%**
- Tiles **36.4%**
- Brassware **3.3%**

GROSS PROFIT SPLIT
Sanitary ware, Tiles and Brassware



- Sanitary ware **70.6%**
- Tiles **17.7%**
- Brassware **11.7%**

United Kingdom
Sales value fell 13%. Volumes fell 11% to 1,095,000 pieces. Lecico's UK sales accounted for 18% of revenues (2018: 18%).

OEM Manufacturing
Sales value fell 26% due to a drop in business with two OEM customers. Volumes fell 24% to 870,000 pieces (2018: 1,150,000 pieces). OEM manufacturing accounted for 13.8% of revenues (2018: 16.1%).

Sub Saharan Africa
Sales value fell 6% with sanitary ware dropping 11% in South Africa and limited tiles growth in the rest of Africa. Sanitary ware volumes grew 2% to 385,000 pieces but prices fell. Tiles volumes grew 34% to 659,000 sqm. Sub-Saharan Africa accounted for 5.7% of revenues (2018: 5.3%).

Middle East exports
Exports to the Middle East grew 22% largely due to tile sales and recovery in the Libyan market. Sanitary ware volumes rose 47% year-on-year and tile volumes rose 21%. Middle Eastern exports accounted for 12.2% of revenues (2018: 8.6%).

Egypt
Sales value fell 19% with weak demand affecting all segments. Sanitary ware volumes were down 20% at 1.4 million pieces and tiles volumes fell 26% to 15.3 million square meters. Egypt accounted for 39.1% of revenues (2018: 42.0%).

Lebanon
Sales value fell 12% with volume growth offset by lower prices as the company restructured and sold old stock. Sanitary ware volumes rose 2% to 108,000 pieces and tiles volumes rose 38% to 660,000 square meters. Lebanon accounted for 4.4% of revenues (2018: 4.3%).

FINANCIAL HIGHLIGHTS

Sanitary ware sales volume
million pieces

Tiles sales volume
million sqm

Sanitary ware export volume
million pieces

EBIT margin %

FIVE YEAR SUMMARY

LE millions	2015	2016	2017	2018	**2019**	CAGR
Net sales	1,370.5	1,496.4	2,406.5	2,705.5	2,349.8	14%
Gross profit	216.2	153.3	531.9	470.4	251.7	4%*
EBIT	(1.0)	(48.3)	181.9	150.7	(88.2)	
Net profit	(65.1)	(50.1)	37.2	(114.3)	(298.3)	
Reported EPS	(0.8)	(0.6)	0.5	(1.4)	(3.7)	
Adjusted EPS*	(0.8)	(0.6)	0.5	(1.5)	(3.7)	46%
Cash and equivalents	168.0	377.4	261.3	186.9	129.0	(6%)
Total assets	2,158.8	2,794.0	2,960.1	2,806.5	4,134.0	18%
Total debt	924.4	1,319.1	1,457.1	1,352.1	1,258.4	8%
Net debt	756.4	941.7	1,195.8	1,165.2	1,129.4	11%
Total liabilities	1,322.4	1,793.6	1,955.4	1,903.4	1,848.7	9%
Minority interest	5.8	5.2	18.7	22.8	46.9	69%
Shareholders' equity	830.6	995.2	986.1	880.4	**2,238.4**	28%

* EPS Adjusted to include treasury shares and historic EPS adjusted retroactively to reflect various bonus issues

CHAIRMAN'S STATEMENT

THE RESTRUCTURING OF OUR LEBANESE OPERATION HAS BEGUN TO DELIVER SIGNIFICANT RESULTS, TURNING IT CASH FLOW POSITIVE IN THE SECOND HALF OF THE YEAR.

2019 was extremely difficult with weakness in demand in Egypt worsening over the year. Our results were also affected by the economic crisis in Lebanon and the restructuring we have started there. The strengthening of the Egyptian Pound also squeezed revenues and margins on our very important exports.

In our operations we have seen it necessary to ensure that our debt levels do not increase and have therefore made a special effort to control inventory, receivables and cash flow. This comes at a cost in operating expenses and manufacturing costs, but is necessary. As a result, over the course of 2019, we were able to marginally reduce debt levels.

We believe there are reasons to keep optimistic. Egyptian demand should recover in the coming years as the pressures of austerity and high interest rates are reduced.

The Egyptian government seems increasingly responsive to the difficulties faced by us and other industries as evidenced by the beginning of gas price reductions and direct support to various industries.

Management expects to start several new export customers in 2020 in both OEM and retailer segments. In the UK and Egypt new efforts are being made to increase penetration in project markets.

The restructuring of our Lebanese operation has already begun to deliver significant results with radically reduced production, aggressive cost cutting and destocking turning the business cash flow positive in the second half of the year.

It is of course sad to see Lebanon go through a deep and serious economic crisis but it will survive stronger as a consequence, we hope. In Egypt we have of course been through a very tough economic adjustment process over the past 4 years after the disturbances caused by the first revolution and we believe and hope that we have reached the end of these difficult times.

Gilbert Gargour
Chairman

MANAGING DIRECTOR'S STATEMENT

OUR TILE MARGINS IMPROVED QUARTER-ON-QUARTER DUE TO HIGHER AVERAGE PRICES AND THE IMPACT OF GAS PRICE REDUCTION ON PRODUCTION IN OCTOBER.

We recorded our largest losses of the year in the fourth quarter as seasonal slowdown compounded the weak demand in Egypt and brought us to our lowest sales and production levels all year.

Gross margins fell quarter-on-quarter as sanitary ware saw a sharp drop in margins as exchange rates squeezed average prices and average unit costs shot up on the back of diseconomies of scale. Our tile margins improved quarter-on-quarter thanks to higher average prices and the benefit of the government's reduction in gas prices in October. However, weak sales figures and subsequent low production ate into what would have been a sharper improvement.

In 2020, we will continue to focus on tight cash control and working capital management but I hope we can also see the beginnings of margin recovery and reduced losses. The key drivers for this are sales volumes, production volumes and prices and this is all tied to demand.

I am optimistic that exports will grow in volume terms in 2020 but I remain concerned about pricing and profitability in light of the continued strengthening of the Egyptian Pound.

In Egypt and Lebanon, the risks of continued pressure on demand remain with constrained consumer spending in Egypt and with the economic crisis in Lebanon turning political.

However, I believe there is a strong possibility that we see demand in Egypt improve from the low levels seen at the end of 2019 as inflation and interest rates continue to fall.

I am optimistic that, having started the year with tighter inventories and following our decision to cut our tile capacity a further 20% to 20 million square meters per month, we will run at better capacity utilization rates in 2020 allowing for better economies of scale and improving our average unit costs. I am concerned that these economies of scale may be at risk if we see demand continue to drop in Egypt over the year.

Our gross margins should also get a boost from the continuing restructuring of Lecico Lebanon. We estimate around USD 1.5 million less losses from Lebanon year-on-year. Still this is in the environment of extreme uncertainty and economic distress we currently face.

Lower interest rates and inflation in 2020 should help our performance as well. We saw rates in Egypt come down a further 1.00% in November and in Lebanon borrowing rates have come down sharply in early 2020. The market expects further rate cuts in Egypt as 2020 progresses.

As a final point for your attention, we took a decision in the fourth quarter to revalue our fixed assets to market value as per International Accounting Standards. As a result, you will see a jump in our fixed assets and a matching jump in our reserves account in equity of about LE 1.68 billion. This revaluation has no cash impact of course, but we think it gives a more accurate picture of our true asset and equity valuations.

Taher Gargour
Managing Director and CEO

SANITARY WARE

SANITARY WARE SALES VOLUME DECREASED BY 12% TO 4.7 MILLION PIECES (DOWN 621,699 PIECES).

-12%

REVENUE
-12% IN VOLUME
AND -1% IN ASP

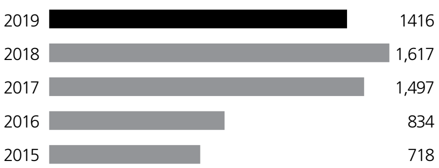
4.7M

PIECES SOLD
1.4 M PIECES IN EGYPT AND
3.3 MILLION PIECES OUTSIDE

+13%

AVERAGE COST
PER PIECE AS PRODUCTION
IS CUT 9% YEAR-ON-YEAR

Revenues LE million



Gross profit LE million

Gross margin %

SANITARY WARE
CONTINUED

THE COMPANY HAD STRONG SALES GROWTH IN THE MIDDLE EAST AS THE RECOVERY OF LIBYA CONTINUED FROM LATE 2018 THROUGHOUT THE YEAR

Sanitary ware sales volume decreased by 12% to 4.7 million pieces (down 621,699 pieces). Egyptian volumes fell 20% (down 339,653 pieces), export volumes decreased 8% (down 283,981 pieces), while sales in Lebanon increased by 2% (up 1,935 pieces).

The drop in exports came primarily from OEM with two key customers sharply reducing their volumes year-on-year due to lower sales outwards. The Company had strong sales growth in the Middle East as the recovery of Libya continued from late 2018 throughout the year.

Egyptian volumes fell as a result of a continued squeeze on consumer purchasing power as a result of high inflation and the removal of subsidies.

Average sanitary ware prices decreased by 1% year-on-year to LE 301.4 per piece (FY 2018: LE 303.9) with price increases in Egypt offsetting most of the pressure of currency strength on export prices. In 2019, the Egyptian Pound strengthened by almost 10% against the Euro and the Sterling and 4% against the Dollar impacting Lecico's average price in exports.

Revenues were down 12% year-on-year at LE 1,416.2 million (FY 2018: LE 1,617.2 million).

Average cost of sales rose 13% at LE 263.8 per piece due to lower production and low double-digit inflation in Egypt. Sanitary ware production was reduced 8.5% year-on-year to 4.3 million pieces. Inflation in Egypt reached 13.9% in 2019.

Gross profit decreased 54% to LE 176.4 million (FY 2018: LE 380.3 million) and the margin fell 11.1 percentage points to 12.5% (FY 2018: 23.5%). Gross profit and margins were significantly lower in the second half following the reduction in production to adjust to the deterioration of demand in Egypt.

Sanitary ware sales accounted for 60.3% of the Company's consolidated sales in 2019 (2018: 59.8%).

