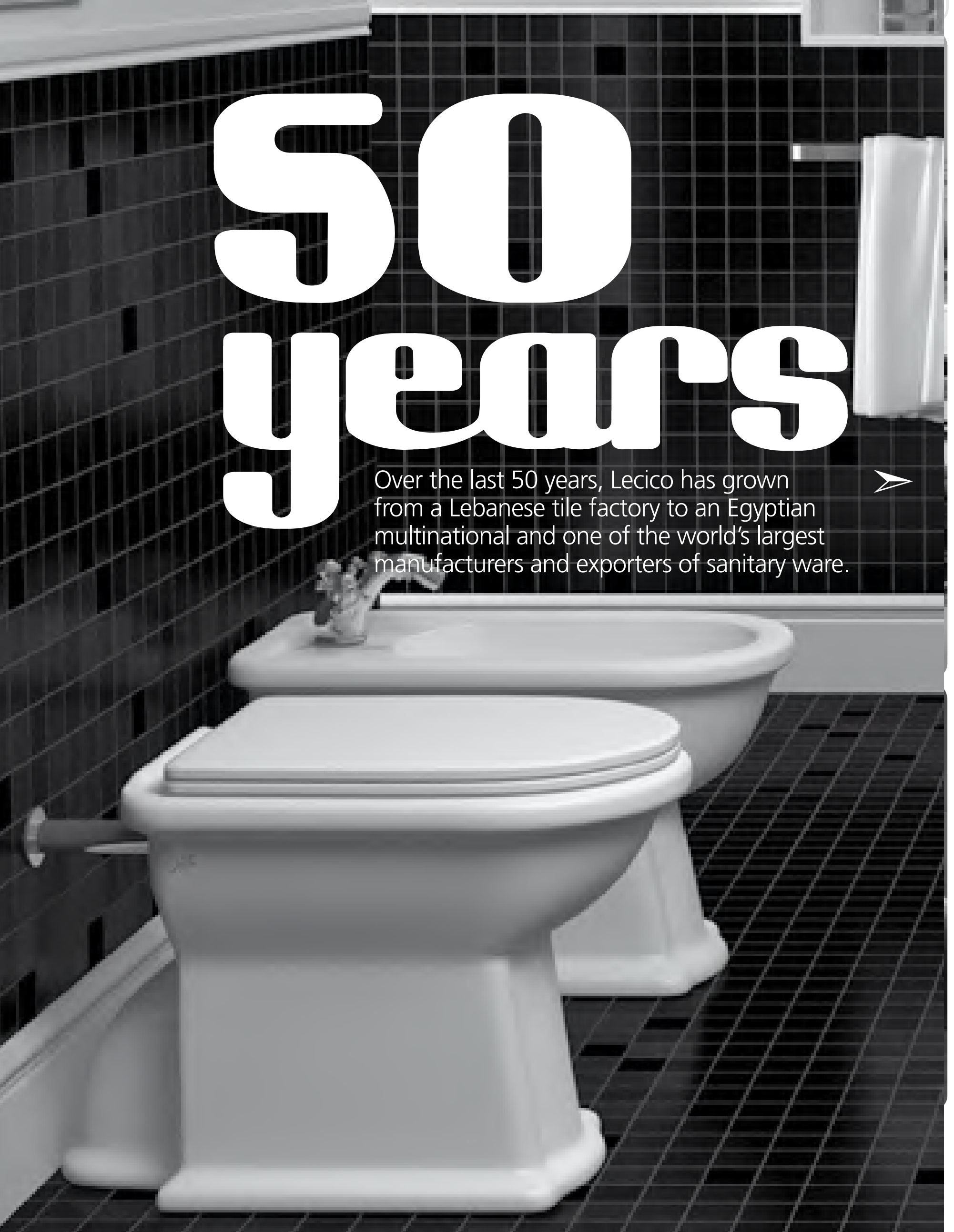
# Annual report 09

Lecico

Lecico is one of the world's largest sanitary ware producers and a significant tile producer in Egypt and Lebanon. Over its 50 years of 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 the UK, France and Ireland.



# 50 years

Over the last 50 years, Lecico has grown from a Lebanese tile factory to an Egyptian multinational and one of the world's largest manufacturers and exporters of sanitary ware.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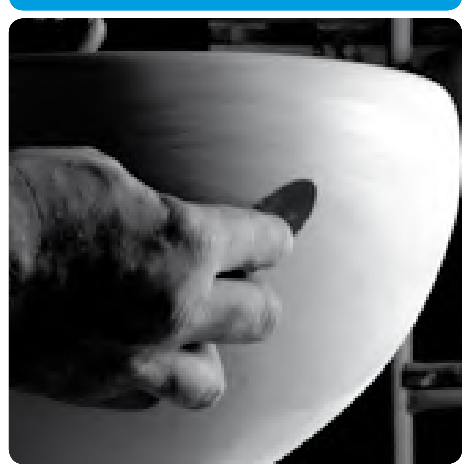
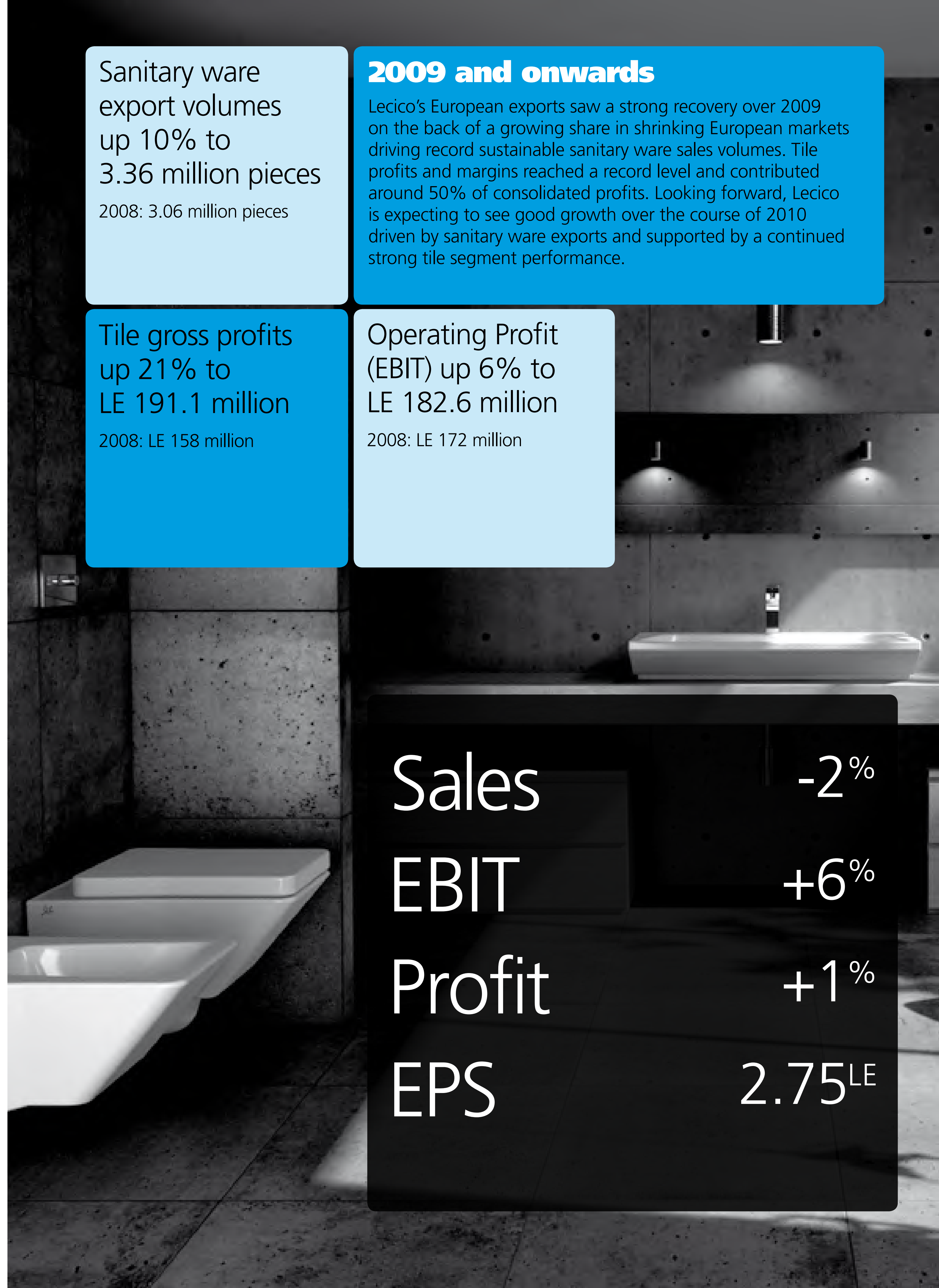
**Net Profit up 1% to LE 110.2 million**

2008: LE 108.8 million





**Sanitary ware export volumes up 10% to 3.36 million pieces**

2008: 3.06 million pieces

## 2009 and onwards

Lecico's European exports saw a strong recovery over 2009 on the back of a growing share in shrinking European markets driving record sustainable sanitary ware sales volumes. Tile profits and margins reached a record level and contributed around 50% of consolidated profits. Looking forward, Lecico is expecting to see good growth over the course of 2010 driven by sanitary ware exports and supported by a continued strong tile segment performance.

**Tile gross profits up 21% to LE 191.1 million**

2008: LE 158 million

**Operating Profit (EBIT) up 6% to LE 182.6 million**

2008: LE 172 million

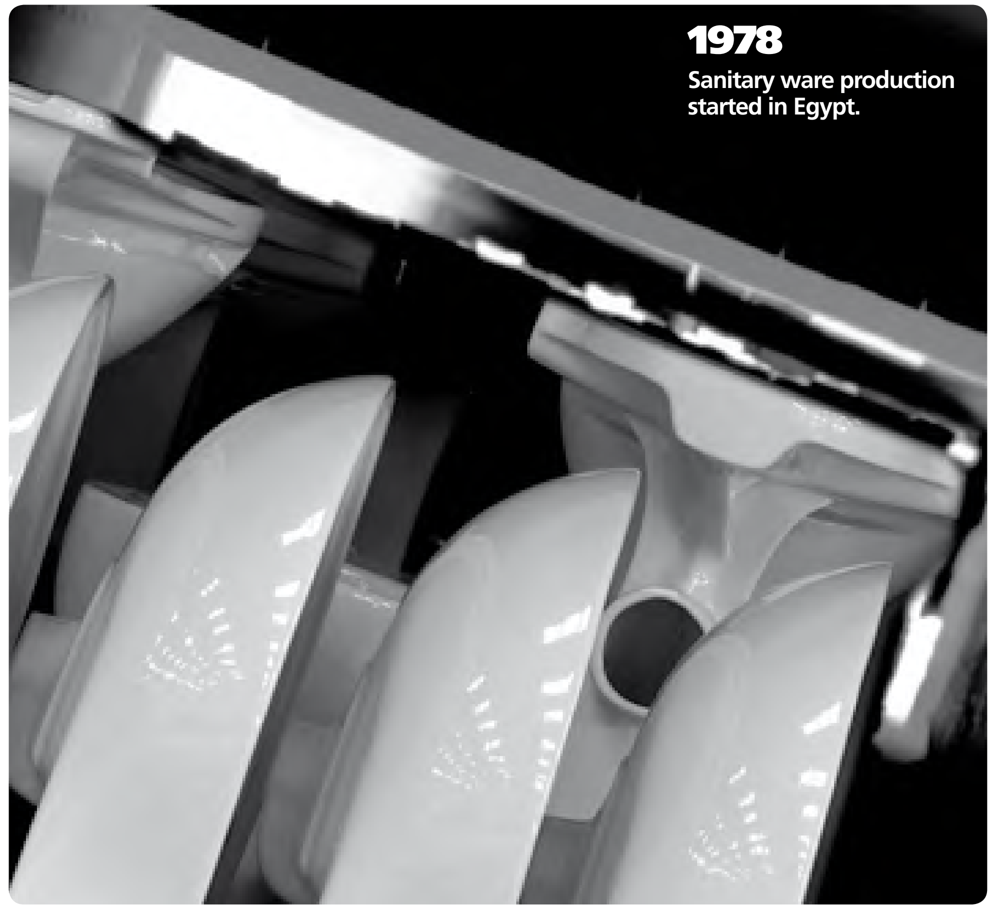
| | |
|---|---|
| Sales | -2% |
| EBIT | +6% |
| Profit | +1% |
| EPS | 2.75LE |

# 50 years

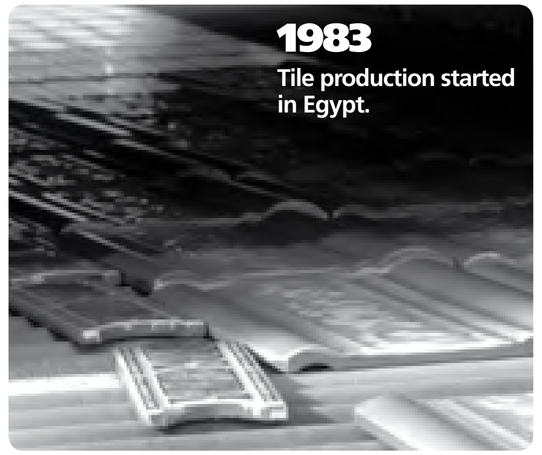
**1959**
Lecico founded in Lebanon.

**1967**
Sanitary ware production started in Lebanon.

**1975**
Lecico incorporated in Egypt.

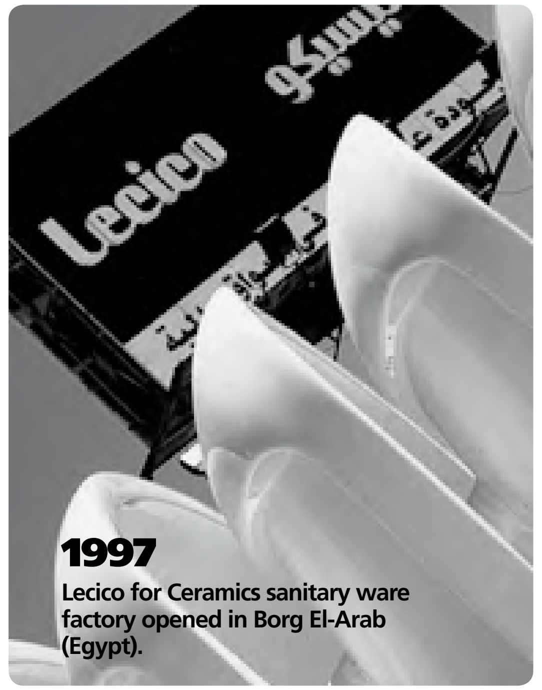


**1978**
Sanitary ware production started in Egypt.



**1983**
Tile production started in Egypt.

**1987**
Trading subsidiaries established in the UK and France.




**1997**
Lecico for Ceramics sanitary ware factory opened in Borg El-Arab (Egypt).


**2004**
Lecico completes public offering on the London and Egyptian Stock Exchanges.

**2006**
Lecico acquires Sarreguemines France brand and fire clay plant in Vitry, France.

**2007**
European Ceramics sanitary ware plant opened in Borg El-Arab (Egypt). New 4.4 million sqm tile line opened in Khorshid.