Sanitary ware capacity and sales by volume

000s pieces	2015	2016	2017	2018	**2019**	CAGR
Sanitary ware capacity	6,750	6,750	6,750	6,750	6,750	0.0%
Sanitary ware sales volume	4,835	4,990	5,061	5,321	4,699	(0.7%)
Capacity utilisation (%)	72%	74%	75%	79%	70%	
Egypt sales volume	1,995	2,183	1,825	1,728	1,389	(8.7%)
Lebanon sales volume	109	151	146	106	108	(0.2%)
Export sales volume	2,730	2,655	3,091	3,486	3,202	4.1%
Exports as a % of total sales (%)	56.5%	53.2%	61.1%	65.5%	68.1%	

Sanitary ware exports by volume

000s pieces	2015	2016	2017	2018	**2019**	CAGR
UK	1,009.0	950.4	1,134.0	1,225.2	1,094.6	2.1%
Germany	80.5	257.1	318.8	244.7	279.3	36.5%
Other Europe	252.6	286.2	270.4	260.4	238.2	(1.5%)
Middle East and North Africa	457.2	253.9	228.1	227.9	335.4	(7.5%)
Sub-Saharan Africa	217.6	232.4	329.2	378.1	384.8	15.3%
OEM	713.4	674.8	810.1	1,149.7	869.8	5.1%
Total exports	**2,730.2**	**2,654.7**	**3,090.6**	**3,486.1**	**3,202.1**	4.1%

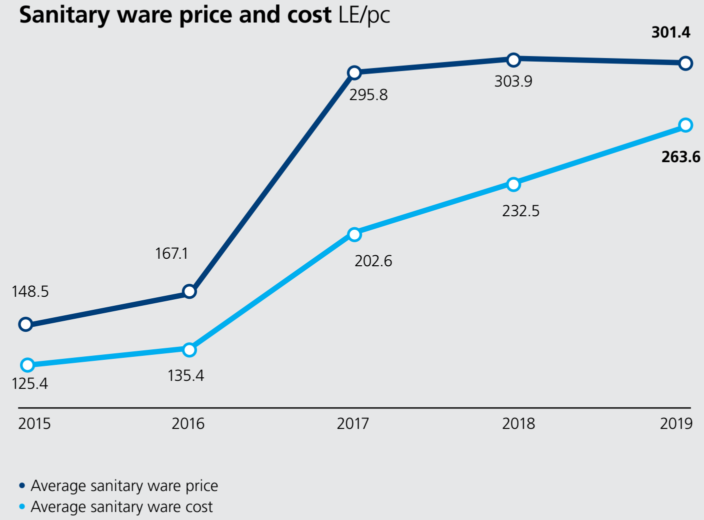
60%

SANITARY WARE SALES ACCOUNTED FOR 60.3% OF THE COMPANY'S CONSOLIDATED SALES

Sanitary ware analysis

volumes (000 pcs) LE m	FY 2019	FY 2018	% 19/18
Egypt	1,389	1,728	80%
Lebanon	108	106	102%
Export	3,202	3,486	92%
Total volumes	**4,699**	**5,321**	**88%**
Exports/total sales volume (%)	68.1%	65.5%	2.6%
Revenue	**1,416.1**	**1,617.2**	**88%**
Average selling price (LE/pc)	301.4	303.9	99%
Average cost per piece (LE/pc)	263.6	232.5	113%
Sanitary ware cost of sales	(1,238.6)	(1,236.9)	100%
Gross profit	**177.6**	**380.3**	**47%**
Gross profit margin (%)	12.5%	23.5%	(11%)

Sanitary ware price and cost LE/pc



TILES

SALES IN EXPORT INCREASED BY 22% (UP 1 MILLION SQUARE METERS) AND SALES IN LEBANON INCREASED BY 38% (UP 181,769 SQUARE METERS).

-15%

REVENUE

-16% IN VOLUMES
AND +2% IN ASP

21.6M

SQUARE METERS SOLD

15.3M IN EGYPT
AND 6.3M OUTSIDE

-22%

GROSS PROFIT

LE 47.7M VS LE 61.0M
IN 2018

Revenues LE million

Gross profit LE million

Gross margin %

TILES
CONTINUED

AVERAGE NET PRICES ROSE 2% AT LE 39.6 PER SQUARE METER REFLECTING THE CUMULATIVE EFFECT OF PRICE INCREASES OVER THE PREVIOUS TWELVE MONTHS

Tile sales volumes decreased by 16% year-on-year (down 4.1 million square meters) to reach 21.6 million square meters. Sales in Egypt decreased 26% (down 5.4 million square meters). Sales in export increased by 22% (up 1 million square meters) and sales in Lebanon increased by 38% (up 181,769 square meters).

Tile Export growth came from the Middle East as Libya continued the recovery in the market started in 2H 2018 despite ongoing security issues.

Lecico's tile market in Sub-Saharan Africa remains small but is growing rapidly. Sales volume to Sub-Saharan Africa grew 34% year-on-year and accounted for 11.7% of total export volumes.

Average net prices rose 2% at LE 39.6 per square meter reflecting the cumulative effect of price increases over the previous twelve months and increased exports offset by increased discounts and promotions in Egypt and the effect of a strengthening currency on the value of exports in Egyptian Pounds.

Tiles revenues were down 15% year-on-year at LE 856.4 million in 2019 (FY 2018: LE 1,002.4 million).

Average costs rose 2% year-on-year to reach LE 37.4 per square meter as efficiency gains, cheaper gas in the fourth quarter and various cost saving projects were offset by the high inflation in Egypt and the impact of an 16% reduction in production volumes.

Over the course of the year, Lecico was able to reduce the cost of tile production by LE 20.6 million through better sourcing and improvements in efficiency in key tile sizes. In the fourth quarter the government announced a reduction in the price of natural gas for the tile sector, reducing the cost 21% from USD 7.00 per mbtu to USD 5.50. Management calculates this will reduce average cost of tiles by 5%.

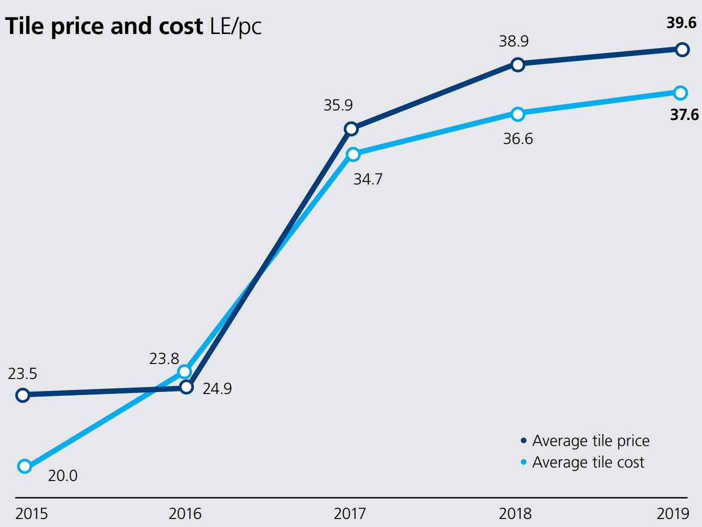
Gross profit decreased 22% to reach LE 47.7 million (FY 2018: LE 61 million) and the margin decreased by 0.5 percentage points to 5.6% (FY 2018: 6.1%).

+34%

SALES VOLUME
INCRESED TO SUB-SAHARAN AFRICA

Tile analysis volume (000 sqm) LE m	FY 2019	FY 2018	% 19/18
Egypt	15,309	20,666	74%
Lebanon	660	478	138%
Export	5,642	4,611	122%
Total volumes	**21,611**	**25,755**	**84%**
Exports/total sales volume (%)	26.1%	17.9%	8.2%
Revenue	**856.4**	**1,002.4**	**85%**
Average selling price (LE/sqm)	39.6	38.9	102%
Average cost per piece (LE/sqm)	37.6	36.6	103%
Cost of sales	(811.8)	(941.4)	86%
Gross profit	**44.7**	**61.0**	**73%**
Gross profit margin (%)	5.2%	6.1%	(0.9%)

Tile price and cost LE/pc



Tile capacity and sales by volume 000s sqm	2015	2016	2017	2018	**2019**	CAGR
Tile capacity	36,000	36,000	36,000	36,000	36,000	0.0%
Tile sales volume	25,787	25,237	23,171	25,755	21,611	(4.3%)
Capacity utilisation (%)	72%	70%	64%	72%	60%	
Egypt sales volume	20,581	21,270	18,994	20,666	15,309	(7.1%)
Lebanon sales volume	1,074	956	558	478	660	(11.5%)
Export sales volume	4,132	3,012	3,618	4,611	5,642	8.1%
Exports as a % of total sales (%)	16.0%	11.9%	15.6%	17.9%	26.1%	

BRASSWARE

2019 WAS A YEAR OF REVENUE-LED GROWTH IN LECICO'S BRASSWARE SECTION.

-10%

REVENUE

-23% IN VOLUMES
AND +17% IN ASP

+1%

GROSS PROFIT

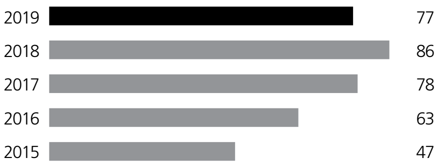
LE 29.5 MILLION VS.
LE 29.1 MILLION IN 2018

11.7%

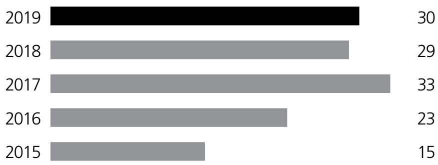
% GROSS PROFITS

PROPORTION OF GROUP
GROSS PROFITS (2018: 6.2%)

Revenues LE million



Gross profit LE million



Gross margin %

BRASSWARE
CONTINUED

THE AVERAGE COST PER PIECE ROSE 10% REFLECTING THE BENEFIT OF A STRONGER CURRENCY ON REDUCING THE PRICE OF IMPORTED COMPONENTS

Sales volumes for 2019 decreased by 23% year-on-year (down 25,366 pieces) at 82,945 pieces (2018: 108,311 pieces). Sales volumes in Egypt fell 22% and there were virtually no exports in the year. Market demand remained constrained in Egypt as seen in Lecico's other brands and products with improved brassware sales to projects continuing to cover for shrinking showroom sales.

Average net prices rose 17% to reach LE 931.3 per piece due to product mix and price increases done over the last twelve months.

Revenues decreased 10% year-on-year to reach LE 77.2 million (2018: LE 86 million).

Brassware accounted for 3.3% of consolidated revenues for 2019, compared to 3.2% in last year.

The average cost per piece rose 10% to LE 575.7 per piece (2018: LE 524.9 per piece) reflecting changing mix offset by the benefit of a stronger currency on reducing the price of imported components.

Gross profit increased 1% to LE 29.5 million (2018: LE29.1 million) and the margin increased 4.3 percentage points to 38.2% (2018: 33.9%).