**2008**
International Ceramics sanitary ware decorating plant opened in Borg El-Arab (Egypt).

**2009**
Export subsidiaries Lecico CEE, Lecico South Africa and Italian JV Stile incorporated.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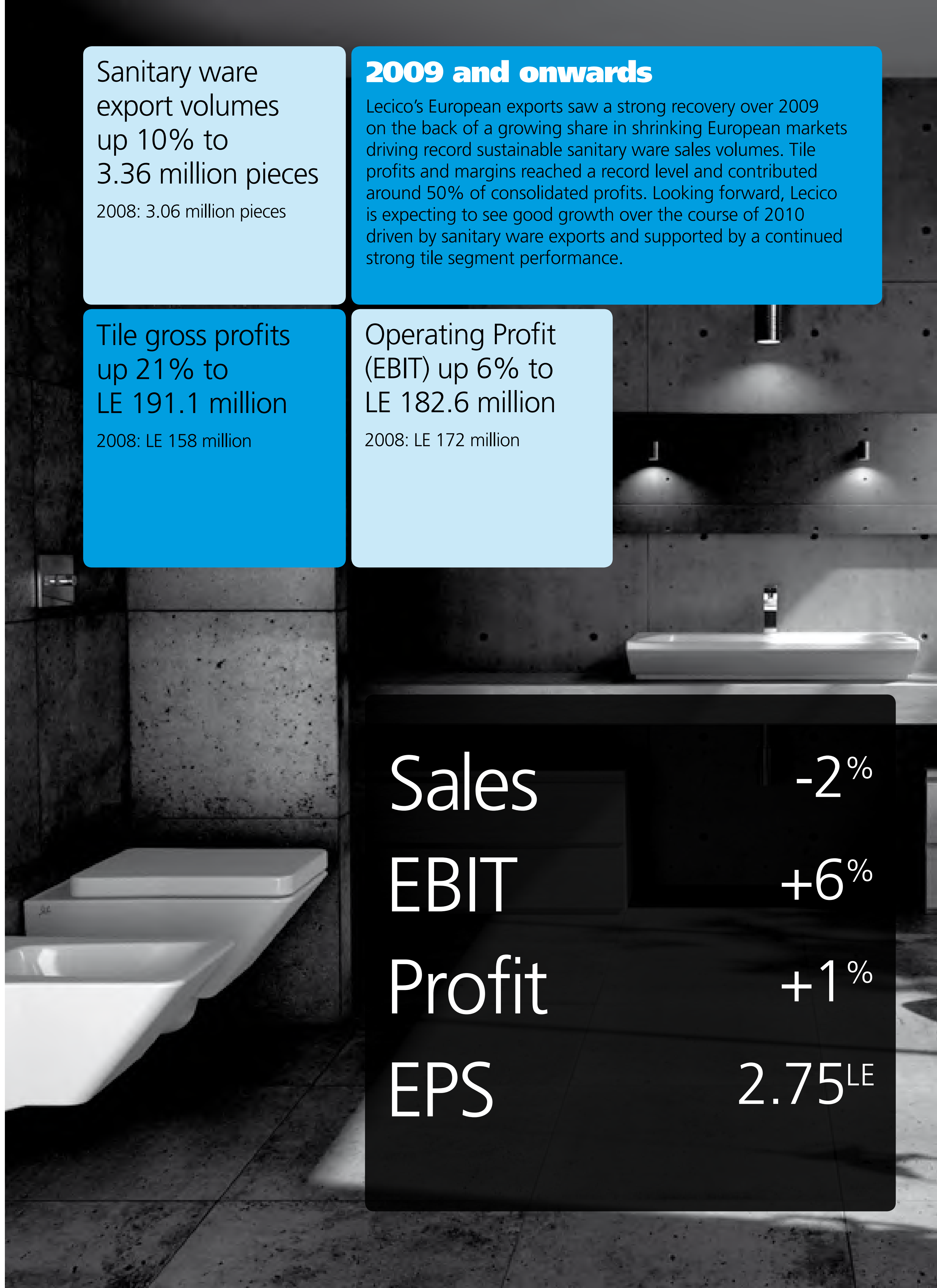

**Sanitary ware export volumes up 10% to 3.36 million pieces**

2008: 3.06 million pieces

## 2009 and onwards

Lecico's European exports saw a strong recovery over 2009 on the back of a growing share in shrinking European markets driving record sustainable sanitary ware sales volumes. Tile profits and margins reached a record level and contributed around 50% of consolidated profits. Looking forward, Lecico is expecting to see good growth over the course of 2010 driven by sanitary ware exports and supported by a continued strong tile segment performance.

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2008: LE 158 million

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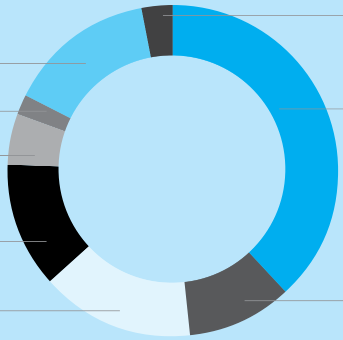
| | |
|---|---|
| Sales | -2% |
| EBIT | +6% |
| Profit | +1% |
| EPS | 2.75LE |

# At a glance

## A leading producer of sanitary ware and tiles for Europe and the Middle East.

**Business split**
sales from sanitary ware and tiles




**Germany**
Sales volume rose 238% year-on-year to reach 98k pieces, market share estimated at 1.6%.

**America**
Sales quadrupled with roll out of 1st OEM product, 2 more products to be launched in 2010.

**UK**
Market share reaches 24% with sales volume up 29% in shrinking market.

**Italy**
Stile JV announced – a new brand for Italy with full range of purpose-designed sanitary ware.

**Egypt**
Sarreguemines launched as luxury brand for Egypt with plans to roll out across the country in 2010.

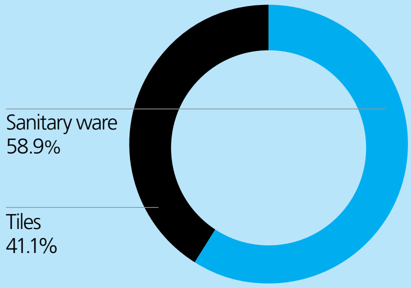
**Middle East**
Sales rose 17% driven by 25% growth in Libya and 48% growth in Iraq (Lecico's largest regional markets)

**50 years**

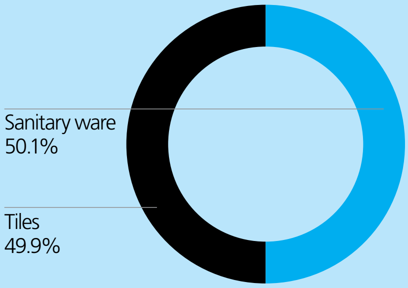
"What sets Lecico apart in a crowded market place – in my opinion is product quality, innovation and competitive pricing. Quality is all about an attitude and Lecico – from the very first moment I met them – have had this desire to make their product to a high standard."
*Eugene Carty, Product Manager, Bathrooms, Wolseley Ireland*

## Business split

Sales from sanitary ware and tiles




Gross profit from sanitary ware and tiles



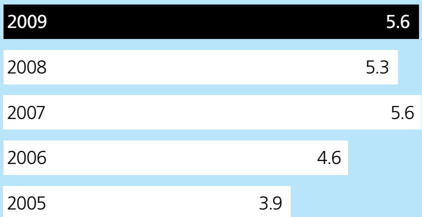

## Five year summary

| LE millions | 2005 | 2006 | 2007 | 2008 | **2009** | CAGR |
|---|---|---|---|---|---|---|
| Net Sales | 652.4 | 719.5 | 989.5 | 1,080.7 | **1,055.2** | 13% |
| Gross Profit | 242.4 | 252.3 | 346.4 | 379.5 | **383.1** | 12% |
| EBIT | 139.6 | 118.1 | 156.9 | 172.0 | **182.6** | 7% |
| Net Profit | 88.8 | 79.2 | 107.0 | 108.9 | **110.2** | 6% |
| Adjusted EPS* | 2.22 | 1.98 | 2.67 | 2.72 | **2.75** | 5% |
| | | | | | | |
| Cash & Equivalents | 319.4 | 263.8 | 293.9 | 196.0 | **99.6** | (25%) |
| Total Debt | 494.0 | 647.1 | 715.8 | 597.7 | **444.7** | (3%) |
| Net Debt | 174.7 | 383.3 | 421.8 | 401.7 | **345.2** | 19% |
| Total Assets | 1,364.5 | 1,522.5 | 1,696.6 | 1,657.5 | **1,571.5** | 4% |
| Total Liabilities | 643.5 | 842.1 | 938.7 | 929.7 | **739.4** | 4% |
| Minority Interest | 5.2 | 5.1 | 8.8 | 9.4 | **3.5** | (9%) |
| Shareholders' Equity | 716.0 | 675.3 | 749.1 | 718.4 | **828.5** | 4% |

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

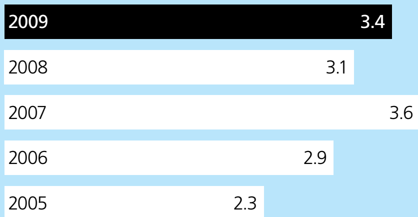
## Sanitary ware sales volume

million pieces



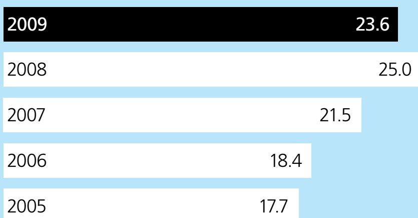

## Sanitary ware export volume

million pieces



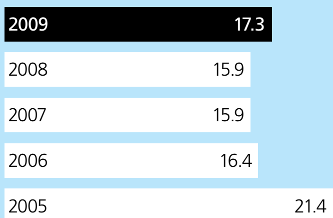

## Tile sales volume

million sqm




## EBIT margin

%



# Chairman's statement

I am pleased to report to you that Lecico finished 2009 – our 50th year as a company – with a solid performance and growth in profits. I must admit that at the start of the year, it did not look like this would be a good Golden Anniversary. The year began under a cloud with world markets in financial crisis and consumer spending on bathrooms and sanitary ware down sharply. At the same time, exchange rates were working against us with weakness in the sterling and the euro dramatically reducing the average price and profitability of our export sales.

### Managing the crisis and testing our business model

Accordingly, Lecico prepared for the worst: cutting spending, reducing headcount and focusing on efficiency in our factories, distribution channels and our administration. These steps benefited us enormously over the year as you can see from our financials and I can assure you that this discipline will be maintained and improved going forward. However, while we cut fat wherever possible, we continued to spend on building our muscle. In Lecico's case this meant: investing in getting new customers and entering new markets, investing in expanding our product range and introducing new, more modern designs. As many of you know, this is a continuation of the push into new markets Lecico has been aggressively pursuing since our last sanitary ware factory was inaugurated in late 2007, giving us the capacity to target a larger footprint across Europe and the Middle East.

Although I was confident that our efforts to expand and deepen our customer relationships would bear fruit, I was pleasantly surprised by the strength of demand for our products in what remained a very challenging year for most of Lecico's export markets. Lecico exports for 2009 finished the year up 10% in volume terms with good growth also seen in new markets in Europe and the Middle East. I believe our success is due to the fact that Lecico is the natural supplier of quality sanitary ware to Europe and the Middle East. It would be hard to find another supplier which can offer European quality products, design and service at our price points.

It is specifically this value for money combination which has allowed us to grow in Europe and secure more OEM business in these trying times. I am hopeful we will see even stronger growth in 2010 and beyond and we certainly intend to keep investing in our business to ensure that Lecico will continue to capitalize on these opportunities in the years ahead.

### Managing the future

As we look at the recent past and the development of our businesses it has clearly been years of feast for tile as volumes and margins have continued to increase during that period. This has come about because of a variety of factors underpinned by strong demand which has exceeded capacity in many years. Whilst demand will continue to strengthen in a part of the world where the attractions of tile as a flooring product are very important, there is a risk of some overcapacity as a significant number of new factories and new companies are entering this business.

In sanitary ware the winds have only recently become favourable as we begin to see our capacity more fully used. This allows us to focus again on pricing and mix in order to return to higher margins and profits. All our efforts in these directions are more fully detailed in this report, but I wanted to draw the attention of all to our need to step up our focus in these areas.

Hopefully we shall do so in an improving world economy. The future is still not entirely clear and we must all be aware of the risks under which the economies of the world still operate. We must continue to be cautious. So far the reasons for the recent major downturn have not been fully and clearly identified or understood. Until they are it is difficult to say that they have been eliminated.

I am optimistic that we shall prevail because of our basic strengths, our business model and the quality and dedication of all our people. For that we must all be thankful

**Gilbert Gargour**
Chairman and CEO

## Our priorities

### Expansion in Europe

Lecico believes it is the natural supplier of competitively priced quality sanitary ware products to Europe. Lecico is targeting new OEM partnerships and own brand sales in new markets in Europe. In 2009, Lecico saw 11% sales volume growth across Europe despite shrinking markets. Lecico expects to enter a number of new European markets in 2010 including Italy, Northern and Eastern Europe.

### Expansion in the Middle East

Lecico believes it has the potential to offer regional markets a competitively priced alternative to imported European sanitary ware with equivalent quality and design innovation. In 2009, regional export value rose 17% on the back of strong growth in Iraq and Libya. Lecico expects Algeria and Saudi Arabia to also pay a key role in growing regional sales in 2010.

### Invest in Quality

Lecico believes that product and process quality are the keys to its competitive advantage. Lecico Egypt earned ISO 14001 (Environmental) and ISO 18001 (Health & Safety) in its original factory in 2009. Lecico expects to roll out this certification to all its factories in 2010.

### Product Innovation

Lecico is committed to growing its product range to accommodate the tastes of new markets and to offer higher value products to existing markets. In 2009 Lecico introduced two new high-end series to the UK and a range of new OEM products. In 2010, Lecico plans to introduce a record number of products including a full series of suites for the Italian market, and several extended ranges for the UK and rest of Europe.

# Managing Director's statement

I am pleased to report to our investors a robust performance in what was a difficult year for sanitary ware globally. Although the year began with very slow sales for Lecico as well, our business recovered relatively quickly and by the fourth quarter of 2009 we reported record sanitary ware sales volume surpassing all previous fourth quarters and driving new highs in sales, operating and net profits.

**Record level for sustainable sanitary ware sales**
Indeed, our sustainable sanitary ware sales volumes for the year reached a new record level – despite shrinking demand in most markets and a very slow start to the year with everyone worried about the global economic environment.

**Margins grow on the back of stellar tile performance**
I am also pleased to report to you growth in all profit margins for the year despite the negative impact of euro and sterling weakness on our average export prices and consequent revenues. In large part this is the result of the stellar performance of our tile business in addition to improved sanitary ware efficiency, aggressive reductions in our overheads throughout the year and a focus on reducing debt through better working capital management and reduced capital expenditure over the year.

Our tile division saw profits rise 21% year-on-year with gross margins improving by over 7 percentage points to 44.1% as a result of a 7% increase in average prices and the benefits of the government's temporary relief on energy prices. In 2009 tiles accounted for 50% of the Company's gross profits, a record contribution from the segment.