Brassware's percentage of consolidated gross profits increased to 11.7% of Lecico's gross profits for 2019 (FY 2018: 6.2%).

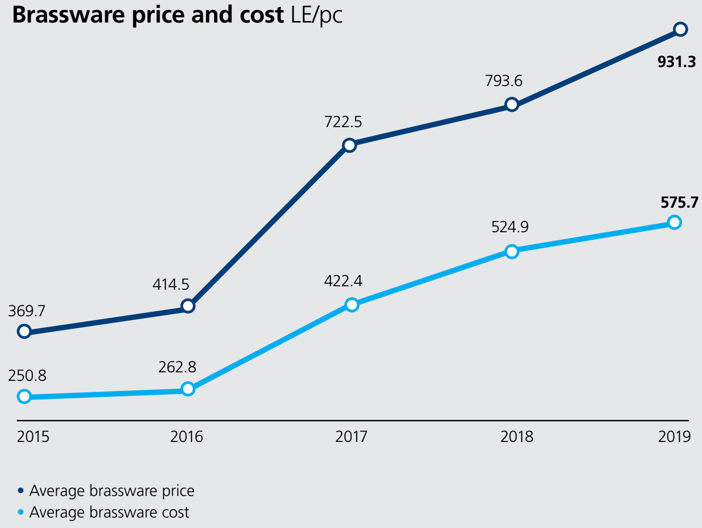
+1%

GROSS PROFIT
INCREASED TO
LE 29.5 MILLION

Brassware analysis

Volume (000's pieces) LE m	FY 2019	FY 2018	% 19/18
Egypt	82,933	106,371	78%
Export	12	1,940	1%
Total volumes	**82,945**	**108,311**	**77%**
Exports/total sales volume (%)	0.0%	1.8%	(1.8%)
Revenue (LE m)	**77.2**	**86.0**	**90%**
Average selling price (LE/pc)	931.3	793.6	117%
Average cost per piece (LE/pc)	575.7	524.9	110%
Cost of sales	(47.7)	(56.9)	84%
Gross profit	**29.5**	**29.1**	**101%**
Gross profit margin (%)	38.2%	33.9%	4.3%

Brassware price and cost LE/pc



FINANCIAL OVERVIEW

SANITARY WARE PRODUCTION WAS REDUCED 8.5% YEAR-ON-YEAR TO 4.3 MILLION PIECES AND TILES PRODUCTION WAS REDUCED 16% TO 21.1 MILLION SQUARE METERS

FY 2019: Drop in sales in Egypt and exports drive net loss

Lecico's revenues for 2019 decreased by 13% year-on-year to LE 2,349.8 million (FY 2018: LE 2,705.5 million) due to the drop in Egyptian demand in all segments and a weakness in volumes and currency-led price pressures in sanitary ware exports. Local revenues fell 19% year-on-year to reach LE 1,021.8 million (FY 2018: LE 1,254.3 million) and export revenues fell 8% year-on-year to reach LE 1,328 million (FY 2018: LE 1451.3 million).

Lecico's cost of goods sold was down 6% year-on-year to LE 2,098.1 million (FY 2018: LE 2,235.1 million) with lower production and the positive impact of a strengthening Egyptian Pound on costs helping to offset inflation.

Gross profit decreased by 46% to reach LE 251.8 million (FY 2018: LE 470.4 million) and the Company's gross profit margin was down 6.6 percentage points to 10.8% compared to 17.4% in 2018. Gross profits fell due to lower profitability of sanitary ware exports, increased pressure on domestic tile prices and the impact of reduced production driving up unit production costs.

Sanitary ware production was reduced 8.5% year-on-year to 4.3 million pieces and tiles production was reduced 16% to 21.1 million square meters.

In absolute terms, distribution and administration (D&A) expenses decreased by 7% to LE 325.9 million (FY 2018: LE 349.9 million), but proportional D&A expenses were up by 0.9 percentage points to 13.9% of net sales compared to 12.9% in last year.

Lecico reported LE 14 million in net other operating expenses compared to net other operating income of LE 30.2 million in the last year primarily as result of one-off gains of LE 50.9 million in 2018. Excluding these gains, Lecico would have reported net other operating expenses of LE 20.7 million in 2018.

Lecico reported an EBIT loss of LE 88.2 million compared to an EBIT profit of LE 150.7 million in 2018. Excluding the one-off gains of LE 76.4 million in 2018, Lecico would have reported an operating profit of LE 74.3 million with a margin of 3% in 2018.

Net financing expenses decreased 15% year-on-year during 2019 to reach LE 195 million compared to LE 228.1 in 2018 due to the reduction in interest rates in Egypt as well as 3% reduction in net debt.

Lecico reported net tax charge of LE 22.6 million versus a tax charge of LE 39.3 million in 2018.

Lecico reported net loss of LE 298.3 million compared to net loss of LE 114.3 million in 2018. Excluding the one-off gains LE 76.4 million in 2018, Lecico would have reported a net loss of LE 190.7 million in 2018.

Sanitary ware

Sanitary ware sales volume decreased by 12% to 4.7 million pieces (down 621,699 pieces). Egyptian volumes fell 20% (down 339,653 pieces), export volumes decreased 8% (down 283,981 pieces), while sales in Lebanon increased by 2% (up 1,935 pieces).

Average sanitary ware prices decreased by 1% year-on-year to LE 301.4 per piece (FY 2018: LE 303.9) with price increases in Egypt offsetting most of the pressure of currency strength on export prices.

Revenues were down 12% year-on-year at LE 1,416.2 million (FY 2018: LE 1,617.2 million).

Average cost of sales rose 13% at LE 263.8 per piece due to lower production and low double digit inflation in Egypt. Sanitary ware production was reduced 8.5% year-on-year to 4.3 million pieces.

Gross profit decreased 54% to LE 176.4 million (FY 2018: LE 380.3 million) and the margin fell 11.1 percentage points to 12.5% (FY 2018: 23.5%).

FINANCIAL OVERVIEW
CONTINUED

Profit and loss statement highlights

LE m	FY 2019	FY 2018	% 19/18	FY 2017	FY 2016	FY 2015	15 –19 CAGR%
Sanitary ware	1416.1	1617.2	88%	1497.3	834.0	718.2	18%
Tiles	856.4	1002.4	85%	830.7	599.5	605.4	9%
Brassware	77.2	86.0	90%	78.5	63.0	46.9	13%
Net sales	**2,349.8**	**2,705.5**	**87%**	**2,406.5**	**1,496.4**	**1,370.5**	**14%**
Sanitary ware/net sales (%)	60.3%	59.8%	0.5%	62.2%	55.7%	52.4%	
Cost of sales	(2,098.1)	(2,235.1)	94%	(1,874.5)	(1,343.1)	(1,154.3)	
Cost of sales/net sales (%)	(89.3%)	(82.6%)	(6.7%)	(77.9%)	(89.8%)	(84.2%)	
Gross profit	**251.7**	**470.4**	**54%**	**531.9**	**153.3**	**216.2**	**4%**
Gross profit margin (%)	10.7%	17.4%	(6.7%)	22.1%	10.2%	15.8%	
Distribution and administration (D&A)	(325.9)	(349.9)	93%	(323.7)	(204.4)	(199.9)	13%
D&A/net sales (%)	(13.9%)	(12.9%)	(0.9%)	(13.4%)	(13.7%)	(14.6%)	
Net other operating income (expense)	(14.0)	30.2	-	(26.4)	2.8	(17.4)	(5%)
Net other operating income/net sales (%)	(0.6%)	1.1%	-	(1.1%)	0.2%	(1.3%)	
EBIT	**(88.2)**	**150.7**	**-**	**181.9**	**(48.3)**	**(1.0)**	
EBIT margin (%)	(3.8%)	5.6%	-	7.6%	(3.2%)	(0.1%)	
Net profit	**(298.3)**	**(114.3)**	**261%**	**37.2**	**(50.1)**	**(65.1)**	
Net profit margin (%)	-	**-**	**-**	**1.5%**	-	**-**	

Tiles
Tile sales volumes decreased by 16% year-on-year (down 4.1 million square meters) to reach 21.6 million square meters. Sales in Egypt decreased 26% (down 5.4 million square meters). Sales in export increased by 22% (up 1 million square meters) and sales in Lebanon increased by 38% (up 181,769 square meters).

Average net prices rose 2% at LE 39.6 per square meter reflecting the cumulative effect of price increases over the previous twelve months and increased exports offset by increased discounts and promotions in Egypt and the effect of a strengthening currency on the value of exports in Egyptian Pounds.

Tiles revenues were down 15% year-on-year at LE 856.4 million in 2019 (FY 2018: LE 1,002.4 million).

Average costs rose 2% year-on-year to reach LE 37.4 per square meter as efficiency gains, cheaper gas in the fourth quarter and various cost saving projects were offset by the high inflation in Egypt and the impact of an 16% reduction in production volumes.

Gross profit decreased 22% to reach LE 47.7 million (FY 2018: LE 61 million) and the margin decreased by 0.5 percentage points to 5.6% (FY 2018: 6.1%).

Brassware
Sales volumes for 2019 decreased by 23% year-on-year (down 25,366 pieces).

Average net prices rose 17% to reach LE 931.3 per piece due to product mix and price increases done over the last twelve months.

Revenues decreased 10% year-on-year to reach LE 77.2 million (2018: LE 86 million).

Brassware accounted for 3.3% of the consolidated revenues for 2019, compared to 3.2% in last year.

The average cost per piece up 10% to LE 575.7 per piece (2018: LE 524.9 per piece) reflecting changing mix and the benefit of a stronger currency on reducing the price of imported components.

Gross profit increased 1% to LE 29.5 million (2018: LE29.1 million) and the margin increased 4.3 percentage points to 38.2% (2018: 33.9%).

Brassware's percentage of consolidated gross profits increased to 11.7% of Lecico gross profits for 2019 (FY 2018: 6.2%).

Financial position

The value of Lecico's non-current assets increased by 220% at the end of December 31, 2019 to reach LE 2,385.1 million (2018: LE 744.4 million) primarily as a result of the revaluation of Lecico Egypt group's land.

The value of Lecico's current assets decreased by 15% at the end of December 31, 2019 to reach LE 1,748.9 million (2018: LE 2,062.2 million) primarily as a result of decrease in cash, receivables and inventories during 2019.

Total liabilities decreased by 3% at LE 1,848.7 million (2018: LE 1,903.4 million) primarily as a result of the decrease in loans during 2019.

Gross debt decreased 7% or LE 90.8 million to reach LE 1,261.2 million compared to LE 1,352.1 million at the end of 2018.

Net debt decreased 3% or LE 35.8 million to reach LE 1,129.4 million compared to LE 1,165.2 million at the end of 2018.

Net debt to equity decreased by 62.4% to reach 0.5x compared to 1.32x at the end of 2018 as a result of the revaluation of Lecico Egypt group's land.

Working capital decreased 21% or LE 284.4 million to reach LE 1,051.6 million compared to LE 1,336 million at the end of 2018 as a result of a reduction in receivables and inventories.

Recent developments and outlook

Asset revaluation in 4Q 2019: The Company's management decided to adopt the revaluation model as per International Accounting Standard No. 16 'Property, plant and 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… Frequent revaluations are unnecessary for items of property… 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…accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized 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 derecognized. 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 the revaluation was an increase in the book value of consolidated net fixed assets by LE 1.72 billion in December 2019 and a matching increase in the equity under 'Reserves' note.

Accordingly, the revaluation has no impact on the profit and loss statement and is only a balance sheet adjustment.

SANITARY WARE PRODUCTION WAS REDUCED 8.5% YEAR-ON-YEAR TO 4.3 MILLION PIECES AND TILES PRODUCTION WAS REDUCED 16% TO 21.1 MILLION SQUARE METERS

FINANCIAL OVERVIEW
CONTINUED

Outlook for 2020: The outlook for 2020 remains challenging with worries about soft demand globally raising concerns about our European markets, Egyptian demand still under pressure but with some room for optimism about later in 2020 and the regional markets remaining uncertain with Lebanon in particular expected to see its economic crisis continue and intensify as political pressure mounts for a major change in government and policy.

Lecico is expecting some revenue growth despite these challenges coming primarily from higher sanitary ware export volumes and the beginning of a recovery in Egypt. Export volumes will come from expanding our product range with existing OEM customers and entering new markets with new OEM and white label customers.

Between pricing pressures in Egypt and the strengthening of the Egyptian Pound over the year, we do not expect better average prices in 2020 despite above inflation increases in our major export markets.

The strengthening of the Egyptian Pound will continue to put pressure on gross margins. Lecico is targeting some improvement in operating profits with increased sales allowing for higher production and subsequent economies of scale. Economies of scale will be supported by the full year benefits of cost cutting initiatives launched in 2019 and the benefit of lower gas prices in tiles. Tile costs and margins will also benefit from better efficiency and capacity utilization in tiles following Lecico's reduction of capacity from 24 million square meters per annum to 20 million square meters per annum in the fourth quarter of 2019.

Profit and loss	FY		%
LE m	2018	2019	19/18
Sanitary ware	1,617.2	1,416.1	88%
Tiles	1,002.4	856.4	85%
Brassware	86.0	77.2	90%
Net revenues	**2,705.5**	**2,349.8**	**87%**
Cost of sales	2,260.7	2,098.1	93%
Gross profit	**444.9**	**251.7**	**57%**
% of sales	16%	11%	(6%)
Selling expenses	157.3	141.7	90%
Administration expenses	213.4	208.1	98%
Overheads	**370.7**	**349.8**	**94%**
% of sales	14%	15%	1%
Operating profit (EBIT) without exceptional	**74.2**	**(98.0)**	**-**
% of sales	3%	-	-
Exceptional gain (loss)	76.4	9.8	13%
Operating profit	**150.7**	**(88.2)**	**-**
% of sales	6%	-	-
Net financial expenses	(219.6)	(179.3)	82%
Dividend income	5.1	4.8	95%
Exchange variances	(8.6)	(15.6)	183%
Profit before tax	**(72.4)**	**(278.4)**	**385%**
% of sales	-	-	-
Taxes and minorities	(42.0)	(19.9)	48%
Net profit after tax	**(114.3)**	**(298.3)**	
% of sales	-	-	-
Sales volumes			
Sanitary ware – pices	5,321	4,699	88%
Tile – sqm	25,755	21,611	84%

The Company is also expecting a more benign inflationary environment in 2020 with imported products cheaper in Egyptian Pound terms and the strengthening Pound allowing the government to talk about reducing prices on key items.

Lecico also believes that Egyptian interest rates will be cut significantly over the course of 2020, reducing the Company's finance expense for the year. The recent decision in Lebanon to cut interest rates sharply will also help reduce interest expenses for the Company in 2020.

Egyptian demand – which has been under pressure for several years as a result of the austerity measures enacted in 2017 following the floatation of the Egyptian Pound – may see some recovery as lower inflation and lower interest rates return some purchasing power and appetite for direct investment over the course of the year. There is no sign of this recovery as of late 2019, but most economists seem to think this next cycle of demand growth is due at some point.

Lecico while expecting an improvement in results in the year ahead, still believes the operating environment and results will remain extremely challenging and the Company still expects a significant loss for the year ahead.

Furthermore, even this expectation of a reduction in losses is not without risk. Significant further strengthening of the Egyptian Pound will pressure results. European and UK currencies and demand could be negatively impacted as Brexit plays out. The situation in Lebanon, Libya and much of the Middle East remains in flux. This will still be an uncertain as well as difficult year.

In this environment, Lecico is continuing to open business with new customers, markets and to expand existing commercial relationships. The Company remains committed to managing for cash flow to try and continue to stabilise or reduce debt. This will leave Lecico in the strongest possible position to benefit from the easing policies and recovery of demand expected in Egypt and the subsequent adjustment of the Egyptian Pound over time which will see competitiveness in exports improve again.

Lecico Lebanon restructuring update:

The recent political and economic crisis in Lebanon make it quite difficult to predict how the market and Lecico's business there will look in the coming year. After several years of economic stagnation and a shrinking market for our productions, Lebanon could be at an inflection point were drastic political and economic change are possible with profound implications for the currency, trade conditions and the banking system. Much of our analysis and statements about outlook below are therefore subject to extreme variation in the months and year.

Over the last several years Lecico's Lebanese business – faced with expensive production costs, a shrinking market and increased competition – has found itself with negative results and cash flows over the past years and it has built up significant stocks of inventories and debt. As a result, our board decided to restructure the business. The goal of this restructuring was to unlock the cash tied up in Lebanon's inventory and land to reduce debt and create a profitable and cash positive business.

THE COMPANY REMAINS COMMITTED TO MANAGING FOR CASH FLOW TO TRY AND CONTINUE TO STABILISE OR REDUCE DEBT

FINANCIAL OVERVIEW
CONTINUED

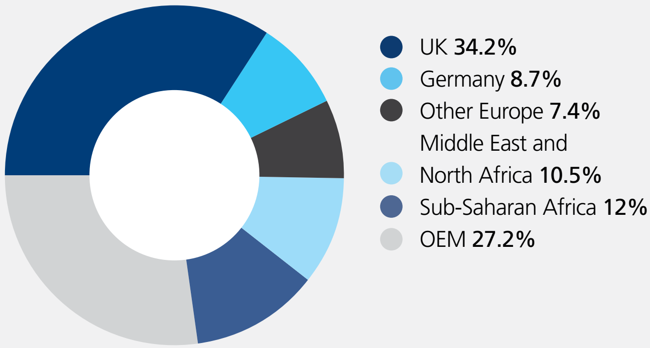
Tile segmental analysis LE m	FY 2019	 2018	% 19/18	 2017	FY 2016	 2015	15 –19 CAGR%
Tile volumes (000 sqm)							
Egypt	15,309	20,666	74%	18,994	21,270	20,581	(7%)
Lebanon	660	478	138%	558	956	1,074	(11%)
Export	5,642	4,611	122%	3,618	3,012	4,132	8%
Total tile volumes	**21,611**	**25,755**	**84%**	**23,171**	**25,237**	**25,787**	**(4%)**
Exports/total sales volume (%)	26.1%	17.9%	8.2%	15.6%	11.9%	16.0%	
Tile revenue	**856.4**	**1,002.4**	**85%**	**830.7**	**599.5**	**605.4**	**9%**
Average selling price (LE/sqm)	39.6	38.9	102%	35.9	23.8	23.5	14%
Average cost per piece (LE/sqm)	37.6	36.6	103%	34.7	24.9	20.0	17%
Tile cost of sales	(811.8)	(941.4)	86%	(803.0)	(627.6)	(516.3)	12%
Tile gross profit	**44.7**	**61.0**	**73%**	**27.7**	**(28.1)**	**89.1**	**(16%)**
Tile gross profit margin (%)	5.2%	6.1%	(0.9%)	3.3%	-	14.7%	

Sanitary ware segmental analysis LE m	FY 2019	 2018	% 19/18	 2017	FY 2016	 2015	15 –19 CAGR%
Sanitary ware volumes (000 pcs)							
Egypt	1,389	1,728	80%	1,825	2,183	1,995	(9%)
Lebanon	108	106	102%	146	151	109	(0%)
Export	3,202	3,486	92%	3,091	2,655	2,730	4%
Total sanitary ware volumes	**4,699**	**5,321**	**88%**	**5,061**	**4,990**	**4,835**	**(1%)**
Exports/total sales volume (%)	68.1%	65.5%	2.6%	61.1%	53.2%	56.5%	
Sanitary ware revenue	**1,416.1**	**1,617.2**	**88%**	**1,497.3**	**834.0**	**718.2**	**18%**
Average selling price (LE/pc)	301.4	303.9	99%	296	167	149	19%
Average cost per piece (LE/pc)	263.6	232.5	113%	203	135	125	20%
Sanitary ware cost of sales	(1,238.6)	(1,236.9)	100%	(1,025.7)	(675.6)	(606.2)	20%
Sanitary ware gross profit	**177.6**	**380.3**	**47%**	**471.6**	**158.4**	**112.0**	**12%**
Sanitary ware gross profit margin (%)	12.5%	23.5%	(11.0%)	31.5%	19.0%	15.6%	

Sanitary ware exports by destination

000s pieces	2019	% of total	2018	% of total	% 19/18
UK	1,094.6	34%	1,225.2	35%	89%
Germany	279.3	9%	244.7	7%	114%
Other Europe	238.2	7%	260.4	7%	91%
Middle East and North Africa	335.4	10%	227.9	7%	147%
Sub-Saharan Africa	384.8	12%	378.1	11%	102%
OEM	869.8	27%	1,149.7	33%	76%
Total exports	**3,202.1**	**100%**	**3,486.1**	**100%**	**92%**

Exports by destination
Sanitary ware



In early 2019, Lecico began implementing this restructuring plan for Lecico Lebanon by: (1) cutting cost and reducing capacity of production; (2) destocking inventories to unlock cash/reduce debt; (3) disposing of real estate assets to unlock cash/reduce debt and (4) move the vast majority of production to Egypt to continue operations after destocking inventories.

Upon completion of the restructuring plan, it is expected Lecico Lebanon will become cashflow positive by 2020 and profitable from 2021.