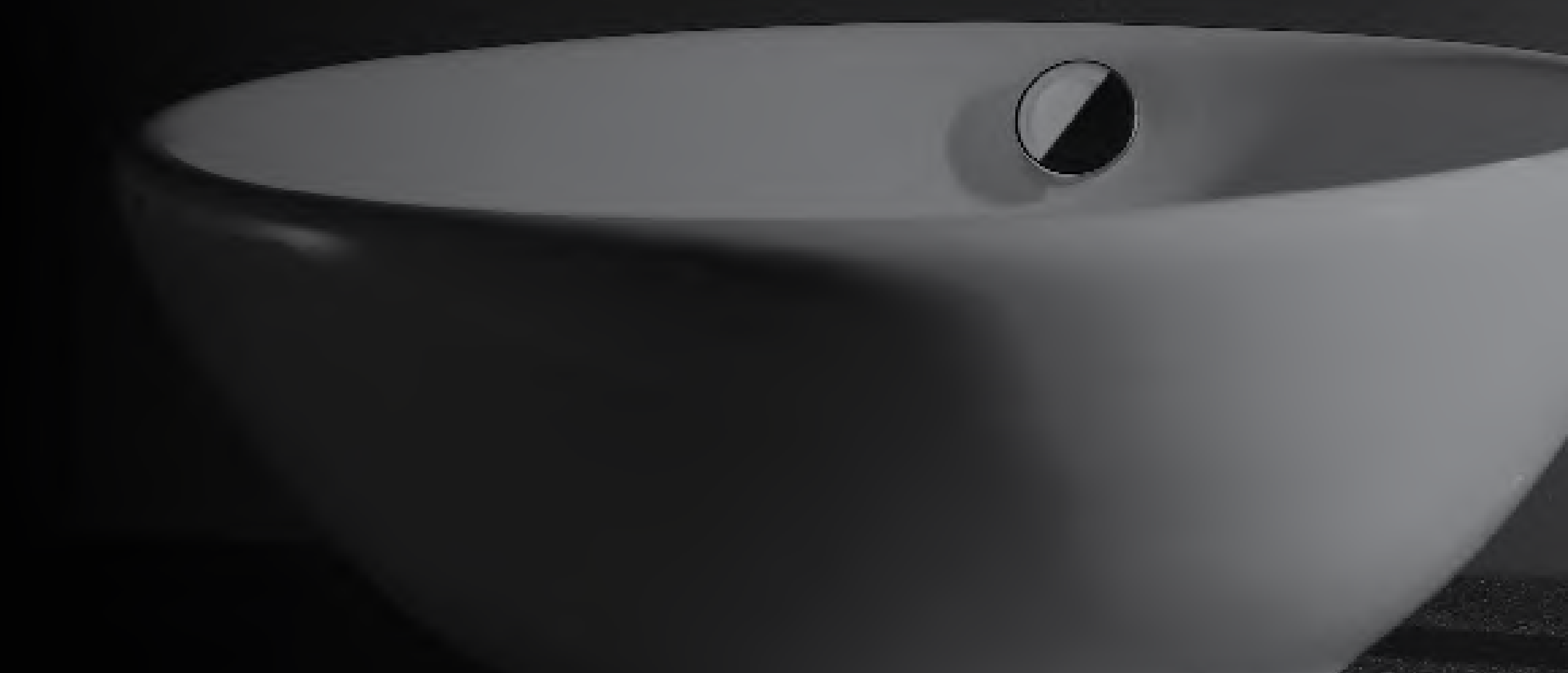
**Efficiency gains and cost control underpin performance**
In terms of efficiency gains, overall our sanitary ware factories succeeded in reducing scrap rates by over 2%, primarily due to a sharp improvement in performance at European Ceramics, our newest plant. Although we are facing a sharp increase in product complexity for 2010, I am hopeful that we will continue to improve overall efficiency this coming year.

We succeeded in reducing distribution and administration expenses for the year by LE 10 million - or 5% - through a significant reduction in non essential marketing and advertising spend and tighter controls on spending throughout the organization.

We also strengthened our balance sheet, successfully reducing net debt by LE 56.5 million (around 14%) by rationalizing capital expenditure and better management of inventory levels. This has brought down our gearing level and improved our interest coverage accordingly, and is starting to benefit bottom line performance in the fourth quarter.

I am optimistic to be closing the year on such strong numbers and looking forward to solid growth in 2010 on the back of increasing demand for our sanitary ware in our export markets and the continued stellar performance of our tile business.

**Elie Baroudi**
Managing Director



**50 years**

"We have an international recognised management system which ensures all our products and processes comply with the latest European norms. We are independently accredited by the CSA from Canada, by NF from France, by Kiwa from the Netherlands, by IAPMO from the USA."
*David Gater, Quality Manager*

# Operational review
## Sanitary ware

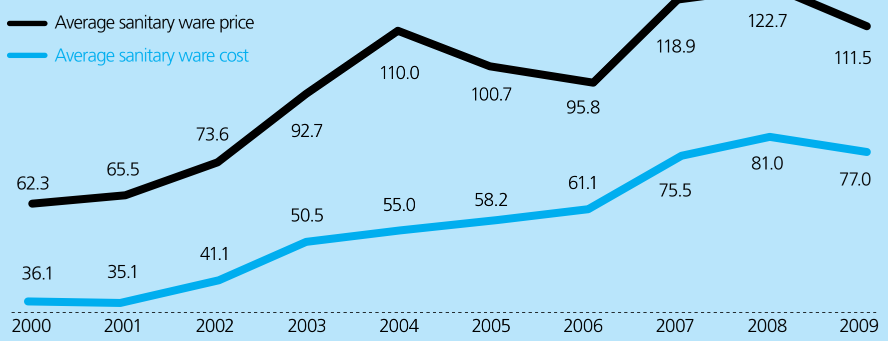
**Sanitary ware gross profit** LE million

| | |
|---|---|
| 2009 | 192.0 |
| 2008 | 221.5 |
| 2007 | 243.8 |
| 2006 | 161.0 |
| 2005 | 164.3 |
| 2004 | 234.4 |
| 2003 | 167.9 |
| 2002 | 110.0 |
| 2001 | 82.8 |
| 2000 | 62.9 |

**Sanitary ware gross margin** %

| | |
|---|---|
| 2009 | 30.9 |
| 2008 | 34.0 |
| 2007 | 36.5 |
| 2006 | 36.3 |
| 2005 | 42.2 |
| 2004 | 50.0 |
| 2003 | 45.5 |
| 2002 | 44.2 |
| 2001 | 46.4 |
| 2000 | 42.1 |

**Sanitary ware prices** LE /pc

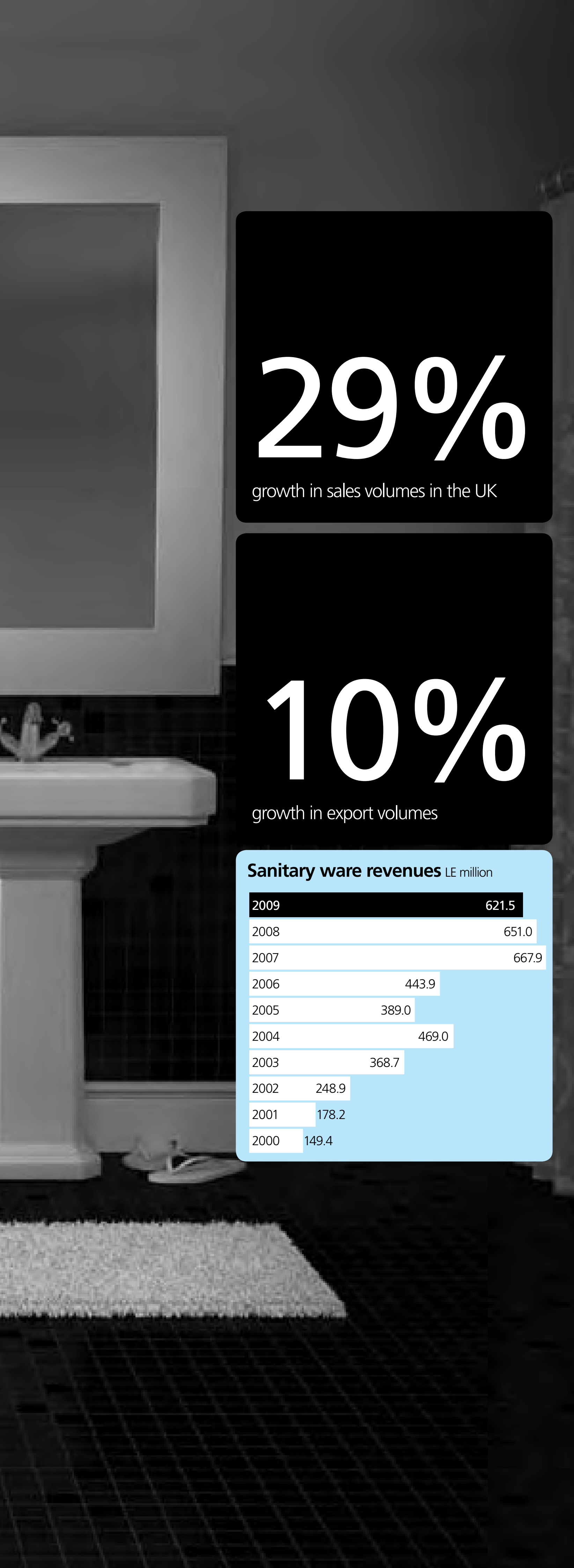



# 2009

**January**
Launch of economy Egyptian sanitary ware line in Lecico Lebanon.

**March**
Stile JV with SFA for the Italian market announced. Launch planned 2Q 2010.

**March**
Lecico participates in ISH Frankfurt - the world's leading bathroom trade show.



## In 2009, Lecico continued to focus on expanding its sanitary ware export footprint in Europe and the Middle East and building brand strength with the launch of a new JV brand in Italy and the introduction of its French brand in Egypt. New OEM customers, growing market share in the UK and strong sales in the German market all drove sales volumes growth during the year.

**29%**
growth in sales volumes in the UK

**10%**
growth in export volumes

**Sanitary ware revenues** LE million

| | |
|---|---|
| 2009 | 621.5 |
| 2008 | 651.0 |
| 2007 | 667.9 |
| 2006 | 443.9 |
| 2005 | 389.0 |
| 2004 | 469.0 |
| 2003 | 368.7 |
| 2002 | 248.9 |
| 2001 | 178.2 |
| 2000 | 149.4 |

Lecico's sanitary ware sales volumes grew year-on-year driven by strong export sales to Europe in the second half, with Lecico growing own-brand and OEM market share in shrinking markets. However, sales and profitability were down as a result of the negative impact on average prices of the sharp decline in the sterling and euro. Sanitary ware sales accounted for 58.9% of the Company's consolidated sales in 2009 (2008: 60.2%).

### Export growth into Europe despite shrinking markets

After a slow start to the year with global bathroom sales impacted by the global economic slowdown, Lecico's sanitary ware sales volumes recovered in the second half of 2009 and were up over 2008 by the end of the year. Sanitary ware sales volumes were up 5% or 274,000 pieces to 5.6 million pieces. There was significant growth year-on-year in the UK, despite industry estimates of a 20-30% drop in sanitary ware consumption in the UK during the year as Lecico grew own brand market share and added new OEM customers. Lecico estimates that its market share in the UK sanitary ware market has now risen to around 24%. Exports represented 60.3% of volumes, up from 57.8% for 2008.

Sales volumes in Lebanon and Egypt were flat year-on-year after growing strongly in 2007 and 2008, partially as a result of slowing demand at the start of the year due to fears about the global economy and partially due to constraints on capacity as the Company continued staffing up to utilise capacity in its new Borg El Arab plant (launched in late 2007) in the second half of the year.

### Revenues and margins impacted by euro and sterling weakness.

Despite growing sales volumes, revenues were down 5% year-on-year at LE 621.5 million as a result of a drop in average prices. Sanitary ware accounted for 58.9% of Lecico's revenues in 2009 (2008: 60.2%). Average sanitary ware prices fell 9% to LE 111.4 per piece, impacted by the sharp decline in the sterling and euro compared to the same period in 2008. The Egyptian pound strengthened 15% against the sterling and 5% against the euro year-on-year.

Average cost was down 5% year-on-year at LE 77 per piece, largely as a result of the effect of the lower sterling and euro on imported material costs, lower energy prices and lower packaging and plastics costs. Over the course of the year, sanitary ware as an industry was reclassified as non-energy intensive, which should mean a much slower increase in energy prices in the coming years than the 55% average annual price increase seen over 2007 and 2008.

Sanitary ware gross profit margin fell 3.1% percentage points year-on-year to reach 30.9% and gross profits fell 13% to LE 192 million. Sanitary ware gross profits accounted for 50% of the Company's gross profits in 2009 (2008: 58%).

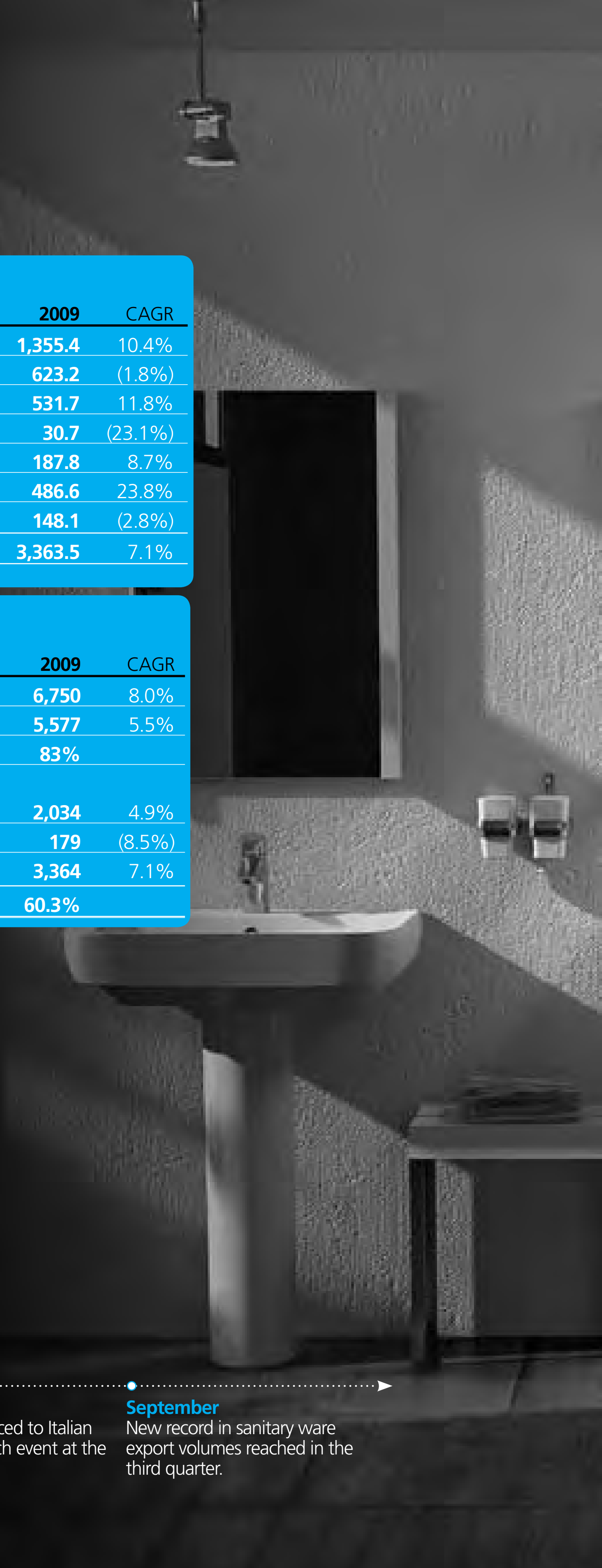
# Operational review
## Sanitary ware

**Sanitary ware exports by volume**

| 000s pieces | 2004 | 2005 | 2006 | 2007 | 2008 | **2009** | CAGR |
|---|---|---|---|---|---|---|---|
| UK | 825.2 | 677.3 | 956.6 | 1,072.1 | 1,051.6 | **1,355.4** | 10.4% |
| Sanitec | 683.0 | 636.1 | 829.2 | 1,244.5 | 638.6 | **623.2** | (1.8%) |
| France | 304.2 | 256.4 | 416.6 | 580.2 | 556.2 | **531.7** | 11.8% |
| Ireland | 114.3 | 135.6 | 127.4 | 105.5 | 61.6 | **30.7** | (23.1%) |
| Other Europe | 124.0 | 114.0 | 94.7 | 127.5 | 142.9 | **187.8** | 8.7% |
| Middle East | 167.1 | 254.6 | 301.2 | 329.9 | 455.8 | **486.6** | 23.8% |
| Other | 170.9 | 192.6 | 157.9 | 178.6 | 156.7 | **148.1** | (2.8%) |
| Total exports | 2,388.7 | 2,266.7 | 2,883.6 | 3,638.2 | 3,063.4 | **3,363.5** | 7.1% |

**Sanitary ware capacity and sales by volume**

| 000s pieces | 2004 | 2005 | 2006 | 2007 | 2008 | **2009** | CAGR |
|---|---|---|---|---|---|---|---|
| Sanitary ware capacity | 4,600 | 4,800 | 4,800 | 5,360 | 6,750 | **6,750** | 8.0% |
| Sanitary ware sales volume | 4,265 | 3,861 | 4,633 | 5,619 | 5,304 | **5,577** | 5.5% |
| Capacity utilisation (%) | 93% | 80% | 97% | 105% | 79% | **83%** | |
| Egypt sales volume | 1,600 | 1,383 | 1,549 | 1,711 | 2,063 | **2,034** | 4.9% |
| Lebanon sales volume | 276 | 211 | 200 | 269 | 177 | **179** | (8.5%) |
| Export sales volume | 2,389 | 2,267 | 2,884 | 3,638 | 3,063 | **3,364** | 7.1% |
| Exports as a % of total sales (%) | 56.0% | 58.7% | 62.2% | 64.8% | 57.8% | **60.3%** | |



## 2009

**May**
Lecico acquires controlling stake in SA distributor, renamed Lecico South Africa.

**July**
CEE trading JV launched to target Poland and Eastern Europe.

**September**
Stile JV introduced to Italian market in launch event at the Cersaie Fair.

**September**
New record in sanitary ware export volumes reached in the third quarter.

## **Stile –** A new brand for Italy

Lecico Egypt launched Stile, a new JV Italian company, in partnership with the SFA Group, in 2009. Stile is Italian for fashion and style, a name which captures perfectly the company's design aesthetic. The JV will introduce Stile as a new brand for the Italian market in 2010 with a comprehensive range of purpose-designed sanitary ware suites and fire clay products with a combination of high quality, contemporary Italian design at competitive prices.

Stile is designing its new suites with renowned professional ceramics designers like Italian Luca Cimarra in Civita Castellana, the city at the center of Italian bathroom ceramics development.

Commenting on the joint venture, Gilbert Gargour, Lecico Egypt Chairman and CEO, said, "The Italian market is renowned as one of the world's centres of design and the discerning tastes of the Italian consumer are as well known. I am sure that the combination of our great quality and design with the marketing expertise and presence of SFA Italia will offer something new and exciting for the Italian market."

Many of the images in this report are taken from Stile's catalogue. Learn more about Stile at www.ceramicastile.it.

## **Sarreguemines Egypt**
## A new luxury brand for Egypt

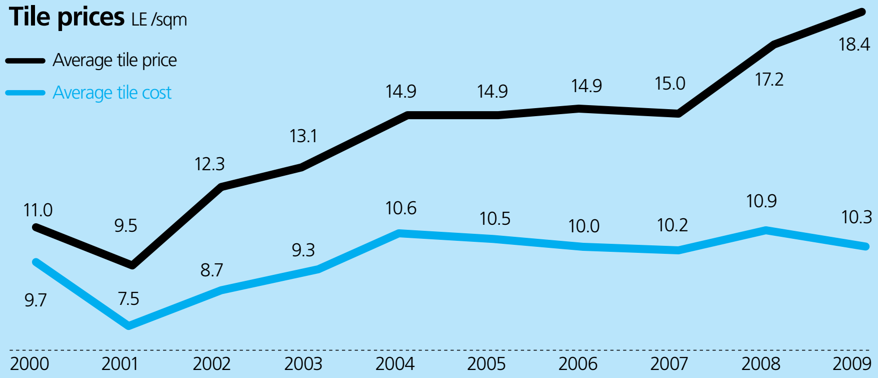
In December 2009, Lecico introduced its Sarreguemines brand in Egypt with the opening of its first retail presence in Cairo. The Sarreguemines brand will offer a competitively priced, comprehensive range of European quality sanitary ware and fire clay products aimed at offering more value to consumers and retailers in the rapidly growing upper segment of the Egyptian market.

Commenting on the new brand, Rami Hokan, MD of Sarreguemines Egypt, said, "Sarreguemines is one of the oldest sanitary ware manufacturers in France and the brand has a lot to offer the high-end market in Egypt. I believe Sarreguemines can offer the market more than other high-end brands: more modern and fashionable showroom displays, better design and quality sanitary ware, imported accessories, stronger guarantees and better service – all at a better price point. I am pleased with customer and retailer enthusiasm thus far, which should only improve as we roll out new points of sale over the coming year."

# Building *brands*

# Operational review
## Tiles

**Tile prices** LE /sqm




**Tile gross margin** %

| | |
|---|---|
| 2009 | 44.1 |
| 2008 | 36.8 |
| 2007 | 31.9 |
| 2006 | 33.1 |
| 2005 | 29.6 |
| 2004 | 28.9 |
| 2003 | 28.5 |
| 2002 | 29.5 |
| 2001 | 20.5 |
| 2000 | 11.3 |

**Tile gross profit** LE million

| | |
|---|---|
| 2009 | 191.1 |
| 2008 | 158.0 |
| 2007 | 102.6 |
| 2006 | 91.3 |
| 2005 | 78.1 |
| 2004 | 65.7 |
| 2003 | 54.3 |
| 2002 | 39.4 |
| 2001 | 17.9 |
| 2000 | 5.9 |

**Tile revenues** LE million

| | |
|---|---|
| 2009 | 433.7 |
| 2008 | 429.6 |
| 2007 | 321.5 |
| 2006 | 275.6 |
| 2005 | 263.4 |
| 2004 | 227.8 |
| 2003 | 190.6 |
| 2002 | 133.1 |
| 2001 | 87.2 |
| 2000 | 52.2 |

### International Ceramics
### A new 17m sqm tile plant in mid-2011

The planned capacity of the plant is 17 million square meters, 12.8 million square meters of red body tiles and 4.2 million square meters of glazed porcelain floor tiles.

"This project will increase Lecico's existing tile capacity by over 70%, a significant expansion justified by the strong demand and steady growth in profitability of our tile business," commented Gilbert Gargour, Lecico Egypt Chairman and CEO. "For several years now our tile plant has been operating at full capacity and we have had to make difficult choices about allocating product as demand for our tiles has continued to grow. I am also very enthusiastic about the prospects for glazed porcelain tiles - a new high value product with potential markets across Europe and the Middle East. The new plant has the potential to generate incremental annual revenues of around LE 490 million at full capacity with only a limited increase in distribution and other overheads."

The plant is expected to cost around USD 42 million, of which the Company has already invested USD 8.7 million to date on the project.

The investment will be done in two equal phases of 8.5 million square meters. The first phase will cost around USD 27.5 million. The red body portion of this first phase will begin operations by 2Q 2011 and the porcelain phase will begin operations by 4Q 2011.

## 2009

**November**
New 17m sqm tile plant project announced- launch planned 2Q 2009.

**December**
Sarreguemines brand launched in Egypt with inauguration of first showroom.

**December**
Lecico Egypt receives ISO 14001 and 18001 (Environmental, Health and Safety).

### Tile capacity and sales by volume

| 000s pieces | 2004 | 2005 | 2006 | 2007 | 2008 | **2009** | CAGR |
|---|---|---|---|---|---|---|---|
| Tile capacity | 16,500 | 18,220 | 18,220 | 21,000 | 22,500 | **22,500** | 6.4% |
| Tile sales volume | 15,334 | 17,698 | 18,442 | 21,461 | 24,946 | **23,631** | 9.0% |
| Capacity utilisation (%) | 93% | 97% | 101% | 102% | 111% | **105%** | |
| | | | | | | | |
| Egypt sales volume | 12,788 | 13,595 | 13,386 | 15,073 | 17,713 | **15,817** | 4.4% |
| Lebanon sales volume | 962 | 948 | 1,002 | 1,205 | 1,958 | **2,071** | 16.6% |
| Export sales volume | 1,584 | 3,155 | 4,053 | 5,183 | 5,276 | **5,743** | 29.4% |
| Exports as a %of total sales (%) | 10.3% | 17.8% | 22.0% | 24.2% | 21.1% | **24.3%** | |

# 7%

increase in average price per square meter

# 21%

growth in gross profits

## Tile capacity was limited in 2009 by critical maintenance over the summer but the Company still saw strong export growth as Lecico continued to grow its regional markets. Lecico raised prices in most markets and – thanks to energy price relief from the Egyptian government – realised record high margins and profits in the segment.

Tiles are generally sold to the Group's domestic markets in Egypt and Lebanon and exported to the Middle East along side sanitary ware. Tiles segment have contributed strongly in elevating Lecico's profitability in 2009.

**Price Increases and lower energy costs drive record profits**
Tile sales volumes fell by 5% year-on-year in 2009, to reach 23.6 million square meters as a result of maintenance work in the second and third quarters and the management decision in the fourth quarter to reduce the volume of products offered to the Egyptian market to stabilize discounts. Tile sales accounted for 41.1% of Lecico's sales in 2009 (2008: 39.8%).

Average sales prices rose 7% year-on-year to reach LE 18.4 per square meter, reflecting an increased proportion of exports at a higher average selling price and the effect of price increases in most markets. Tile exports are dollar denominated and therefore did not suffer the same negative exchange rate impact as sanitary ware.

There was a 6% decrease in average cost per square meter to LE 10.3 mainly due to lower energy prices in Egypt. In February of 2009, the Egyptian government extended a temporary reversal of its last price increase (September 2008), this is expected to be reversed in 2010 although the timing is still not determined. Gross profit for the year was up 21% year-on-year at LE 191.1 million and the segment's gross margin increased 7.3 percentage points to reach 44.1%. Tile gross profits accounted for 50% of the Company's consolidated gross profits (2008: 42%).

# 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.

### Employees
Lecico recognises it is dependent on the quality and effectiveness of its employees. The Company has a good track record in recruitment and retention and has increased its investment in training, development and employee communications during 2009.

### Training and development
953 members of staff from all areas of the Group have attended internal development courses in 2009 and 100 members of staff have received external training. Language training remains a key focus, as well as courses in IT, Finance, Marketing and Time Management.

### Employee communications
Lecico recognises that comprehensive, two-way communications are essential to the retention of skilled employees. A number of communication channels are in place including briefing meetings, worker boards, notice boards and newsletters.

The Company publishes a quarterly staff newsletter which includes a briefing on company performance and latest news. Customer and staff profiles are covered in each issue, alongside health and safety advice. The newsletter is intended to improve two-way communication and solicits and covers staff suggestions and feedback.

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. In October 2009, the Committee was restructuring to be more dynamic and more representative of the different departments and employees in the company.

The key initiatives of the Worker's Follow-Up Committee included improving the personal support for any employee in hospital; ensuring monthly incentives were paid to service departments; increasing the Company's contribution to employee's Hajj pilgrimages; increasing the benefit paid for marriages or deaths in the families of its employees; increasing disability support for employees; and implementing a worker of the month program.

### 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 to prohibit 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 1.8 million in pension contributions, accident and medical insurance support for its staff in 2009.

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

In 2009, these programmes included a total of over 4,900 subsidised holiday days enjoyed by staff and a total expense in holiday and pilgrimage support of over LE 234,000.

### Community
Lecico believes it has a responsibility to contribute to the community through donations of goods, funds and time to charitable organisations as well as investing in the neighbourhoods around its factories.

The total value of the Company's donations during 2009 was LE 285,000 with the majority of this being donations of goods. It is the Company's policy not to make political donations and no political donations were made in the year 2009.

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

During the year improvements in yields and reductions in scrap rates mean less raw material is being used and in the Borg El Arab plant, new spraying cabinets mean that all glaze can be recycled.

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.

In 2009, Lecico was ISO certified in its Khorshid factories for ISO 14001 (environmental) and ISO 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 recognized 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. In addition to the ISO 9001 – which all Lecico factories hold – these new certifications underline Lecico's commitment to social responsibility and quality management.

Chairman meeting with the Worker's Follow-Up Committee

## 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.

## 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.

# Financial review

| Principle risks and uncertainties | Risk management and mitigation |
|---|---|
| Inflation and significant increases in energy prices | Strategy: Focus on cost savings and efficiency improvements measures.<br>2009 Example: In sanitary ware, scrap rates on WCs were reduced by an average of 2.8% and WC right first time production rates were increased by an average of 0.5%. |
| Economic slowdown in developed markets | Strategy: Grow market share in existing markets and enter new markets.<br>2009 Example: Focus on the Middle East. Regional exports value grew 17% with strong sales growth in Libya, Iraq, Morocco and Saudi Arabia. Exports to the Middle East grew from 10.4% of sales in 2008 to 14.7% in 2009. |
| Reduction in outsourcing volumes to key customers | Strategy: Broaden OEM client base to diversify risk.<br>2009 Example: Lecico began OEM supply to a new high-end boutique brand in the UK and initiated relationships with a number of European OEM customers, at least some of whom are expected to come on stream in 2010. Lecico's largest OEM customer has fallen from 24% of sanitary ware export value in 2006 to 12% in 2009. |
| Fluctuations in exchange rates | Strategy: Regional and European expansion improving balance of export currency exposures.<br>2009 Example: By targeting expansion in Europe and the Middle East in both tiles and sanitary ware, Lecico aims to better balance operational exposure to its main trading currencies (Euro, Dollar and Sterling). Including tile exports in Dollars, the sales value mix between the three currencies was roughly balanced with less than 7% of total sales difference between them all. |

## Profit and loss statement highlights

| | FY | | % | | FY | | 2005-09 |
|---|---|---|---|---|---|---|---|
| (LE m) | **2009** | 2008 | 09/08 | 2007 | 2006 | 2005 | CAGR% |
| Sanitary Ware | 621.5 | 651.0 | 95% | 667.9 | 443.9 | 389.0 | 12% |
| Tiles | 433.7 | 429.6 | 101% | 321.5 | 275.6 | 263.4 | 13% |
| **Net Sales** | **1,055.2** | **1,080.7** | **98%** | **989.5** | **719.5** | **652.4** | **13%** |
| Sanitary Ware/Net Sales | 58.9% | 60.2% | (1.3%) | 67.5% | 61.7% | 59.6% | |
| Cost of Sales | (672.1) | (701.1) | 96% | (643.1) | (467.2) | (410.0) | 13% |
| Cost of Sales/Net Sales | (63.7%) | (64.9%) | 1.2% | (65.0%) | (64.9%) | (62.8%) | |
| **Gross Profit** | **383.1** | **379.5** | **101%** | **346.3** | **252.3** | **242.4** | **12%** |
| Gross Profit Margin | 36.3% | 35.1% | 1.2% | 35.0% | 35.1% | 37.2% | |
| Distribution & Admin (D&A) | (186.0) | (195.9) | 95% | (180.3) | (122.9) | (106.8) | 15% |
| D&A/Net Sales | (17.6%) | (18.1%) | 0.5% | (18.2%) | (17.1%) | (16.4%) | |
| Net Other Operating Income | (14.5) | (11.6) | 125% | (9.2) | (11.3) | 4.1 | – |
| Net Other Operating Income/Net Sales | (1.4%) | (1.1%) | (0.3%) | (0.9%) | (1.6%) | 0.6% | |
| **EBIT** | **182.6** | **172.0** | **106%** | **156.9** | **118.1** | **139.6** | **7%** |
| EBIT Margin | 17.3% | 15.9% | 1.4% | 15.9% | 16.4% | 21.4% | |
| **Net Profit** | **110.2** | **108.8** | **101%** | **107.0** | **79.2** | **88.8** | **6%** |
| Net Profit Margin | 10.4% | 10.1% | 0.3% | 10.8% | 11.0% | 13.6% | |

## Strong recovery from 1Q demand weakness drives five year high in profits

Despite an anaemic start to the year with consumers in all markets hesitant to spend in the light of a global financial crisis, Lecico's performance rallied in the second half of the year on the back of growing sanitary ware market shares in Europe, new OEM business and improved pricing and profitability in tiles segment. By the fourth quarter, the Company was reporting record seasonal sanitary ware sales volumes and company revenues, operating and net profit levels.