In 2020, in light of the ongoing economic crisis in Lebanon, Lecico is planning to further reduce staff and switch a large number of staff to part time work to limit cash expenses. The Company is also adjusting prices and payment terms with the market to offset the weakness of the Lebanese Lira and the lack of liquidity in the market.

Already and despite costs of restructuring, these actions have significantly cut cash costs saving around USD 2.4 million as a direct result of savings in salaries, manufacturing costs and overheads. As a result, the restructuring has delivered significant results with net cash consumed by the business reduced from USD 1.4 million (2018) to USD 0.3 million in 2019 and with the subsidiary cash flow positive in the second half of the year.

However, the restructuring has negatively impacted the P&L with lower production raising unit costs, losses on stock promotions and employment settlement adding additional P&L costs.

In 2019, management identifies additional losses of over USD 3.0 million in respect of these restructuring actions. It is important to note that almost all of these additional losses are not cash costs.

This was expected to continue throughout 2020 although at less aggressive pace with a considerable reduction in P&L losses in the year ahead.

In 2021, with most of sales in Lebanon coming from Egypt at lower production costs we were forecasting an improvement in profitability.

The key to a complete restructuring of the Company and a significant cash injection for Lecico as a group is the sale of surplus real estate in Lebanon. We have offered surplus lands for sale valued at USD 30.0 million in 2016. Management continues to work on this but current economic and market conditions mean a sale in the foreseeable future is unlikely and values today would certainly be at a discount to the valuation done.

Recent political will affect short-term restructuring plans as Lecico Lebanon adapts its business to best respond to economic and political crisis unfolding in the market. As the situation stabilises Lecico Lebanon may need to change its business restructuring plan to adjust to any new market realities. Lecico Lebanon will do its best to be flexible and adaptive to the current environment to avoid as much as possible the risks these changes raise and to get the best of the opportunities it presents.

CORPORATE SOCIAL RESPONSIBILITY

AS ONE OF EGYPT'S LEADING MANUFACTURERS, LECICO CONSIDERS CORPORATE SOCIAL RESPONSIBILITY (CSR) TO BE AN INTEGRAL PART OF THE WAY IT OPERATES AND AN IMPORTANT CONTRIBUTOR TO ITS REPUTATION.

The Board takes regular account of the significance of social, environmental and ethical matters and the measures covered in this report are monitored and reviewed with the aim of continually improving performance.

Training and development

19 employees in the Sales, Marketing, Customer Services and Production Departments have received external training in selling skills and mechanical calibration. Customised training courses (technical and vocational) remains a key focus.

90 employees in the Quality Control Department have received external training in occupational health, quality of process auditing and customer satisfaction

25 students have been trained as interns in our factories in different departments from Faculty of Engineering, Faculty of Fine Arts, Arab Academy of Science and Technology, Faculty of Commerce and Workers' University.

1500 workers have been trained internally on our Code of Conduct (COC), anti-bribery and anti-corruption, sustainability and labour rights.

Employee communication

Numbers of communication channels are in place including briefing meetings, worker boards and notice boards.

To further improve two-way communication, the Company has a Worker's Follow-Up committee representing staff from all departments and factories that meets regularly with the Executive Board. Half of the members were replaced by new elected members from different departments of the company.

Employment policy

Lecico's policy is to provide equal opportunities to all existing employees and anyone seeking to join. The Company is committed to the fair and equitable treatment of all its employees and specifically prohibits discrimination on the grounds of race, religion, sex, nationality or ethnic origin.

Employment opportunities are available to disabled persons in accordance with their abilities and aptitudes on equal terms with other employees. If an employee becomes disabled during employment, the Company makes every effort to enable them to continue employment, with re-training for alternative work where necessary.

The Company operates a number of employee pension schemes across its business including a retirement fund and has recently offered a tailored partial contribution private health insurance plan to its administrative staff. Lecico contributed over LE 9.897 million in pension contributions, accident and medical insurance and aids support for its staff in 2019.

Holidays and Pilgrimages

Lecico recognises the importance of a good work/life balance for its staff and offers several programmes to help them make the most of their time outside of work. These programmes include organising and subsidising day trips and week-long holidays for them and their families in the summer; partially funding its staff's Haj and Omra pilgrimages and giving salary bonuses to the staff in Ramadan and around other key holidays.

In 2019, these programmes (pilgrimages/childbirth/death/marriage) included a total of 13,576 subsidised holiday days enjoyed by staff and a total expense of LE 70,000.

1,500

WORKERS HAVE BEEN TRAINED ON OUR CODE OF CONDUCT, ANTI-BRIBERY AND ANTI-CORRUPTION, SUSTAINABILITY AND LABOUR RIGHTS.

CORPORATE SOCIAL RESPONSIBILITY
CONTINUED

ENVIRONMENTAL POLICY

All Lecico companies seek to:

Minimise the use of all materials, supplies and energy – and wherever possible use renewable or recyclable materials.

Minimise the quantity of waste produced in all aspects of our business.

Adopt an environmentally sound transport policy.

Communicate our environmental policy to all staff and encourage them to participate in the achievement of our goals.

Supply and promote, wherever possible, those products, which contribute to energy conservation and do not damage the environment.

Ensure that the Company continues to meet present and future environmental standards and legislation.

Ongoing with project for transferring the exothermic heat from the kiln. This heat will be used in dryers which will reduce the high temperature effect on the work environment to be complying with the legal requirements for the environmental aspects.

Community

Lecico believes it has a responsibility to contribute to the community through donations of goods, funds and time to charitable organisations and investing in the neighbourhoods around its factories. The Company also offers support to its staff and their families in times of medical emergency on a charitable basis.

The total value of the Company's donations during 2019 was LE 615,604 (2018: LE 232,000) with the majority of this being donations of goods. It is the Company's policy not to make political donations and as such no political donations were made in the year 2017.

The Company also funded local sporting facility rental and equipment for its workers to play football twice a week and organized a football tournament between different departments. This new benefit allowed a good opportunity to our employees to practice sports

Environment and Health & Safety

Lecico is committed to developing its business in a responsible manner, protecting the health and safety of its employees, addressing evolving environmental issues and ensuring compliance with applicable legal requirements.

Special sessions about protection from Silicosis risks were delivered to 52 workers in Borg El Arab Factory.

In addition to the applied HSE systems, this year Lecico has developed the system of the protection from radioactive materials used in production. This was done through:

- Hiring a consultant that specialised in the radioactive materials field.
- Installing new machineries to make the necessary measures related to these materials on regular basis.

PACKAGING AND WASTE REDUCTION POLICY

All Lecico companies seek to:

Purchase recycled and recyclable packaging where practicable, including pallets and cartons.

Return reusable pallets to suppliers and similarly recovering used pallets from customers.

Reuse packaging opened at branch level for internal transfers and deliveries.

Actively take part in recycling and reclamation schemes.

Within its businesses embrace electronic communication aimed at significant reduction in internal paperwork throughout the Company.

Ensure that the Company continues to meet present and future environmental standards and legislation.

View copies of our quality certificates and environmental reports here.

13,576

SUBSIDISED HOLIDAYS
ENJOYED BY STAFF WITH A TOTAL COST OF LE 70,000

- Maintaining regular examination every 6 months for our employees who are exposed to these materials.

Lecico has well developed environmental, packaging and waste reduction policies that are communicated to all employees who are encouraged to participate in achieving the Company's goals.

All Lecico's factories in Egypt are certified for ISO 9001 (quality management systems), ISO 14001 (environmental) and OHASA 18001 (Health and Safety). ISO 14001 is an internationally accepted certification for effective Environmental Management System (EMS). The standard is designed to address the delicate balance between maintaining profitability and reducing environmental impact. ISO 18001 is the internationally recognised certification for occupational health and safety management systems. It was developed by a selection of trade bodies, international standards and certification bodies to be compatible with ISO 9001 and ISO 14001, and help any company meet their health and safety obligations in an efficient manner.

We are ongoing with transfer to the new ISO 45001 to replace the OHASA 18001. This transition will facilitate and assure the implementation of the integrated system between the three ISO standards (9001, 14001 and 45001)

Lecico's Health and Safety System complies with all the applicable Egyptian Laws relating to Occupational Health and Safety and is audited annually from Bureau of Health and Safety and Egyptian Environmental Affairs Agency (EEAA) as follows:

- Labour Law number 12 (2003) that states the legislations of Occupational Health and Safety and Securing Work Environment Subsidiary Clause which covers laws number 202 to 231 concerning definition and application, work site, construction and license, requirements of work environment, social and health care, OH&S inspection, planning of OH&S systems and securing work sites, and research and development systems and consultation.
- Law number 453 (1954) related to 'License for industrial and commercial organisations' and amended by Law no. 68 (2016).
- Law number 79 (1975) related to Social Security and Law number 135 (2010) related to Social Insurance and Pensions.
- Environmental Law number 4 (1994) regarding environmental protection amended by Environmental Law number 9 (2009) and Environmental Law number 105 (2015)
- The Ministerial Executive Regulations number 338 (1995) amended by Ministerial decision number 1095 (2011), Ministerial decision number 964 (2015), Ministerial decision number 544 (2016), Ministerial decision number 618 (2017) and lately Ministerial decision number 1963 (2017).

In 2019, the Company was audited and passed successfully all its recurring external audits, including:

- Factory and Product audit to meet French national standards (NF)
- Factory and Product audit to meet Dutch national standards (KIWA)
- Factory and Product audit to meet Swedish national standards (NORDTEST)
- Factory and product audit to meet Spanish national standards (AENOR)
- Factory and product audit to meet American national standards (IAPMO)

In 2019, our customers started to apply Code of Conduct–Audit (COC–Audit) to complete the chain of complying with labor rights and ethical and environmental guidelines. Accordingly Lecico will apply the same with its internal and external supplier, as follows:

- SQP (supplier qualification Program) audit to cover the 'Risk Management' 'Site Facilities Management' 'Personal training and Competency' and Improved Transparency and Trust between Buyer and supplier.
- WCA (Workplace Conditions Assessment) Audit to cover the Child/forced labor, Discrimination, Discipline, harassment/Abuse and freedom of association).
- SMETA 4 pillar audit which covers the labor, environmental, health & safety and business ethics. Lecico passed this audit and took a best practice on the last section of the business.

BOARD OF DIRECTORS

Mr. Gilbert Gargour
Chairman

Board Member: 1981 – present
Age: 77
Nationality: Lebanese and British

A Director since 1981, he has served as Chairman and CEO since 1997. He holds an MBA from Harvard University. He is a co-owner of Intage and is the brother of Mr. Toufick Gargour and Mr Alain Gargour, both of whom are Lecico Directors and co-owners of Intage.