Operating and net profits for the year were both up on 2008 (6% and 1% respectively) and reached their highest levels in five years despite the negative impact of the sharp decline in the sterling and euro on sanitary ware average prices, sales and profitability.

## Energy price relief helps offset negative impact of weakening sterling and euro

Lecico's gross profit margins for the year grew 1.2 percentage points despite the negative impact of weakness in the sterling and euro on sanitary ware margins in part due to energy price relief from the Egyptian government. As a result of sterling and euro weakness against the dollar, the Egyptian pound strengthened 15% against the sterling and 5% against the euro on average for 2009 as a whole. This had a negative impact on the Company's export prices (in Egyptian pounds) and negatively impacted profitability in the sanitary ware segment.

However, the negative impact of a stronger pound was reduced by the Egyptian government's February 2009 decision to waive its last energy price increase (done in July 2008) for the remainder of the year. The Egyptian government announced on 17 February 2009, the reversal of the energy price increases enacted as of 30 June 2008 for a number of sectors including the ceramic sector in which Lecico operates. The decree states that this energy price increase reversal is effective from 1 February 2009 until the end of 2009. This decree applies to both the ceramic sanitary ware and the ceramic tile sectors, as did the price increases affected at the end of June last year. Over the course of the year, the government determined that sanitary ware was also reclassified as a non-energy intensive industry, and accordingly should not return to the energy prices of 2008 when this waiver is rescinded. It is worth noting that as of writing this annual report in March 2010, this energy price relief remains in place for both sanitary ware and tiles with no indication of when this might change.

## Operational review

Revenue fell 2% from the prior year to reach LE 1,055.2 million (2008: LE 1,080.7 million). This was driven by lower sanitary ware revenue, with a decline in average selling prices due to the impact of the sharp decline in the sterling and euro on export proceeds.

Gross profits increased 1% to LE 383.1 million in 2009 (2008: LE 379.5 million) while the gross profit margin was up 1.2 percentage points to 36.3% year-on-year (2008: 35.1%). The strong performance in the tiles segment completely offsetting the negative impact that the decline in the sterling and euro had on the sanitary ware segment.

Proportional D&A expenses were down by 0.5 percentage point year-on-year to 17.6% of net sales (2008: 18.1%). In absolute terms, D&A expenses decreased by 5% to LE 186 million (2008: LE 195.9 million). The decrease came from the impact of lower exchange rates on the overheads for Lecico PLC and France in addition to the benefits of the cost saving initiatives implemented by management during the year. Net other operating expenses were LE 14.5 million (2008: LE 11.6 million).

EBIT for the period grew 6% year-on-year to reach LE 182.6 million (2008: LE 172 million), with the EBIT margin increasing 1.4 percentage points to 17.3% (2008: 15.9%).

Net financing expenses were LE 40.6 million (2008: LE 39 million) and the Company reported a foreign exchange loss of LE 3.8 million (2008: FX gain of LE 5.7 million).

Lecico's tax charges for 2009 were LE 19.7 million versus LE 19.8 million in 2008. Net profit grew 1% year-on-year to reach LE 110.2 million (2008: LE 108.8 million). Net profit margin was up 0.3 percentage points to 10.4% (2008: 10.1%).

# Financial review

## Sanitary ware

Sanitary ware sales volumes were up 5% or 274,000 pieces to 5.6 million pieces (2008: 5.3 million pieces) driven by export growth particularly in the UK.

Revenues were down 5% year-on-year to reach LE 621.5 million (2008: LE 651 million) and average sanitary prices fell 9% to LE 111.4 per piece (2008: LE 122.7 per piece), impacted by the sharp decline in the sterling and euro compared to 2008.

Average cost was down 5% year-on-year at LE 77 per piece (2008: LE 81 per piece), as a result of the effect of the lower sterling and euro on imported material costs, lower energy prices and lower packaging and plastics costs.

Sanitary ware gross profit margin was down by 3.1% percentage points year-on-year to reach 30.9% (2008: 34%) and gross profits down 13% to LE 192 million (2008: LE 221.5 million).

## Tiles

Tile sales volumes fell by 5% year-on-year to 23.6 million square meters (2008: 24.9 million square meters) as a result of maintenance work in the second and third quarters and the management decision to reduce the volume of products offered to the Egyptian market in the fourth quarter.

Average sales prices rose 7% year-on-year to reach LE 18.4 per square meter (2008: LE 17.2 per square meter), reflecting price increases and the increased proportion of higher average selling price exports.

Average cost decreased 6% to LE 10.3 per square meter (2008: LE 10.9 per square meter) mainly due to lower energy prices in Egypt.

Gross profit for the year was up 21% at LE 191.1 million (2008: LE 158 million) and the segment's gross margin increased 7.3 percentage points to reach 44.1% (2008: 36.8%).

## Financial position

The value of Lecico's assets decreased 5% year-on-year to reach LE 1,571.5 million (2008: LE 1,657.5 million), driven primarily by a decrease in cash used in the reduction of bank borrowings.

Total liabilities decreased 20% to LE 739.4 million (2008: LE 929.7 million) with the reduction in both bank borrowings and the liability to Sanitec for the buyback of treasury shares.

Overall, net debt to equity showed a strong decline to 0.42x (2008: 0.56x).

## Recent developments and outlook

**Outlook for 2010:** Sanitary ware demand is looking robust for the year ahead, with the roll out of new products for new markets or OEM customers the only potential bottleneck to good growth in this segment. Lecico expects to see growth in export volumes to the Middle East and Europe. Lecico is also pushing up sanitary ware prices in most markets over the course of the year but the segment's sales value and profitability will still be significantly impacted by the direction of the Egyptian pound against the dollar, sterling and euro. Lecico will be actively working to grow its market share, enter new markets and control costs to minimize the impact of the slowdown and position the company to take advantage of new opportunities arising from the changing environment.

In tiles, Lecico continues to be optimistic about the outlook for the year ahead. However, there are warning signs of potential overcapacity in the Egyptian market, which may pressure margins and require Lecico to reorient production to export markets over the course of the year. We don't anticipate any issues with both Lebanon and Middle Eastern export markets showing a strong appetite for more tiles.

Lecico is likely to experience some cost inflation due to energy prices over the course of the year. The relief given to intensive energy users in February of last year was supposed to end at the beginning of 2010. It has not and speculation in the market is that energy prices will be held at current levels for at least the first half of the year. However, nothing is formal and therefore it is impossible to predict the timing and magnitude of any increase in energy prices in 2010. Any increase in energy prices would be mitigated by the confirmation – received by Lecico from numerous sources – that sanitary ware is no longer considered an intensive energy user and consequently at least all production in Borg El Arab will benefit from lower energy costs once current relief is removed.

Overall, Lecico is expecting to see good growth over the course of the year driven by sanitary ware exports and supported by a continued strong tile segment performance.

## Sanitary ware segmental analysis

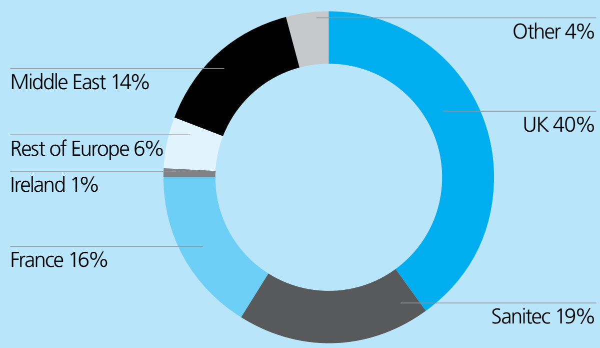
| (LE m) | FY 2009 | FY 2008 | % 09/08 | FY 2007 | FY 2006 | FY 2005 | 2005-09 CAGR% |
|---|---|---|---|---|---|---|---|
| Sanitary ware volumes (000 pcs) | | | | | | | |
| Egypt | 2,034 | 2,063 | 99% | 1,711 | 1,549 | 1,383 | 10% |
| Lebanon | 179 | 177 | 101% | 269 | 200 | 211 | (4%) |
| Export | 3,364 | 3,063 | 110% | 3,638 | 2,884 | 2,267 | 10% |
| **Total sanitary ware volumes** | **5,577** | **5,304** | **105%** | **5,619** | **4,633** | **3,861** | **10%** |
| Exports/total sales volume (%) | 60.3% | 57.8% | 2.5% | 64.8% | 62.2% | 58.7% | |
| | | | | | | | |
| **Sanitary ware revenue** | **621.5** | **651.0** | **95%** | **667.9** | **443.9** | **389.0** | **12%** |
| Average selling price (LE/pc) | 111 | 123 | 91% | 119 | 96 | 101 | 3% |
| Average cost per piece (LE/pc) | 77 | 81 | 95% | 75 | 61 | 58 | 7% |
| Sanitary ware cost of sales | (429.5) | (429.5) | 100% | (424.2) | (282.9) | (224.7) | 18% |
| **Sanitary ware gross profit** | **192.0** | **221.5** | **87%** | **243.8** | **161.0** | **164.3** | **4%** |
| Sanitary ware gross profit margin (%) | 30.9% | 34.0% | (3.1%) | 36.5% | 36.3% | 42.2% | |

## Tile segmental analysis

| (LE m) | FY 2009 | FY 2008 | % 09/08 | FY 2007 | FY 2006 | FY 2005 | 2005-09 CAGR% |
|---|---|---|---|---|---|---|---|
| Tile volumes (000 sqm) | | | | | | | |
| Egypt | 15,817 | 17,713 | 89% | 15,073 | 13,386 | 13,595 | 4% |
| Lebanon | 2,071 | 1,958 | 106% | 1,205 | 1,002 | 948 | 22% |
| Export | 5,743 | 5,276 | 109% | 5,183 | 4,053 | 3,155 | 16% |
| **Total tile volumes** | **23,631** | **24,946** | **95%** | **21,461** | **18,442** | **17,698** | **7%** |
| Exports/total sales volume (%) | 24.3% | 21.1% | 3.2% | 24.2% | 22.0% | 17.8% | |
| | | | | | | | |
| **Tile revenue** | **433.7** | **429.6** | **101%** | **321.5** | **275.6** | **263.4** | **13%** |
| Average selling price (LE/sqm) | 18.4 | 17.2 | 107% | 15.0 | 14.9 | 14.9 | 5% |
| Average cost per piece (LE/sqm) | 10.3 | 10.9 | 94% | 10.2 | 10.0 | 10.5 | (0%) |
| Tile cost of sales | (242.6) | (271.6) | 89% | (219.0) | (184.3) | (185.3) | 7% |
| **Tile gross profit** | **191.1** | **158.0** | **121%** | **102.6** | **91.3** | **78.1** | **25%** |
| Tile gross profit margin (%) | 44.1% | 36.8% | 7.3% | 31.9% | 33.1% | 29.6% | |

## Sanitary ware exports by destination

| (000 pcs) | 2009 | % of total | 2008 | % of total | % 08/09 |
|---|---|---|---|---|---|
| UK | 1,355.4 | 40% | 1,051.6 | 34% | 129% |
| Sanitec | 623.2 | 19% | 638.6 | 21% | 98% |
| France | 531.7 | 16% | 556.2 | 18% | 96% |
| Ireland | 30.7 | 1% | 61.6 | 2% | 50% |
| Rest of Europe | 187.8 | 6% | 142.9 | 5% | 131% |
| Middle East | 486.6 | 14% | 455.8 | 15% | 107% |
| Other | 148.1 | 4% | 156.7 | 5% | 94% |
| **Total exports** | **3,363.5** | **100%** | **3,063.4** | **100%** | **110%** |



# Board of directors

**50 years**

"Lecico started operations in the UK 20 years ago, and at the moment we are the fastest growing company in the bathroom industry. Our plan is to be even more dominating in the future than we are now."
*Thomas Mankert, Lecico Plc Chairman*

| Name | Age | Representing | Appointed to the Board |
|---|---|---|---|
| Mr. Gilbert Gargour | 66 | Intage | 1981 |
| Mr. Elie Baroudi | 63 | Management | 2003 |
| Mr. Alain Gargour | 57 | Intage | 1997 |
| Mr. Toufick Gargour | 68 | Intage | 1974 |
| Mr. Georges Ghorayeb | 59 | Management | 2003 |
| Mr. Pertti Lehti | 51 | Independent | 2002 |
| Mr. Juergen Lorenz | 67 | Independent | 2003 |
| Eng. Aref Hakki | 75 | Independent | 1998 |
| Mr. Mohamed Younes | 71 | Independent | 2004 |
| Mr. Taher Gargour | 40 | Management | 2008 |

**Mr. Gilbert Gargour** Chairman and CEO
He has been a Director since 1981 and has served as Chairman and CEO since 1997. He is a citizen of Lebanon and the United Kingdom and holds an MBA from Harvard University. He has served as a senior executive at Gargour UK since it was founded. He is a co-owner of Intage and is the brother of Mr. Alain Gargour and Mr. Toufick Gargour, both Lecico Directors and co-owners of Intage.

**Mr. Elie Baroudi** Managing Director
He was appointed Managing Director in September 2002 and has been a Director since 2003. He is a citizen of Lebanon and the United States of America. 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. Alain Gargour *** Non-executive Director
He has been involved with Lecico since 1978 and has been a Director of the Company since 1997. He is also a Director of Lecico Lebanon, Lecico UK and a member of Lecico Egypt's Audit Committee. He is a Director and co-owner of Intage. He is a citizen of both Lebanon and the United Kingdom and holds an MBA from the University of Chicago.

**Mr. Toufick Gargour** Non-executive Director
He has been a Director of the Company since 1974. He is a citizen of both Canada and Lebanon and 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 Chairman of Gargour Holdings S.A. and 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. Georges Ghorayeb** Executive Director
He has been a Director since 2003. A Lebanese citizen, he joined Lecico Lebanon in 1970 and has served as Group Technical Director since 1993 and Managing Director of Lecico Lebanon since 1997.

**Mr. Pertti Lehti** Non-executive Director
He has been a Director since 2002. He is a citizen of Finland 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). Now he is President and CEO of Finndomo, which is the biggest producer of single family houses in the Nordic region.

**Mr. Juergen Lorenz** Non-executive Director
He has been a Director since 2003. Being of German nationality he has worked ever since 1966 in the Middle East. Starting as representative of Continental Tyres in Libya he moved to Beirut in 1973 to organize the Middle East business for Friedrich Grohe. In 1982 he established Grome Marketing Cyprus for which he has been working as General manager and Director In Cairo (1976-1985) and Cyprus (1985-2002) and chairman of the board since 2002. Together with Mesma Cyprus (Representing first names of the Sanitary industry) created in 1884 he had a big influence in the sanitary business in Africa Middle East and parts of Asia.

**Eng. Aref Hakki *** Non-executive Director
He has been a Director since 1998. He is a citizen of Egypt with an engineering degree from Cambridge University and an MBA from Seattle University. He is also the Chairman and Chief Executive Officer of EMEC and on the boards of several other companies. Previously, he served as Chief Executive Officer of ABB Egypt (1978 to 1998) and as Chairman until 1999, after working for Brown Boveri in the US and Switzerland (1970 to 1978). In August 2008 he was appointed Chairman and CEO of the Egyptian Company for Foods, Biscomisr.

**Mr. Mohamed S. Younes *** Non-executive Director
He has been a Director since 2004. He holds an MBA from Harvard University. In addition to serving as a Lecico Director, he has been the Chairman of Concord International Investment Group since 1986 and served concurrently as the Chairman and Chief Executive Officer of Baring Brothers & Co's New York Corporate Finance affiliate from 1987 to 1992. Among his other directorships, Mr. Younes was on the board of the Central Bank of Egypt and a member of the Cairo and Alexandria Stock Exchange's International Advisory Board. In addition to serving as a Lecico Director and the Chairman of its Audit Committee, he is a Founder and a Member of the Board of Directors of the Egyptian Investment Management Association and a Director of Paints and Chemicals Industries Company, United Sugar Company of Egypt, Amoun Pharmaceutical Company and BiscoMisr.

**Mr. Taher Gargour** Deputy CEO
He joined Lecico in January 2005 and was appointed a Director in 2008. He is a citizen of Lebanon and the United States and 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.

* Member of Lecico Egypt Audit Committee

# Financial contents

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# Auditor's report to the shareholders of Lecico Egypt (S.A.E.)

We have audited the accompanying consolidated financial statements of Lecico Egypt (S.A.E.) and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2009, and the consolidated income statement, the consolidated statement of changes in shareholder's equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Lecico Egypt (S.A.E.) and its subsidiaries as at 31 December 2009 and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we would like to draw attention to note no. 15 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.

KPMG

**KPMG Hazem Hassan**
**Hatem Montasser**
**CPA no. 13309**
**Capital Market Register No. 225**

Alexandria March 7th, 2010

# Consolidated income statement

For the Year Ended December 31, 2009

| | Note no. | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|---|
| Net sales | | **1,055,261,867** | 1,080,652,777 |
| Cost of sales | | **(672,143,344)** | (701,135,326) |
| **Gross Profit** | | **383,118,523** | 379,517,451 |
| Other Income | (22) | **2,055,052** | 4,308,398 |
| Distribution Expenses | | **(69,130,119)** | (85,522,006) |
| Administrative Expenses | | **(116,908,942)** | (110,404,231) |
| Other Expenses | (23) | **(16,578,835)** | (15,909,572) |
| **Result from Operating Activities** | | **182,555,679** | 171,990,040 |
| Investment Income | | **1,598,331** | 1,148,031 |
| Finance Income | (24) | **6,797,850** | 20,257,639 |
| Financing Expenses | (25) | **(51,278,747)** | (53,640,067) |
| | | **139,673,113** | 139,755,643 |
| Employees' Participation in Profit | | **(10,795,880)** | (9,600,000) |
| **Profit Before Income Tax** | | **128,877,233** | 130,155,643 |
| Current income tax expense | | **(19,451,812)** | (13,503,968) |
| Deferred income tax | | **(177,434)** | (6,306,678) |
| **Profit for the year** | | **109,247,987** | 110,344,997 |
| **Attributable to:** | | | |
| Equity Holders of the Company | | **110,178,359** | 108,845,580 |
| Minority Interest | | **(930,372)** | 1,499,417 |
| **Profit for the Year** | | **109,247,987** | 110,344,997 |
| **Earnings Per Share (LE/Share)** | (26) | **2.75** | 2.72 |

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

# Consolidated balance sheet

For the Year Ended December 31, 2009

| | Note no. | **31/12/2009 LE** | 31/12/2008 LE |
|---|---|---|---|
| **Assets** | | | |
| Property, Plant and Equipment | (4) | **672,061,808** | 698,591,173 |
| Projects in Progress | (5) | **91,574,905** | 71,422,870 |
| Intangible Assets | (6) | **23,888,565** | 17,577,511 |
| Other Investments | (7) | **4,207,305** | 4,550,539 |
| Long-Term Notes Receivable | | **–** | 150,000 |
| Long-Term pre-paid rent | | **2,053,686** | 2,402,464 |
| **Total Non-Current Assets** | | **793,786,269** | 794,694,557 |
| Inventory | (8) | **408,482,265** | 431,230,575 |
| Trade and Other Receivables | (9) | **269,611,043** | 235,613,651 |
| Trading Investments | (10) | **66,476,669** | 114,488,425 |
| Cash and Cash Equivalents | (11) | **33,104,222** | 81,530,470 |
| **Total Current Assets** | | **777,674,199** | 862,863,121 |
| **Total Assets** | | **1,571,460,468** | 1,657,557,678 |
| **Equity** | | | |
| Share Capital | (13) | **200,000,000** | 200,000,000 |
| Reserves | (14) | **282,910,608** | 330,885,575 |
| Retained Earnings | (15) | **235,460,826** | 190,862,678 |
| Profit for the Year | | **110,178,359** | 108,845,580 |
| Treasury Shares | | **–** | (112,204,707) |
| **Total Equity Attributable to Equity Holders of the Company** | | **828,549,793** | 718,389,126 |
| Minority Interest | | **3,537,361** | 9,401,989 |
| **Total Equity** | | **832,087,154** | 727,791,115 |
| **Liabilities** | | | |
| Long-Term Loans and Borrowings | (16) | **57,492,497** | 97,806,171 |
| Other Long-Term Liabilities | (17) | **86,129,355** | 113,236,180 |
| Deferred Income Tax | (18) | **19,033,494** | 18,858,354 |
| Provisions | (19) | **10,559,451** | 9,587,100 |
| **Total Non-Current Liabilities** | | **173,214,797** | 239,487,805 |
| Bank Overdrafts | | **333,420,011** | 419,517,015 |
| Loans and Borrowings | (20) | **53,834,828** | 80,362,454 |
| Trade and Other Payables | (21) | **164,609,040** | 173,123,076 |
| Provisions | (19) | **14,294,638** | 17,276,213 |
| **Total Current Liabilities** | | **566,158,517** | 690,278,758 |
| **Total Liabilities** | | **739,373,314** | 929,766,563 |
| **Total Equity and Liabilities** | | **1,571,460,468** | 1,657,557,678 |

Notes (1) to (37) are an integral part of these consolidated financial statements.
Auditor's report attached.
March 7, 2010.

Financial Manager
**Mohamed Hassan**

Managing Director
**Elie J. Baroudi**

# Consolidated cash flow statement

For the Year Ended December 31, 2009

| | Note no. | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|---|
| **Cash Flow from Operating Activities** | | | |
| Net Profit for the Year | | **110,178,359** | 108,845,580 |
| **Adjustments to Reconcile Net Profit To Net Cash Provided by Operating Activities** | | | |
| Fixed Assets Depreciation and Translation Differences | (4) | **76,281,084** | 69,950,319 |
| Intangible Assets Amortization and Translation Differences | (6) | **322,321** | 495,631 |
| Employees Participation in Net Profit | | **10,795,880** | 9,600,000 |
| Current Income Tax | | **19,451,814** | 13,503,968 |
| Deferred Income tax | | **177,434** | 6,306,678 |
| Long-Term Prepaid Rent Expense | | **348,778** | 349,403 |
| Net of Capital Gain | | **(68,860)** | (299,381) |
| Provided Provisions, Impairment of Inventory and Receivables and Translation Differences | | **12,611,864** | 12,615,931 |
| Reversed Provisions | | – | (123,795) |
| Increase (Decrease) in Minority Interest | | **(5,864,628)** | 604,452 |
| Increase in Translation Reserve | | **3,959,648** | 12,971,571 |
| | | **228,193,694** | 234,820,357 |
| **Changes in Working Capital** | | | |
| Decrease (Increase) in Inventory | | **21,771,320** | (63,568,792) |
| (Increase) Decrease in Receivables | | **(43,182,126)** | 56,026,010 |
| Decrease in Payables | | **(15,230,967)** | (8,346,260) |
| Change in Other long-Term Liabilities | | **(27,106,825)** | (2,509,210) |
| Paid Income Tax | | **(11,209,668)** | (7,732,523) |
| Utilised Provisions | | **(4,496,036)** | (10,442,556) |
| Proceeds from Sales of Current Investments | | **48,011,756** | 122,468,072 |
| **Net Cash Provided by Operating Activities** | | **196,751,148** | 320,715,098 |
| **Cash Flow from Investing Activities** | | | |
| Property, Plant & Equipment Additions and Changes in Projects in Progress | | **(70,740,728)** | (125,601,984) |
| Changes in Intangible Assets | | **(6,633,375)** | (743,696) |
| Net Changes in Other Current Investments | | **343,234** | (420,803) |
| Proceeds from Sales of Property, Plant & Equipment | | **905,846** | 1,149,343 |
| Increase in Long-Term Notes Receivable | | **150,000** | 150,000 |
| **Net Cash Used in Investing Activities** | | **(75,975,023)** | (125,467,140) |
| **Cash Flow from Financing Activities** | | | |
| Repayment of long-Term Loans and its Current portion | | **(66,841,296)** | (125,091,093) |
| Payment for Acquiring Treasury Shares | | **(3,979,648)** | (7,967,489) |
| Proceeds from Selling Treasury Shares | | – | 17,146,947 |
| Difference Result from Discounting of Other Long-Term Liabilities to its Present Value | | – | 10,272,525 |
| Treasury Shares Dividends | | – | 10,886 |
| Payments for Employees' Share in Net Profit | | **(12,284,425)** | (12,095,623) |
| Dividends Paid | | – | (60,000,000) |
| **Net Cash (used in) Financing Activities** | | **(83,105,369)** | (177,723,847) |
| Net Change in Cash and Cash Equivalents During the Year | | **37,670,756** | 17,524,111 |
| Cash and Cash Equivalents at Beginning of the Year | (12) | **(337,986,545)** | (355,510,656) |
| **Cash and Cash Equivalents at the End of the Year** | (12) | **(300,315,789)** | (337,986,545) |

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, 2009

| | Issued & Paid up Capital LE | Reserves LE | Retained Earnings LE |
|---|---|---|---|
| **Balance at December 31, 2007** | 100,000,000 | 310,519,055 | 239,579,423 |
| Transfer to Retained Earnings | – | – | 106,979,772 |
| Adjustments | – | – | 4,292,597 |
| Selling Treasury Shares | – | 9,147,549 | – |
| Increasing Capital by Stock Dividends | 100,000,000 | – | (100,000,000) |
| Treasury Shares Dividends | – | – | 10,886 |
| Declared Dividends | – | – | (60,000,000) |
| Acquired Treasury Shares | – | – | – |
| Difference Result from Discounting Other Long-Term Liabilities | – | 10,272,525 | – |
| Translation Adjustment of Foreign Subsidiaries | – | 946,446 | – |
| Profit for the Year | – | – | – |
| **Balance at December 31, 2008** | 200,000,000 | 330,885,575 | 190,862,678 |
| Transfer to Retained Earnings | – | – | 108,845,580 |
| Transfer to Legal Reserve | – | 4,990,652 | (4,990,652) |
| Adjustments | – | – | 3,107,241 |
| Dividends Declared in One Subsidiary to its Minority | – | – | – |
| Acquired Treasury Shares | – | – | – |
| Distribution of Treasury Shares | – | (52,875,258) | (63,309,097) |
| Minority Interest in New Subsidiaries | – | – | – |
| Increasing the Shareholding in One Subsidiary | – | – | 945,076 |
| Translation Adjustment of Foreign Subsidiaries | – | (90,361) | – |
| Profit for the Year | – | – | – |
| **Balance at December 31, 2009** | 200,000,000 | 282,910,608 | 235,460,826 |

According to the resolution of the general assembly dated April 2, 2009 the Parent company distributed the treasury shares of 3,636,364 shares which were previously acquired as stock dividends to its shareholders. The acquisition cost of the referred to shares amounted to LE 116,184,355, its fair market value amounted to LE 63,309,097 at the distribution date. The difference between the acquisition cost and the fair market value amounting to LE 52,875,258 was debited to the reserves account.

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

| Profit for the Year LE | Treasury Shares LE | Total LE | Minority Interest LE | **Total Equity LE** |
|---|---|---|---|---|
| 106,979,772 | (7,999,398) | 749,078,852 | 8,797,537 | **757,876,389** |
| (106,979,772) | – | – | – | – |
| – | – | 4,292,597 | (903,115) | 3,389,482 |
| – | 7,999,398 | 17,146,947 | – | 17,146,947 |
| – | – | – | – | – |
| – | – | 10,886 | – | 10,886 |
| – | – | (60,000,000) | – | (60,000,000) |
| – | (112,204,707) | (112,204,707) | – | (112,204,707) |
| – | – | 10,272,525 | – | 10,272,525 |
| – | – | 946,446 | 8,150 | 954,596 |
| 108,845,580 | – | 108,845,580 | 1,499,417 | 110,344,997 |
| 108,845,580 | (112,204,707) | 718,389,126 | 9,401,989 | **727,791,115** |
| (108,845,580) | – | – | – | – |
| – | – | – | – | – |
| – | – | 3,107,241 | 157,473 | 3,264,714 |
| – | – | – | (1,397,873) | (1,397,873) |
| – | (3,979,648) | (3,979,648) | – | (3,979,648) |
| – | 116,184,355 | – | – | – |
| – | – | – | 871,439 | 871,439 |
| – | – | 945,076 | (4,545,076) | (3,600,000) |
| – | – | (90,361) | (20,219) | (110,580) |
| 110,178,359 | – | 110,178,359 | (930,372) | 109,247,987 |
| 110,178,359 | – | 828,549,793 | 3,537,361 | **832,087,154** |

# Notes to the consolidated financial statements

For the Year Ended December 31, 2009

### 1. Reporting Entity

The consolidated financial statements of the Company as at and for the year ended December 31, 2009 comprise the Parent Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

#### 1.1 Lecico Egypt (the Parent)

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

#### 1.2 Subsidiaries

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

| | Country of Incorporation | Ownership Interest 31/12/2009 % | Ownership Interest 31/12/2008 % |
|---|---|---|---|
| Lecico for Ceramics Industries (S.A.E.) | Egypt | 99.99 | 99.99 |
| TGF for Consulting and Trading (S.A.E.) | Egypt | 99.41 | 99.41 |
| Lecico for Financial Investments (S.A.E.) | Egypt | 99.33 | 99.33 |
| Lecico (UK) Ltd. | United Kingdom | 100.00 | 100.00 |
| Lecico for Investments Company 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 (Previously named "El Sharaf for Ceramics") | Egypt | 70.00 | 70.00 |
| European Ceramics (S.A.E) | Egypt | 99.97 | 99.97 |
| Lecico Plus for Trading (S.A.E) | Egypt | 99.85 | 99.85 |
| Burg Armaturen Fabrik Sarrdesign (S.A.E.) | Egypt | 69.85 | – |

### 2. Basis of Preparation

#### 2.1 Statement of Compliance

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

#### 2.2 Basis of Measurement

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

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

#### 2.3 Functional and Presentation Currency

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

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

### 2.4 Use of Estimates and Judgments

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

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

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

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

## 3. Significant Accounting Policies

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

### 3.1 Basis of Consolidation

**Subsidiaries**

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

**Transactions Eliminated on Consolidation**

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

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

**Minority Interests**

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

### 3.2 Foreign Currency

#### 3.2.1 Foreign Currency Transactions

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

#### 3.2.2 Financial Statements of Foreign Operations

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

### 3.3 Financial Instruments

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

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

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

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

Accounting for finance income and expense is discussed in note 3.14.

**Held-to-maturity investments**

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

**Available-for-sale financial assets**

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

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

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

**Other**

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

**(ii) Share capital**

**Ordinary shares**

Ordinary shares are classified as equity.

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

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

### 3.4 Property, Plant and Equipment

**(i) Recognition and measurement**

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

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

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

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

**(ii) Subsequent costs**

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

**(iii) Depreciation**

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

| Asset | Estimated useful life in years |
|---|---:|
| Buildings | 20-40 |
| Leasehold Improvements | 3 |
| Machines and Equipment | 3-16.67 |
| Motor Vehicles | 3-10 |
| Tools | 5 |
| Furniture, Office Equipment and Computers | 4-12.5 |

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

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

### 3.5 Leased Assets

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

**Finance Lease Payments**

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

### 3.6 Projects in Progress

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

## 3.7 Intangible Assets

### Goodwill

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

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

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

### Intangible Assets

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

## 3.8 Investments

### Investments in Debt and Equity Securities

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

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

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

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

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

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

## 3.9 Inventories

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

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

## 3.10 Cash and Cash Equivalents

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

## 3.11 Provisions

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

### 3.11.1 End of Services Indemnity

a - The Parent Company makes provision for end of service benefits due to expatriate employees.