Mr. Taher Gargour
CEO and Managing Director

Board Member: 2008 – present
Age: 50
Nationality: Lebanese and American

Taher joined Lecico in January 2005, appointed a Director in 2008 and Managing Director in July 2012. He holds an MA from SAIS-Johns Hopkins. Prior to joining Lecico, he worked for seven years in the EMEA research department of HSBC Securities, covering Egyptian equities and rising to head the EMEA research team. Taher Gargour is the son of Chairman, CEO and co-owner of Lecico Egypt, Mr. Gilbert Gargour.

Mr. Georges Ghorayeb
Executive Director

Board Member: 2003 – 2019
Age: 69
Nationality: Lebanese

A Director since 2003, he studied Electro Technical Engineering from 1971-1976 in INSAE (Lebanon) in coordination with CNAM (France). He joined Lecico Lebanon in 1970 and has served as Group Technical Director since 1993 and Managing Director of Lecico Lebanon since 1997 and left the Lecico Board at the end of 2019.

Mr. Alain Gargour
Non-executive Director

Board Member: 1997 – present
Age: 67
Nationality: Lebanese and British

Involved with Lecico since 1978, he has been a Director of the Company since 1997. He holds an MBA from the University of Chicago. He is also the CEO and member of the board of Gargour Holdings S.A, Chairman of Lecico Lebanon, serves as a Director of Lecico UK and as a member of Lecico Egypt's Audit Committee. He is a Director of Intage.

Mr. Toufick Gargour
Non-executive Director

Board Member: 1974 – present
Age: 78
Nationality: Lebanese

A Director of the Company since 1974, he holds an IEP from INSEAD. In addition to being a Director at Lecico Egypt, he has been a Director of Lecico Lebanon since 1969 and is a Director and co-owner of Intage. He served as the General Manager and as a Director of T. Gargour & Fils SAL (1968 to 1996) and Uniceramic Lebanon (1973 to 2000).

Mr. Pertti Lehti
Non-executive Director

Board Member: 2002 – present
Age: 61
Nationality: Finnish

A Director since 2002, and was a Senior Vice-President for Ceramics Production at Sanitec from October 2001 until July 2007. Prior to this, he was the Managing Director of Ido Bathroom Ltd. (Finland) (1995 to 2001) and Managing Director of Porsgrund Bad AS (Norway) (1993 to 1995). Pertti served as Supply Chain Director at Lecico from 2011 – 2018.

BOARD OF DIRECTORS
CONTINUED

Mr. Elie Baroudi
Non-Executive Director
Audit Committee Chairman

Board Member: 2003 – present
Age: 74
Nationality: Lebanese and American

Elie served as Managing Director from September 2002 to June 2012. Prior to joining Lecico, he worked at American Express Bank for 22 years and served in various positions including Executive Director and Region Head for North and South East Asia (1991 to 1996), and Managing Director of American Express's Egyptian joint venture bank, Egyptian American Bank (1986 to 1990).

Mr. Mohamed Hassan
Executive Director

Board Member: 2013 – present
Age: 56
Nationality: Egyptian

A Director since 2014, with B.Sc. in Accounting from Alexandria University and an MBA from Arab Academy for Science, Technology & Maritime Transport. He joined Lecico in 1990 and has served as Financial Manager from 2000 to 2013 when he was promoted to Finance Director and asked to join the board.

Colin J Sykes
Independent Director
Audit Committee Member

Board Member: 2019 – present
Age: 60
Nationality: British

Colin is currently Managing Director of Aqualisa Products, a leading supplier of showers in the UK. He has over 30 years of finance and management experience, having previously served as Acting CEO and CFO of yacht maker Fairline, Interim CFO of Ideal Standard, and previously as CFO of B3 Cable Solutions, GB Auto and Lecico Egypt. He holds an MBA from Fuqua School of Business, Duke University and a BA in Accounting Sciences from the University of South Africa.

Dr. Hani Sarie-Eldin
Non-executive Director

Board Member: 2010 – 2019
Age: 54
Nationality: Egyptian

Hani holds a PhD in International Business Law from Queen Mary and Westfield College, University of London. He founded Sarie-Eldin & Partners Law Firm in 2007 and is the firm's Chairman. Prior to establishing the firm, he spent two years as Chairman of the Egyptian Capital Markets Authority and previously held senior positions in the Al-Futtaim Group and the Shalakany Law Office. He is currently a member of the Board of Directors of various Egyptian corporations and Banks and he left the Lecico Board at the end of 2019.

Dr. Rainer Simon
Non-executive Director
Audit Committee Member

Board Member: 2019 – present
Age: 69
Nationality: German

Rainer holds a doctorate of Economics from Saint Gallen (Switzerland). He is the owner of BirchCourt GmbH since 2005 and previously held senior positions at Continental AG, Keiper-Recaro GmbH and has been executive director of Grohe AG. Between 2002 and 2005 he was CEO and member of the Board of Sanitec AG and served as a board member of Lecico Egypt representing Sanitec. He presently serves as the Chairman of the Supervisory Board of Joyou AG Hamburg/ Nan'an China and is also a member of the Boards of Uponor OY Helsinki Finland, Haikui Seafood AG Hamburg / Dong Shan and HSIL Ltd. Gurgaon, India.

Karim Zahran
Independent Director
Audit Committee Member

Board Member: 2019 – present
Age: 35
Nationality: Egyptian

Karim is the CEO of Zahran Retail Group. Prior to that, he was Deputy Regional Manager for Group SEB, a major French home appliance company. He was also the Head of Brokerage at Beltone Securities Brokerage and the Investment Manager at Compass Capital. Karim held multiple positions in the investment arm of HSBC in New York, USA, Citigroup's private bank and ACE Group in Geneva, Switzerland, focusing on dealing with foreign investment funds interested in investing in the Middle East markets. He is also a Board member at CI Capital Holding. Karim has a Bachelor degree in Business Administration specialising in Financial Management and a Bachelor degree in Economics from Boston University, USA.

FINANCIAL STATEMENTS

AUDITOR'S REPORT TO THE SHAREHOLDERS OF LECICO EGYPT (S.A.E.)

To the shareholders of Lecico Egypt Company

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 December 31, 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 December 31, 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 utilised 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.

AUDITOR'S REPORT TO THE SHAREHOLDERS OF LECICO EGYPT (S.A.E.) CONTINUED

Other information

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

KPMG

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

Alexandria on February 26, 2020

CONSOLIDATED FINANCIAL POSITION

as at December 31, 2019

	Note	31/12/2019 LE	31/12/2018 LE
Non-current assets			
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		**2,385,096,405**	**744,364,826**
Current assets			
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		**1,748,919,608**	**2,062,183,109**
Total assets		**4,134,016,013**	**2,806,547,935**
Equity			
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)/profit for the year		(298,317,810)	(114,332,969)
Total equity attributable to equity holders of the Company		**2,238,374,496**	**880,355,434**
Non-controlling interests		46,925,260	22,752,335
Total equity		**2,285,299,756**	**903,107,769**
Non-current liabilities			
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
Provision	(27)	8,495,528	9,319,107
Total non-current liabilities		**88,179,762**	**32,680,225**
Current liabilities			
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		**1,760,536,495**	**1,870,759,941**
Total liabilities		**1,848,716,257**	**1,903,440,166**
Total equity and liabilities		**4,134,016,013**	**2,806,547,935**

Notes (1) to (37) are an integral part of these consolidated financial statements.
Review report attached.
February 26, 2020

Finance Director
Mohamed Hassan

Managing Director
Taher Gargour

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2019

	Note	31/12/2019 LE	31/12/2018 LE
Net sales		2,349,814,322	2,705,549,187
Cost of sales	(5)	(2,098,075,597)	(2,235,133,055)
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)	(37,199,968)	(41,503,723)
(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)	(199,026,504)	(233,631,825)
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		**(300,982,959)**	**(111,656,489)**
Attributable to:			
Equity holders of the Company		(298,317,810)	(114,332,969)
Non-controlling interest		(2,665,149)	2,676,480
Net loss for the year		**(300,982,959)**	**(111,656,489)**
losses per share (LE/Share)	(11)	**(3.73)**	**(1.49)**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

	31/12/2019 LE	31/12/2018 LE
Other comprehensive income		
Net loss for the year	(300,982,959)	(111,656,489)
Items that may be reclassified subsequently to income statement		
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	**1,483,949,414**	**(89,991,648)**
Total comprehensive income attributable to:		
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	**1,483,949,414**	**(89,991,648)**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2019

	Note	Issued and paid up capital LE	Reserves LE	Retained earnings LE
Balance at December 31, 2017		**400,000,000**	**558,501,332**	**38,524,669**
Transfer to retained earnings		–	–	37,220,802
Distributing treasury shares as stock dividends is the parent's shareholders		–	–	(48,182,065)
Adjustments		–	–	(6,260,527)
Translation adjustment of foreign subsidiaries		–	14,884,192	–
Net loss for the year		–	–	–
Balance at December 31, 2018		**400,000,000**	**573,385,524**	**21,302,879**
Transfer to retained earnings		–	–	(114,332,969)
Cumulative effect of applying IFRS (16) on lease contracts		–	–	(1,773,534)
Adjustments		–	–	114,285,975
Translation adjustment of foreign subsidiaries		–	(103,165,995)	–
Revaluation surplus of Group Company's land		–	1,656,854,361	–
Closing the share of the land sold by the Parent Company in the revaluation surplus in the income statement		–	(9,863,935)	–
Net loss for the year		–	–	–
Balance at December 31, 2019		**400,000,000**	**2,117,209,995**	**19,482,351**

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

	Net (loss) for the year LE	Treasury shares LE	Equity of the Parent Company's shareholders LE	Non-controlling interest LE	**Total equity LE**
	37,220,802	**(48,182,065)**	**986,064,738**	**18,665,774**	**1,004,730,512**
	(37,220,802)	–	–	–	–
	–	48,182,065	–	–	–
	–	–	(6,260,527)	(5,370,568)	(11,631,095)
	–	–	14,884,192	6,780,649	21,664,841
	(114,332,969)	–	(114,332,969)	2,676,480	(111,656,489)
	(114,332,969)	–	**880,355,434**	**22,752,335**	**903,107,769**
	114,332,969	–	–	–	–
	–	–	(1,773,534)	–	(1,773,534)
	–	–	114,285,975	(10,126,080)	104,159,895
	–	–	(103,165,995)	6,026,068	(97,139,927)
	–	–	1,656,854,361	30,938,086	1,687,792,447
	–	–	(9,863,935)	–	(9,863,935)
	(298,317,810)	–	(298,317,810)	(2,665,149)	(300,982,959)
	(298,317,810)	**–**	**2,238,374,496**	**46,925,260**	**2,285,299,756**