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

### 3.11.2 Restructuring

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

### 3.12 Income Tax

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

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

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

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

### 3.13 Revenue Recognition

**Goods Sold and Services Rendered**

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

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

### 3.14 Borrowing Cost

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

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

### 3.15 Employees Benefits

### 3.15.1 End of Services Benefit Fund (Defined Contribution Plan)

The Parent Company and two of its subsidiaries (Lecico for Ceramic Industries and European Ceramics) contributed to an employees End of Services Benefit fund. This contribution represents 3% of the annual salaries. In addition, ½ to 1% of the annual net profit is recognized in the current year but pending the approval by the General Assembly Meeting along with annual dividends.

### 3.15.2

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

### 3.16 Segment Reporting

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

### 3.17 Consolidated Cash Flow Statement

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

### 3.18 Impairment of Assets

**Impairment**

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

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

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

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

**Calculation of recoverable amount**

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

## 4. Property, Plant and Equipment

| | Land LE | Buildings LE | Leasehold Improvements LE | Machinery & Equipment LE | Motor Vehicles LE | Tools LE | Furniture, Office Equip. & Computers LE | **Total LE** |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 01/01/2009 | 161,875,792 | 222,005,837 | 2,230,595 | 654,587,975 | 38,685,045 | 32,408,975 | 23,352,893 | **1,135,147,112** |
| Translation Differences | (21,440) | 244,407 | 48,189 | 2,191 | 366,454 | – | (11,993) | **627,808** |
| Year Additions | – | 9,779,446 | 235,144 | 27,625,443 | 5,170,371 | 7,348,260 | 430,041 | **50,588,705** |
| Year Disposals | – | – | (575,778) | (2,074,216) | (1,194,162) | – | (33,906) | **(3,878,062)** |
| At 31/12/2009 | 161,854,352 | 232,029,690 | 1,938,150 | 680,141,393 | 43,027,708 | 39,757,235 | 23,737,035 | **1,182,485,563** |
| **Accumulated Depreciation** | | | | | | | | |
| At 01/01/2009 | – | 58,454,592 | 709,067 | 322,627,233 | 28,669,994 | 13,465,108 | 12,629,945 | **436,555,939** |
| Translation Differences | – | 164,116 | 10,312 | (92,952) | 190,823 | – | (9,471) | **262,828** |
| Year Depreciation | – | 10,050,424 | 653,057 | 52,800,862 | 4,658,576 | 6,117,202 | 2,365,942 | **76,646,063** |
| Disposals acc. Depreciation | – | – | (135,697) | (2,017,701) | (881,730) | – | (5,947) | **(3,041,075)** |
| At 31/12/2009 | – | 68,669,132 | 1,236,739 | 373,317,442 | 32,637,663 | 19,582,310 | 14,980,469 | **510,423,755** |
| **Net Book Value at 31/12/2009** | 161,854,352 | 163,360,558 | 701,411 | 306,823,951 | 10,390,045 | 20,174,925 | 8,756,566 | **672,061,808** |
| **Net Book Value at 31/12/2008** | 161,875,792 | 163,551,245 | 1,521,528 | 331,960,742 | 10,015,051 | 18,943,867 | 10,722,948 | **698,591,173** |

The Land and Buildings include properties at a cost of LE 18.6 million, LE 6.5 million and LE 3 million respectively which were purchased by the Parent Company with an unregistered deed.

The Parent Company provided certain banks a power of attorney to pledge some of the sanitary ware machinery of its Khorshid facility whose cost amounted to LE 117.5 and are fully depreciated, as collateral for facilities granted to the Parent Company.

The Lebanese Ceramic Industries Company S.A.L. (a subsidiary) granted a first ranking mortgage on plots 732 and 25 in Kfarshima in Lebanon against credit facilities.

A subsidiary European Ceramics (S.A.E) has provided certain banks with power of attorney to pledge its fixed assets. At December 31, 2009 the cost of these fixed assets amounted to LE 157.9 million and its net book value amounted to LE 127.7 million.

## 5. Projects In Progress

| | 31/12/2009<br>LE | 31/12/2008<br>LE |
|---|---|---|
| Land * | **3,559,380** | 3,509,054 |
| Machinery Under Installation | **47,688,951** | 45,216,185 |
| Buildings Under Construction | **34,925,186** | 5,706,424 |
| Advance Payment | **3,440,410** | 13,046,291 |
| L/C for Purchase of Fixed Assets | **1,960,978** | 3,944,916 |
| | **91,574,905** | 71,422,870 |

* This amount represents the land that was acquired as part of Sarreguemines transaction with unregistered deed but pending registration in the name of Lecico France (a subsidiary).

## 6. Intangible Assets

| | Goodwill<br>LE | Trademarks<br>LE | Development Costs<br>LE | Other Intangibles<br>LE | Total<br>LE |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 01/01/2009 | 15,474,579 | 362,205 | 1,671,622 | 735,048 | **18,243,454** |
| Translation Differences | – | 4,004 | 185,736 | (35,680) | **154,060** |
| Year Additions | 4,084,664 | 249,093 | 2,299,618 | – | **6,633,375** |
| **Balance at 31/12/2009** | 19,559,243 | 615,302 | 4,156,976 | 699,368 | **25,030,889** |
| **Amortisation & Impairment Losses** | | | | | |
| Balance at 01/01/2009 | – | 139,678 | 526,265 | – | **665,943** |
| Translation Differences | – | 3,848 | 67,375 | – | **71,223** |
| Year Amortisation | – | 72,103 | 333,055 | – | **405,158** |
| **Balance at 31/12/2009** | – | 215,629 | 926,695 | – | **1,142,324** |
| **Carrying Amount at 31/12/2009** | 19,559,243 | 399,673 | 3,230,281 | 699,368 | **23,888,565** |
| **Carrying Amount at 31/12/2008** | 15,474,579 | 222,527 | 1,145,357 | 735,048 | **17,577,511** |

## 7. Other Investments

| | Ownership<br>% | 31/12/2009<br>LE | 31/12/2008<br>LE |
|---|---|---|---|
| Murex Industries and Trading (S.A.L.) | 40 % | **4,086,334** | 4,101,220 |
| STILE S.P.A Italia | 50 % | **–** | 428,247 |
| El-Khaleeg for Trading and Investment | 99.9 % | **99,900** | - |
| Other Investments | | **21,071** | 21,072 |
| | | **4,207,305** | 4,550,539 |

### 8. Inventory

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| Raw Materials, Consumables and Spare Parts | **135,402,472** | 183,241,312 |
| Work in Process | **27,257,023** | 24,016,516 |
| Finished Products | **254,287,423** | 238,225,774 |
| L/Cs for the Purchase of Goods | **12,538,993** | 5,773,629 |
| | **429,485,911** | 451,257,231 |
| **Less:** | | |
| Impairment of Inventory | **(21,003,646)** | (20,026,656) |
| | **408,482,265** | 431,230,575 |

### 9. Trade and Other Receivables

| | Note no. | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|---|
| Trade Receivables | | **170,738,867** | 140,228,505 |
| Notes Receivable | | **88,589,137** | 87,502,068 |
| Sundry Debtors | | **12,716,906** | 10,601,866 |
| Suppliers – Debit Balances | | **2,577,051** | 1 075 880 |
| Due from Related Parties | (27) | **32,035,316** | 28 723 909 |
| Tax Administration – Tax Withheld | | **266,603** | 214,408 |
| Tax Administration – Advance Payment | | **400,000** | – |
| Tax Administration – Sales Tax | | **2,582,722** | 3,718,027 |
| Other Debit Balances | | **5,555,032** | 2,395,481 |
| Prepaid Expenses | | **14,639,667** | 11,528,960 |
| Accrued Revenues | | **973,886** | 1,940,629 |
| | | **331,075,187** | 287,929,733 |
| Less: | | | |
| Impairment of Receivables | | **(61,464,144)** | (52,316,082) |
| | | **269,611,043** | 235,613,651 |

**Transactions with Key Management**

The balances of the Board of Directors of the Parent Company amounted to LE 50,000 (debit balances) as at December 31, 2009. These balances are included in sundry debtors in receivables.

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, 2009 charged to the other operating expenses in the consolidated income statement amounted to LE 3,549,701 (December 31 , 2008: LE 2,561,681).

### 10. Trading Investments

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| Treasury Bills | – | 20,000,000 |
| **Less:** | | |
| Issuance Discount | – | (448,535) |
| Acquisition Cost of Treasury Bills | – | 19,551,465 |
| Treasury Bonds (Held for Trading) | **33,278,000** | 57,778,000 |
| Mutual Fund Certificates | **162,525** | – |
| Callable Money Market Securities | **33,036,144** | 37,158,960 |
| | **66,476,669** | 114,488,425 |

## 11. Cash & Cash Equivalents

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| Banks – Time Deposit | – | 60,632,326 |
| Banks – Current Accounts | **31,299,897** | 19,510,337 |
| Cash on Hand | **1,804,325** | 1,387,807 |
| | **33,104,222** | 81,530,470 |

## 12. Cash & Cash Equivalents for the Purpose of Preparing Cash Flow Statement

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| Banks – Time Deposits | – | 60,632,326 |
| Banks – Current Accounts | **31,299,897** | 19,510,337 |
| Cash on Hand | **1,804,325** | 1,387,807 |
| | **33,104,222** | 81,530,470 |
| **Less:** | | |
| Bank Overdrafts | **(333,420,011)** | (419,517,015) |
| | **(300,315,789)** | (337,986,545) |

### 12.1 Bank Overdrafts

Bank overdrafts represent credit facilities partially secured by certain notes receivables and inventories. The authorized facilities limit in respect of all overdrafts of the Parent Company is LE 769.5 million, and the unutilized amount is LE 483.3 million.

## 13. Share Capital

### 13.1 Authorised Capital

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

### 13.2 Issued and Paid up Capital

The issued capital amounted to LE 200 million distributed over 40 million nominal share with par value of LE 5 per share fully paid.

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

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

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# Notes to the consolidated financial statements

For the Year Ended December 31, 2009

### 14. Reserves

| | Legal Reserve LE | * Other Reserves LE | Special Reserve Premium LE | ** Land Revaluation Surplus LE | Translation Reserve LE | **Total LE** |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2007** | 20,000,000 | 15,571,032 | 214,619,558 | 52,765,085 | 7,563,380 | **310,519,055** |
| Gain arisen from selling treasury shares | – | – | 9,147,549 | – | – | **9,147,549** |
| Difference result from valuation of other long term liability according to its present value | – | – | 10,272,525 | – | – | **10,272,525** |
| Translation adjustment for foreign subsidiaries | – | – | – | – | 946,446 | **946,446** |
| **Balance at December 31, 2008** | 20,000,000 | 15,571,032 | 234,039,632 | 52,765,085 | 8,509,826 | **330,885,575** |
| Transferred to legal reserve | 4,990,652 | – | – | – | – | **4,990,652** |
| Distribution of treasury shares | – | – | (52,875,258) | – | – | **(52,875,258)** |
| Translation adjustment for foreign subsidiaries | – | – | – | – | (90,361) | **(90,361)** |
| **Balance at December 31, 2009** | 24,990,652 | 15,571,032 | 181,164,374 | 52,765,085 | 8,419,465 | **282,910,608** |

* 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.

### 15. Retained Earnings

At December 31, 2009 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.

## 16. Loans and Borrowings

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| 16.1 European Investment Bank Loan (EIB)<br>The foreign currency loan granted to the Parent Company by the EIB was fully paid. | – | 9,645,212 |
| 16.2 International Finance Corporation (IFC)<br>The outstanding counter value of the foreign currency loan granted from IFC under the amended loan agreement dated January 16, 2005 equivalent to USD 4,062,500 is to be repaid over 5 semiannual installments starting from January 15, 2010 and ending January 15, 2012 with a variable interest rate. | **22,303,125** | 31,338,125 |
| 16.3 Commercial International Bank (CIB)<br>The outstanding counter value of the foreign currency loan granted to the Parent Company from CIB according to the signed loan contract dated April 3, 2005 equivalent to USD 1,354,169, to be repaid over 5 semiannual installments starting from January 15, 2010 and ending January 15, 2012 with a variable interest rate.<br>The IFC and CIB loans in (16-2) and (16-3) are granted to finance the expansion in a sanitary ware plant of the subsidiary company, European Ceramics which has provided a power of attorney to pledge its financed assets in favor of the lenders.<br>The two loans in (16-2) and (16-3) are guaranteed by the two subsidiaries companies, Lecico for Ceramic Industries and European Ceramics. | **7,434,388** | 10,446,040 |
| 16.4 Commercial International Bank (CIB)<br>The loan granted to the Parent Company from CIB was fully paid. | – | 7,174,483 |
| 16.5 Commercial International Bank (CIB)<br>The loan granted to the Parent Company from CIB was fully paid. | – | 5,596,077 |
| 16.6 Commercial International Bank (CIB)<br>The loan granted to the Parent Company from CIB was fully paid.<br>The three medium term loans granted from CIB are to finance the clearing of some of the short term loans of the Parent Company. | – | 3,587,225 |
| 16.7 Commercial International Bank (CIB)<br>The outstanding counter value of the loan granted to the Parent Company from CIB amounting to USD 5,400,000, to be repaid in 9 quarterly installments starting from March 31, 2010 and ending March 31, 2012, with a variable interest rate. | **29,646,000** | 42,978,000 |
| 16.8 Commercial International Bank (CIB)<br>The outstanding counter value of the loan granted to the Parent Company from CIB amounting to USD 2,600,000 to be repaid in 9 quarterly installments starting from March 31, 2010 and ending March 31, 2012, with a variable interest rate. | **14,274,000** | 20,693,114 |
| 16.9 Citibank<br>The outstanding counter value of the loan granted to the Parent Company from Citi Bank amounting to USD 4,333,382, to be repaid in 7 quarterly installments starting from January 26, 2010 and ending July 26, 2011, after a grace period 2 years with a variable interest rate. | **23,790,266** | 27,550,000 |
| 16.10<br>The balance of the loan granted to Lebanese Ceramic Industries Co. (S.A.L) (subsidiary) amounting to USD 2,000,000 to be repaid in two installments on first of February and March 2010, with a Fixed interest rate of 5% per annum. | **10,980,000** | 16,530,000 |
| | **108,427,779** | 175,538,276 |
| **Less:**<br>Installments due within one year which are classified as current liabilities (note 20). | **(50,935,282)** | (77,732,105) |
| | **57,492,497** | 97,806,171 |

The group had drawn down all availability under medium term loan arrangements with banks.

# Notes to the consolidated financial statements

For the Year Ended December 31, 2009

### 17. Other Long-Term Liabilities

| | **31/12/2009 LE** | 31/12/2008 LE |
|---|---|---|
| 17.1<br>Lease obligation to finance certain assets of Lecico (UK) Ltd. and its subsidiaries. | **4,555,136** | 5 411 100 |
| **Less**<br>Installments due within one year, which are classified as current liabilities (Note 20). | **(1,891,054)** | (1,621,857) |
| | **2,664,082** | 3,789,243 |
| 17.2<br>Sales Tax Department (deferred sales tax related to imported machinery) | **3,843,532** | 4,924,723 |
| Notes payable – long term | **1,092,330** | 1,293,488 |
| | **4,935,862** | 6,218,211 |
| **Less**<br>Due within one year which are classified as current liabilities (Note 20). | **(1,008,492)** | (1,008,492) |
| | **3,927,370** | 5,209,719 |
| 17.3<br>Creditors related to acquiring treasury shares * | **79,537,903** | 104,237,218 |
| | **79,537,903** | 104,237,218 |
| **Total Other Long-Term Liabilities** | **86,129,355** | 113,236,180 |

* This balance represents the remaining part of the present value of the commitment resulted from acquiring 3 157 895 shares of the Parent Company's shares, which were previously owned by certain shareholders. According to the signed contract this commitment will be settled over 4 years starting from August 10, 2009. The referred to shares were distributed to all the shareholders as stock dividends pursuant to the resolution of the general assembly dated April 2, 2009..

### 18. Deferred Income Tax Assets and Liabilities

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

| | **Assets 31/12/2009 LE** | **Liabilities 31/12/2009 LE** | Assets 31/12/2008 LE | Liabilities 31/12/2008 LE |
|---|---|---|---|---|
| Accumulated losses carried forward | **(88,062)** | **–** | – | – |
| Property, plant and equipment | **–** | **22,787,614** | – | 22,607,271 |
| Inventory | **(3,666,058)** | **–** | (3,748,917) | – |
| **Total Deferred Income Tax (assets)/liabilities** | **(3,754,120)** | **22,787,614** | (3,748,917) | 22,607,271 |
| **Net Deferred Income Tax Liabilities** | **–** | **19,033,494** | – | 18,858,354 |

### 19. Provisions

| | Balance as at 1/1/2009 LE | Translation Differences LE | Utilised Provisions LE | Provided Provisions LE | **Balance as at 31/12/2009 LE** |
|---|---|---|---|---|---|
| **Provision Disclosed in the Non Current Liabilities** | | | | | |
| End of Service Indemnity Provision | 9,587,100 | 24,481 | (269,299) | 1,217,169 | **10,559,451** |
| | 9,587,100 | 24,481 | (269,299) | 1,217,169 | **10,559,451** |
| **Provision Disclosed in the Current Liabilities** | | | | | |
| Potential Losses and Claims Provision | 17,276,,213 | 88,356 | (4,226,737) | 1,156,806 | **14,294,638** |
| | 17,276,,213 | 88,356 | (4,226,737) | 1,156,806 | **14,294,638** |
| **Total** | 26,863,313 | 112,837 | (4,496,036) | 2,373,975 | **24,854,089** |

## 20. Loans and Borrowings

| | Note no. | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|---|
| Current portion of long-term loans | (16) | **50,935,282** | 77,732,105 |
| Current portion of other long-term liabilities | (17) | **2,899,546** | 2,630,349 |
| | | **53,834,828** | 80,362,454 |

## 21. Trade and Other Payables

| | Note no. | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|---|
| Trade Payable | | **44,365,570** | 44,618,970 |
| Notes Payable | | **21,510,651** | 23,972,872 |
| Due to Related Parties | (27) | **2,569,626** | 5 942 873 |
| Social Insurance Authority and Tax Authority | | **6,710,847** | 4,805,471 |
| Income Tax Payable | | **20,708,049** | 12,465,905 |
| Accrued Expenses | | **33,573,423** | 44,411,669 |
| Deposits due to Others | | **42,701** | 52,701 |
| Sundry Creditors | | **15,794,094** | 16,187,292 |
| Current Account for Sales Tax Department | | **2,618,622** | 2,603,829 |
| Dividends Payable | | **716,787** | 683,184 |
| Creditors for Purchasing Fixed Assets | | **1,752,382** | 1,609,880 |
| Profit Sharing Provision for Employee of Certain Group Companies | | **14,246,288** | 15,768,430 |
| | | **164,609,040** | 173,123,076 |

## 22. Other Income

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| Other Revenues | **209,957** | 1,872,071 |
| Scrap Sales | **1,776,235** | 1,909,425 |
| Capital Gain | **68,860** | 403,107 |
| Reversed Provisions | – | 123,795 |
| | **2,055,052** | 4,308,398 |

## 23. Other Expenses

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| Provided Provision | **1,156,807** | 6,548,030 |
| End of Service Indemnity | **1,217,169** | 2,518,557 |
| Impairment of Inventory | **1,000,000** | 2,500,000 |
| Impairment of Receivables | **9,250,000** | 1,400,000 |
| Amortisation of Intangible Assets | **405,158** | 277,578 |
| Board of Directors Remuneration | **3,549,701** | 2,561,681 |
| Capital Loss | – | 103,726 |
| | **16,578,835** | 15,909,572 |

# Notes to the consolidated financial statements

For the Year Ended December 31, 2009

### 24. Finance Income

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| Interest Revenues | **6,400,144** | 15,444,347 |
| Foreign Exchange Difference | **–** | 5,694,648 |
| Changes in Fair Value of Investments Held for Trading | **397,706** | (881,356) |
| | **6,797,850** | 20,257,639 |

### 25. Finance Expenses

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| Interest Expenses | **47,439,090** | 53,640,067 |
| Foreign Exchange Differences | **3,839,657** | – |
| | **51,278,747** | 53,640,067 |

### 26. Earnings Per Share

The earnings per share For the Year Ended December 31, 2009 is computed as follows:

| | 31/12/2009 LE | 31/12/2008 LE |
|---|---|---|
| Net Profit for the Year (in LE) | **110,178,359** | 108,845,580 |
| Number of Shares | **40,000,000** | 40,000,000 |
| **Earnings per Share ( LE/Share)** | **2.75** | 2.72 |

## 27. Related Parties

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

| | Nature of Transaction | Transaction Amount LE | **31/12/2009 LE** | 31/12/2008 LE |
|---|---|---|---|---|
| **Due from Related Parties** | | | | |
| Murex Industries and | Sales | 94,586,550 | **24,302,254** | 24,382,201 |
| Trading (S.A.L) | Notes Receivable | – | **994,486** | 723,844 |
| | | | **25,296,740** | 25,106,045 |
| T. Gargour et Fils - Jordan | Current | – | **557,838** | 559,870 |
| Ets T. Gargour | Current | (41) | **10,980** | 11,021 |
| Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.) | Current | – | **6,275** | 6,298 |
| Lecico Saudi Arabia (Branch) | Sales | 4,089,295 | **5,863,383** | 2,604,004 |
| El-khaleeg for Trading and Investment | Current | 99,900 | **300,100** | 400,000 |
| Intage Holding ltd | Current | (36,671) | **–** | 36,671 |
| **Total Debit Balances** | | | **32,035,316** | 28,723,909 |
| **Due to Related Parties** | | | | |
| Murex Industries and Trading (S.A.L) | Purchase | 3,200,233 | **255,727** | 151,637 |
| LIFCO | Rent | 82,938 | **356,440** | 246,716 |
| Donald Scott | Current | 5,171 | **5,171** | – |
| Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.) | Current | 500,119 | **103,325** | **92,824** |
| Ets. T. Gargour | Current | 249,344 | **312,185** | **62,841** |
| Ceramics Management Services Ltd. (CMS) | Technical Assistance Fees | 19,912,063 | **1,536,778** | **5,388,855** |
| **Total Credit Balances** | | | **2,569,626** | **5,942,873** |

### 28. Information about Business Segment

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

| | 31/12/2009 | 31/12/2008 |
|---|---|---|
| **Sanitary Ware Segment** | | |
| **Sales Volumes (in 000 pcs)** | | |
| Egypt | **2,033.9** | 2,063.1 |
| Lebanon | **179.4** | 177.2 |
| Export | **3,363.5** | 3,063.4 |
| **Total Sales Volume (in 000 pcs)** | **5,576.8** | 5,303.7 |
| **Sales Revenues (LE million)** | **621.5** | 651.0 |
| Average Selling Price (LE/pc) | **111.4** | 122.7 |
| **Total Cost of Sales (LE million)** | **429.5** | 429.5 |
| **Gross Profit (LE million)** | **192.0** | 221.5 |
| **Tile Segment** | | |
| **Sales Volumes (in 000 $m^2$)** | | |
| Egypt | **15,817.0** | 17,712.6 |
| Lebanon | **2,070.7** | 1,958.0 |
| Export | **5,743.2** | 5,275.5 |
| **Total Sales Volume (000 $m^2$)** | **23,630.9** | 24,946.1 |
| **Sales Revenues (LE million)** | **433.7** | 429.6 |
| Average Selling Price (LE/$m^2$) | **18.4** | 17.2 |
| **Total Cost of Sales (LE million)** | **242.6** | 271.6 |
| **Gross Profit (LE million)** | **191.1** | 158.0 |

### 29. Personnel Cost

The Personnel costs incurred during the year ended December 31, 2009 amounted to LE 149.4 million (December 31, 2008: LE 164.5 million).

### 30. Contingent Liabilities

#### 30.1 Letters of Guarantee

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

| Currency | 31/12/2009 | 31/12/2008 |
|---|---|---|
| LE | **17,010,301** | 17,977,256 |

#### 30.2 Letters of Credit

| Currency | 31/12/2009 | 31/12/2008 |
|---|---|---|
| LE | **15,047,331** | 5,501,934 |

#### 30.3

The Parent Company guaranteed one of its overseas subsidiaries in the loan granted to this subsidiary by one of the French Banks (Banque Audi France). The referred to loan is capped at an amount of Euro 2 million (equivalent to LE 15.8 million). There was no outstanding balance under this loan at the consolidated financial statement date.

### 31. Litigation

The Electricity Utility Organization in Lebanon has charged The Lebanese Ceramic Industries S.A.L. (a subsidiary) about LBP 855 million (equivalent to LE 3.1 million) as unpaid electricity charges for the period from March 1996 until August 2003. This Subsidiary has objected to these charges, and raised a legal case requesting the cancellation of such charges. This matter is still pending in the court and its outcome is not known as at the date of issuing the consolidated financial statements. No provisions have been taken by the subsidiary against this claim.

### 32. Capital Commitment

The capital commitment as at December 31, 2009 amounting to LE 15.4 million related to the purchase of fixed assets of the group (December 31, 2008: LE 24.9 million).

### 33. Capital Lease

The Parent Company signed a financial lease contract with European Ceramics company (subsidiary company) dated May 3, 2008. This contract was approved by and registered with the General Authority for Investment and Free Zones (GAFI) under No. 10499.

The contract involves the lease of buildings and machinery of sanitary ware and frit plants of the Parent Company for total lease value of LE 210 million over a period of 5 years to be paid over 10 semi annual installments the value of each is LE 21 million. The committee formed by the GAFI identified the date of starting the leasing activity on the date of the referred to contract, accordingly this activity enjoy a tax exemption for 5 years. The leased property is not yet delivered till the reporting date.

### 34. Financial Instruments

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

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

• Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

• Trade and other receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

### 35. Financial Instruments Risk Management

#### 35.1 Interest Risk

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

#### 35.2 Credit Risk

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

#### 35.3 Foreign Currency Exchange Rates Fluctuations Risk

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

## 36. Tax Position

### A Corporate Tax

**From the starting of the activity till 2002**

All disputes related to these years were settled and all the arisen tax obligations were paid.

**Year 2003/2004**
The Parent Company's records for this year were examined, and the Company was notified of the tax claims, which has objected within the legal period.

**Years 2005/2008**
The Parent Company's records for the years referred to were not examined yet.

### B Salaries Tax

**Years till 2000**
The Parent Company has obtained a final settlement and paid all the tax obligations for these years.

**Years 2001/2003**
The tax examination occurred, and the Parent Company was informed by the tax claims of the tax authority and had objected during the legal period. The dispute was transferred to the internal committee of the tax department.

**Years 2004/2008**
The Parent Company's records for the years referred to were not examined yet.

### C Stamp Tax

- The Parent Company has obtained a final settlement and paid all the tax obligations till December 31, 2004. The Parent Company's records were examined till June 30. 2006.
- The period from July 1, 2006 till now was not examined yet.

### D Sales Tax

- The tax examination until 2007 was finalized and led to unsettled differences due to amended sales tax claims. The settlement of these differences with the tax authority is still in process.
- The year 2008 was not examined yet.

## 37. Comparative Figures

The comparative figures were reclassified to comply with the classification of the current year figures.

# In-depth profit and loss summary

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|---|---|---|
| **Sanitary ware segment** | | | | | | | | |
| Sales Volume (000s of pieces) | 3,380 | 3,977 | 4,265 | 3,861 | 4,633 | 5,619 | 5,304 | **5,577** |
| Exports as a Percentage of Total | 42.3% | 49.8% | 56.0% | 58.7% | 62.2% | 57.8% | 57.8% | **60.3%** |
| Average Price (LE/piece) | 73.6 | 92.7 | 110.0 | 100.7 | 95.8 | 118.9 | 122.7 | **111.4** |
| Sanitary Ware Revenue | 248.89 | 368.74 | 468.95 | 388.96 | 443.90 | 667.95 | 651.02 | **621.50** |
| Sanitary Ware Gross Profit | 109.98 | 167.86 | 234.38 | 164.28 | 160.98 | 243.78 | 221.48 | **191.97** |
| Sanitary Ware Gross Margin (%) | 44.2% | 45.5% | 50.0% | 42.2% | 36.3% | 36.5% | 34.0% | **30.9%** |
| **Tile segment** | | | | | | | | |
| Sales Volume (000s of sqm) | 10,840 | 14,592 | 15,334 | 17,698 | 18,442 | 21,461 | 24,946 | **23,631** |
| Exports as a Percentage of Total | 5.4% | 6.9% | 10.3% | 17.8% | 22.0% | 24.2% | 21.1% | **24.3%** |
| Average Price (LE/sqm) | 12.3 | 13.1 | 14.9 | 14.9 | 14.9 | 15.0 | 17.2 | **18.4** |
| Tile Revenue | 133.11 | 190.56 | 227.85 | 263.42 | 275.60 | 321.53 | 429.63 | **433.70** |
| Tile Gross Profit | 39.36 | 54.25 | 65.74 | 78.09 | 91.31 | 102.57 | 158.04 | **191.10** |
| Tile Gross Margin (%) | 29.6% | 28.5% | 28.9% | 29.6% | 33.1% | 31.9% | 36.8% | **44.1%** |
| **Consolidated Profit and Loss** | | | | | | | | |
| Net Sales | 382.00 | 559.30 | 696.80 | 652.38 | 719.50 | 989.48 | 1,080.65 | **1,055.20** |
| Sanitary Ware (% of Net Sales) | 65.2% | 65.9% | 67.3% | 59.6% | 61.7% | 67.5% | 60.2% | **58.9%** |
| Gross Profit | 149.34 | 222.11 | 300.12 | 242.37 | 252.29 | 346.35 | 379.52 | **383.10** |
| Gross Margin (%) | 39.1% | 39.7% | 43.1% | 37.2% | 35.1% | 35.0% | 35.1% | **36.3%** |
| Sanitary Ware (% of Gross Profit) | 73.6% | 75.6% | 78.1% | 67.8% | 63.8% | 70.4% | 58.4% | **50.1%** |
| Distribution and Administrative Expense | 65.11 | 103.13 | 113.80 | 106.81 | 122.86 | 180.25 | 195.93 | **186.00** |
| D&A Expense/Sales (%) | 17.0% | 18.4% | 16.3% | 16.4% | 17.1% | 18.2% | 18.1% | **17.6%** |
| EBIT | 72.10 | 107.59 | 187.63 | 139.62 | 118.14 | 156.92 | 171.99 | **182.60** |
| EBIT Margin (%) | 18.9% | 19.2% | 26.9% | 21.4% | 16.4% | 15.9% | 15.9% | **17.3%** |
| Net Financing Expense | 27.19 | 31.57 | 35.19 | 16.52 | 27.90 | 39.47 | 39.08 | **40.64** |
| EBIT/Net Financing Expense (x) | 2.7 | 3.4 | 5.3 | 8.5 | 4.2 | 4.0 | 4.4 | **4.5** |
| Net Profit | 44.15 | 83.97 | 136.13 | 88.84 | 79.23 | 106.98 | 108.85 | **110.18** |
| Net Margin (%) | 11.6% | 15.0% | 19.5% | 13.6% | 11.0% | 10.8% | 10.1% | **10.4%** |
| Reported EPS (LE/Share) | 48.74 | 99.96 | 7.92 | 4.44 | 3.96 | 5.54 | 2.81 | **2.75** |
| Adjusted EPS* (LE/Share) | 1.10 | 2.10 | 3.40 | 2.22 | 1.98 | 2.67 | 2.72 | **2.75** |

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

# Notes

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