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended December 31, 2019

	Note	**31/12/2019 LE**	31/12/2018 LE
Cash flow from operating activities			
Net loss for the year		(298,317,810)	(114,332,969)
Adjustments provided to reconcile net loss to net cash provided by operating activities			
Fixed assets depreciation and translation differences		115,546,035	108,983,650
Intangible assets amortisation 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 land		(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
		(92,669,007)	**73,326,572**
Changes in working capital			
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)
Utilised provisions		(39,348,740)	(40,068,075)
Net cash used in operating activities		**149,116,582**	**80,676,580**
Cash Flow from investing activities			
Payments for acquiring property, plant and 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 and 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		**(64,833,765)**	**(14,342,219)**
Cash Flow from financing activities			
Proceed/(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		**3,708,976**	**(82,333,746)**
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)	**(1,145,180,744)**	**(1,129,181,359)**
Cash and cash equivalents at the end of year	(19)	**(1,057,188,951)**	**(1,145,180,744)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

1. Reporting entity

The consolidated financial statements of the Company as at and for the period 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 %**	Ownership Interest 31/12/2018 %
Lecico for Ceramics Industries (S.A.E.)	Egypt	**99.99**	99.99
TGF for Consulting and Trading (S.A.E.)	Egypt	**99.83**	99.83
Lecico for Financial Investments (S.A.E.)	Egypt	**99.33**	99.33
Lecico (UK) Ltd.	United Kingdom	**100.00**	100.00
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	**70.00**	70.00
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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).

2.3 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.

2.3 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.

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:

	31/12/2019 LE
Assets	
Non-current assets	648,099,408
Current assets	313,002,148
Total assets	**961,101,556**
Equity	
Issued and 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	**562,295,436**
Liabilities	
Non-current liabilities	6,095,147
Current liabilities	392,710,973
Total liabilities	**398,806,120**
Total equity and liabilities	**961,101,556**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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:

	31/12/2019	31/12/2018
First: Sanitary ware segment		
Sales volumes (in 000 pcs)		
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 (LE million)	1,416.1	1617,2
Average selling price (LE/pc)	301.4	303,9
Total cost of sales (LE million)	**1,238.6**	**1236,86**
Gross profit (LE million)	**177.6**	**380,30**
Second: Tile segment		
Sales volumes (in 000 m²)		
Egypt	15,309	20,666
Lebanon	660	478
Export	5,642	4,611
Total sales volume (000 m²)	**21,611**	**25,755**
Sales revenues (LE million)	**856.4**	**1002.4**
Average selling price (LE/m²)	39.6	38.9
Total cost of sales (LE million)	**811.8**	**941.4**
Gross profit/(loss) (LE million)	**44.7**	**61**
Third: Brassware segment		
Sales volume (in pcs)		
Egypt	82,933	106,371
Export	12	1,940
Total sales volume (pcs)	**82,945**	**108,311**
Sales revenues (LE million)	**77.2**	**86**
Average selling price (LE/pc)	931.3	793.6
Total cost of sales (LE million)	**47.7**	**56.9**
Gross profit (LE million)	**29.5**	**29.1**

5. Cost of sales

	31/12/2019	31/12/2018
Cost of sales	2,039,578,958	2,186,207,456
Add:		
Employees' share in net profit	58,496,639	48,925,599
	2,098,075,597	**2,235,133,055**

6. Other income

	31/12/2019 LE	31/12/2018 LE
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
	23,170,767	**71,675,334**

7. Other expenses

	31/12/2019 LE	31/12/2018 LE
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	–
	37,199,968	**41,503,723**

8. Finance income

	31/12/2019 LE	31/12/2018 LE
Interest revenues	4,037,437	5,495,761
	4,037,437	**5,495,761**

9. Finance expenses

	31/12/2019 LE	31/12/2018 LE
Interest expenses	183,380,816	225,073,410
Foreign exchange differences	15,645,688	8,558,415
	199,026,504	**233,631,825**

10. Current income tax

	31/12/2019 LE	31/12/2018 LE
Current income tax for the year	19,209,844	38,644,256
Dividends' tax	3,603,725	104,775
	22,813,569	**38,749,031**

11. Loss per share

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

	31/12/2019 LE	31/12/2018 LE
Net loss for the year (in LE)	(298,317,810)	(114,332,969)
Weighted average of the number of outstanding shares	80,000,000	76,666,667
Loss per share (LE/share)	**(3.73)**	**(1.49)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

12. Property, plant and equipment

	Land LE	Buildings LE	Leasehold Improvements LE
Cost			
At 01/01/2019	**165,163,420**	**415,857,233**	**15,210,821**
Translation differences	(3,377,246)	(9,591,439)	(289,219)
Year additions	–	1,417,554	3,938,987
Year disposals	(454,000)	(2,218,005)	(477,222)
Revaluation surplus of group company's land	1,687,792,447	–	–
At 31/12/2019	**1,849,124,621**	**405,465,343**	**18,383,367**
Accumulated depreciation			
At 01/01/2019	**–**	**211,287,535**	**13,194,314**
Translation differences	–	(4,470,187)	(182,350)
Cumulative effect of applying IFRS (16) on lease contracts	–	–	–
Year depreciation	–	17,011,906	1,252,802
Disposals' accumulated depreciation	–	(1,792,948)	(347,486)
At 31/12/2019	**–**	**222,036,306**	**13,917,280**
Net book value at 31/12/2019	**1,849,124,621**	**183,429,037**	**4,466,087**

- 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'.

	Land LE	Buildings LE	Leasehold Improvements LE
Cost			
At 01/01/2018	**175,396,704**	**415,525,396**	**14,503,854**
Translation differences	(140,144)	(9,896,741)	(154,337)
Year additions	–	10,228,578	865,804
Year disposals	(10,093,140)	–	(4,500)
At 31/12/2018	**165,163,420**	**415,857,233**	**15,210,821**
Accumulated depreciation			
At 01/01/2018	**–**	**199,203,165**	**10,697,679**
Translation differences	–	(5,723,284)	(117,733)
Year depreciation	–	17,807,654	2,616,168
Disposals' accumulated depreciation	–	–	(1,800)
At 31/12/2018	**–**	**211,287,535**	**13,194,314**
Net book value at 31/12/2018	**165,163,420**	**204,569,698**	**2,016,507**
at 31/12/2017	**175,396,704**	**216,322,231**	**3,806,175**

Machinery and equipment LE	Motor Vehicles LE	Tools LE	Furniture,office equipment and computers LE	Rights of use LE	**Total LE**
1,221,491,343	**74,760,986**	**150,526,040**	**38,800,668**	**–**	**2,081,810,511**
(22,109,914)	(2,223,631)	–	(701,694)	–	**(38,293,143)**
46,465,119	902,755	9,876,212	729,956	13,683,253	**77,013,836**
(22,279,963)	(656,482)	–	–	–	**(26,085,672)**
–	–	–	–	–	**1,687,792,447**
1,223,566,585	**72,783,628**	**160,402,252**	**38,828,930**	**13,683,253**	**3,782,237,979**
964,050,648	**68,665,064**	**113,397,878**	**34,375,902**	**–**	**1,404,971,341**
(20,375,950)	(2,179,477)	–	(636,391)	–	**(27,844,355)**
–	–	–	–	6,667,439	**6,667,439**
67,786,590	2,550,751	13,276,295	1,167,988	2,050,915	**105,097,247**
(22,162,587)	(656,477)	–	–	–	**(24,959,498)**
989,298,701	**68,379,861**	**126,674,173**	**34,907,499**	**8,718,354**	**1,463,932,174**
234,267,884	**4,403,767**	**33,728,079**	**3,921,431**	**4,964,899**	**2,318,305,805**

Machinery and equipment LE	Motor Vehicles LE	Tools LE	Furniture,office equipment and computers LE	**Total LE**
1,177,749,390	**73,077,430**	**132,022,431**	**37,323,896**	**2,025,599,101**
1,200,260	(75,373)	–	63,837	**(9,002,498)**
71,519,708	3,220,952	18,503,609	1,429,204	**105,767,855**
(28,978,015)	(1,462,023)	–	(16,269)	**(40,553,947)**
1,221,491,343	**74,760,986**	**150,526,040**	**38,800,668**	**2,081,810,511**
924,454,014	**67,093,940**	**100,518,683**	**32,932,296**	**1,334,899,777**
1,157,918	1,806	–	58,030	**(4,623,263)**
66,878,721	3,031,341	12,879,195	1,391,336	**104,604,415**
(28,440,005)	(1,462,023)	–	(5,760)	**(29,909,588)**
964,050,648	**68,665,064**	**113,397,878**	**34,375,902**	**1,404,971,341**
257,440,695	**6,095,922**	**37,128,162**	**4,424,766**	**676,839,170**
253,295,376	**5,983,490**	**31,503,748**	**4,391,600**	**690,699,324**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

12. Property, plant and equipment continued

The Company's management decided to adopt the revaluation model as per International Accounting Standard No. 16 '"Property, Plant and 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

	31/12/2019 LE	31/12/2018 LE
Machinery under installation	1,051,884	2,713,630
Buildings under construction	714,086	1,124,905
Advance payment for purchasing fixed assets	70,733	175,426
Letters of credit for purchase of fixed assets	2,153,788	2,179,137
	3,990,491	**6,193,098**

14. Intangible assets

	Goodwill LE	Development & other costs LE	Other intangibles LE	**Total LE**
Cost				
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 and 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

	Ownership %	**31/12/2019 LE**	31/12/2018 LE
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

	31/12/2019 LE	31/12/2018 LE
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

17. Inventory

	31/12/2019 LE	31/12/2018 LE
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
	960,648,841	**1,100,832,174**
Less:		
Impairment of inventory	(32,062,619)	(33,593,351)
	928,586,222	1,067,238,823
Letters of credit for purchasing goods	16,399,333	19,921,867
	944,985,555	**1,087,160,690**

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

	Balance in 1/1/2019 LE	Translation differences LE	Impairment reversal LE	Balance in 31/1/2019 LE
Impairment of inventory	33,593,351	(1,447,855)	(82,877)	32,062,619
	33,593,351	**(1,447,855)**	**(82,877)**	**32,062,619**

18. Trade and other receivables

	Note no.	31/12/2019 LE	31/12/2018 LE
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
		771,218,142	**911,711,194**
Less:			
Impairment of receivables		(96,275,155)	(123,557,806)
		674,942,987	**788,153,388**

18. Trade and other receivables continued

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

	Balance in 1/1/2019 LE	Translation differences LE	Impairment reversal LE	Balance in 31/12/2019 LE
Impairment of receivables	123,557,806	(9,531,153)	(17,751,498)	96,275,155
	123,557,806	**(9,531,153)**	**(17,751,498)**	**96,275,155**

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: LE 7,735,193).

19. Cash and cash equivalents

	31/12/2019 LE	31/12/2018 LE
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
	128,991,066	**186,869,031**
Less:		
Bank overdrafts	(1,186,180,017)	(1,332,049,775)
Cash and cash equivalent for the purpose of cash flows statement	**(1,057,188,951)**	**(1,145,180,744)**

* 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 authorised facilities limit in respect of all overdrafts LE 1,793,050,000 and the unutilised amount is LE 606,869,980.

21. Share capital

21.1 Authorised capital

The authorised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

22. Reserves

	Legal reserve LE	Other reserves* LE	Special reserve premium LE	Land revaluation surplus** LE	Translation reserve LE	Total LE
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)
Translation adjustment for foreign subsidiaries	–	–	–	(9,863,935)	–	(9,863,935)
Translation adjustment for foreign subsidiaries	–	–	–	1,656,854,361	–	1,656,854,361
Balance at December 31, 2019	**50,915,481**	**15,571,032**	**181,164,374**	**1,699,755,511**	**169,803,557**	**2,117,209,955**

* 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.

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

	31/12/2019 LE	31/12/2018 LE
Commercial International Bank (CIB)		
The outstanding counter value of the loan granted to the parent company from CIB as a medium-term loan, to enable the parent company to repay its short-term debts granted from other local banks.		
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 in 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.	–	20,000,000
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	–
	72,180,000	**20,000,000**
Less:		
Instalments due within one year which are classified as current liabilities (note 28).	(19,248,000)	(20,000,000)
	52,932,000	**–**

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

25. Other long-term liabilities

	31/12/2019 LE	31/12/2018 LE
Liability arisen from the present value of the rights of use	6,659,640	–
Less:		
IInstallments due within one year which are classified as current liabilities	(2,876,058)	–
Total other long-term liabilities	**3,783,582**	**–**

26. Deferred income tax assets and liabilities

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

	Assets 31/12/2019 LE	Liabilities 31/12/2019 LE	Assets 31/12/2018 LE	Liabilities 31/12/2018 LE
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 as at 1/1/2019 LE	Translation Differences LE	Provided Provisions LE	Utilised Provisions LE	Balance as at 31/12/2019 LE
Provision disclosed in the non-current liabilities					
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**
Provision disclosed in the current liabilities					
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

28. Loans and borrowings

	31/12/2019 LE	31/12/2018 LE
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	31/12/2019 LE	31/12/2018 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
		551,638,157	**517,920,985**

30. Related parties

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

	Nature of Transaction	Transaction Amount LE	31/12/2019 LE	31/12/2018 LE
Due from related parties				
Murex Industries and Trading (S.A.L.)	Sales	88,851,104	16,195,335	21,622,449
	Notes receivables	–	3,208,000	1,432,800
			19,403,335	**23,055,249**
El-khaleeg for Trading and Investment	Current	–	300,100	300,100
Total of debit balance			**19,703,435**	**23,355,349**
Less:				
Impairment for balance of 'El-khaleeg for Trading and Investment'			(300,100)	(300,100)
Net of debit balances			**19,403,335**	**23,055,249**
Due to related parties				
Murex Industries and Trading (S.A.L.)	Purchase	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
Total credit balances			**2,713,723**	**1,617,900**

31. Contingent liabilities

31.1 Letters of guarantee

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

Currency	31/12/2019	31/12/2018
LE	18,606,693	19,533,312
Euro (the uncovered portion of the letter of guarantee issued in favor of one of the clients of the Parent Company equivalent to LE 48.9 million)	2,720,000	–

31.2 Letters of credit

Currency	31/12/2019	31/12/2018
LE	6,863,758	10,258,525

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 9.7 million) as unpaid electricity charges for the period from March 1996 until August 2003. This Subsidiary has objected to these charges, and raised a legal case requesting the cancellation of such charges. This matter is still pending in the court and its outcome is not known as at the date of issuing the consolidated financial statements. No provisions have been taken by the subsidiary against this claim.

33. Capital commitment

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

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.

.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

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.

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

36.2 Foreign currency

a Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

b Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income 'OCI' and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest 'NCI'.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

36.3 Revenues

Sale of goods

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

36.4 Employee Benefits

36.4.1 Employees' pension

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

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.

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 and 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
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 and computers	4-12.5 years

- Leasehold improvements are depreciated over the period of the contract or useful life of the lease whichever 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

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 amortised over ten years. Lecico Lebanon (a subsidiary) recognises a payment to enter a lease agreement as an intangible assets this asset has an indefinite legal life, accordingly it is not amortised but is subjected to an annual impairment test.

36.10.3 Amortisation

Amortisation 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 amortisation charge is recognised as an expense in profit and loss. Good will is not amortised.

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 cannot be easily determined, the lessee must use the company's additional borrowing rate as a lessee.

36.11.2 Initial measurement of the usufruct asset continued

- 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

36.12.3 Held-to-maturity financial assets

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

36.12.4 Loans and receivables

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

36.12.5 Available-for-sale financial assets

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

36.12.6 Non-derivative financial liabilities – measurement

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

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

36.13 Share capital

36.13.1 Ordinary shares

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

36.13.2 Repurchase of share capital

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

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 amortised cost

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

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

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

a. Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

b. Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

36.14.3 Non-financial assets

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended December 31, 2019

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 recognised 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 capitalised. 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

Type of Tax	Years	Status
Corporate tax	From inception till 2007	Tax dispute was finalised 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 finalised 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.

IN-DEPTH PROFIT AND LOSS SUMMARY

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Sanitary Ware segment											
Sales volume (000s of pieces)	5,577	4,967	4,264	5,145	5,676	5,335	4,835	4,990	5,061	5,321	**4,699**
Exports as a percentage of total	60.3%	58.4%	56.9%	54.9%	52.7%	58.4%	56.5%	53.2%	61.1%	65.5%	**68.1%**
Average price (LE/piece)	111.4	115.0	125.9	121.8	129.8	140.0	148.5	167.1	295.8	303.9	**301.4**
Sanitary ware revenue	621.5	571.4	537.0	626.5	737.0	746.6	718.2	834.0	1,497.3	1,617.2	**1,416.1**
Sanitary ware gross profit	184.1	165.8	109.9	114.1	140.8	129.3	112.0	158.4	471.6	380.3	**177.6**
Sanitary ware gross margin (%)	29.6%	29.0%	20.5%	18.2%	19.1%	17.3%	15.6%	19.0%	31.5%	23.5%	**12.5%**
Tile segment											
Sales volume (000s of sqm)	23,631	23,633	22,971	31,746	33,492	33,045	25,787	25,237	23,171	25,755	**21,611**
Exports as a percentage of total	24.3%	22.0%	16.5%	28.9%	22.9%	18.1%	16.0%	11.9%	15.6%	17.9%	**26.1%**
Average price (LE/sqm)	18.4	18.8	18.4	19.9	21.6	23.6	23.5	23.8	35.9	38.9	**39.6**
Tile revenue	433.7	444.9	421.8	631.8	722.4	780.5	605.4	599.5	830.7	1002.4	**856.4**
Tile gross profit	189.0	187.3	131.0	222.4	256.8	242.6	89.1	(28.1)	27.7	61.0	**44.7**
Tile gross margin (%)	43.6%	42.1%	31.1%	35.2%	35.5%	31.1%	14.7%	–	3.3%	6.1%	**5.2%**
Consolidated profit and loss											
Net sales	1,055.2	1,019.2	970.7	1,278.8	1,501.0	1,573.2	1,370.5	1,496.4	2,406.5	2,705.5	**2,349.8**
Sanitary ware (% of net sales)	58.9%	56.1%	55.3%	49.0%	49.1%	47.5%	52.4%	55.7%	62.2%	59.8%	**60.3%**
Gross profit	373.1	355.0	246.3	341.9	408.7	388.8	216.2	153.3	531.9	470.4	**251.7**
Gross margin (%)	35.4%	34.8%	25.4%	26.7%	27.2%	24.7%	15.8%	10.2%	22.1%	17.4%	**10.7%**
Sanitary ware (% of gross profit)	49.3%	46.7%	44.6%	33.4%	34.5%	33.3%	51.8%	103.3%	88.7%	80.8%	**70.5%**
Distribution and administrative expense	186.8	172.3	157.4	163.3	205.4	194.6	199.9	204.4	323.7	349.9	**325.9**
D&A expense/sales (%)	17.7%	16.9%	16.2%	12.8%	13.7%	12.4%	14.6%	13.7%	13.4%	12.9%	**13.9%**
EBIT	171.8	174.8	53.4	149.4	197.9	194.8	(1.0)	(48.3)	181.9	150.7	**(88.2)**
EBIT margin (%)	16.3%	17.2%	5.5%	11.7%	13.2%	12.4%	(0.1%)	(3.2%)	7.6%	5.6%	**(3.8%)**
Net financing expense/ income	(44.5)	(55.1)	(71.8)	(82.2)	(90.8)	(82.1)	(67.7)	20.1	(136.2)	(228.1)	**(195.0)**
EBIT\Net financing expense/ Income	(3.9)	(3.2)	(0.7)	(1.8)	(2.2)	(2.4)	0.0	(2.4)	(1.3)	(0.7)	**0.5**
Net profit	110.2	94.8	(20.6)	62.8	(18.0)	91.6	(65.1)	(50.1)	37.2	(114.3)	**(298.3)**
Net margin (%)	10.4%	9.3%	(2.1%)	4.9%	(1.2%)	5.8%	(4.8%)	(3.3%)	1.5%	(4.2%)	**(12.7%)**
Reported EPS (LE/share)	**2.75**	**1.58**	**(0.26)**	**0.79**	**(0.27)**	**1.14**	**(0.81)**	**(0.63)**	**0.47**	**(1.43)**	**(3.73)**
Adjusted EPS* (LE/share)	**1.38**	**1.19**	**(0.26)**	**0.79**	**(0.23)**	**1.14**	**(0.81)**	**(0.63)**	**0.49**	**(1.49)**	**(3.73)**

* EPS Adjusted to include treasury shares and historic EPS adjusted retroactively to reflect 2007 results 1:1 bonus issue.

Designed and produced by dmicreative.com

LECICO EGYPT S.A.E., P.O. BOX 358, ALEXANDRIA, EGYPT T + 20 3 518 0011 F + 20 3 518 0029