Annual Report 08
Lecico Egypt

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.

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Sales	1,080.7LE m
Egyptian sales	+40.2%
Operating profit	+9.6%
EPS	2.8LE

Tiles revenues up 33.6% to LE 429.6 million (2007: LE 321.5 million).

Tiles gross profit up 53.8% to LE 158.0 million (2007: LE 102.6 million).

Sanitary ware revenue down 2.5% to LE 651.0 million (2007: LE 667.9 million).

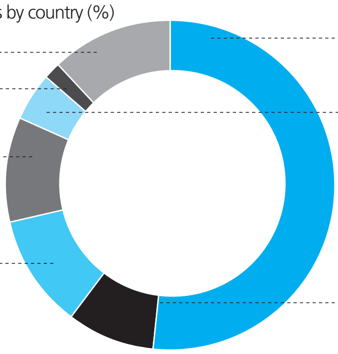
Sanitary ware gross profit down 9.1% to LE 221.5 million (2007: LE 243.8 million).

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 by country (%)

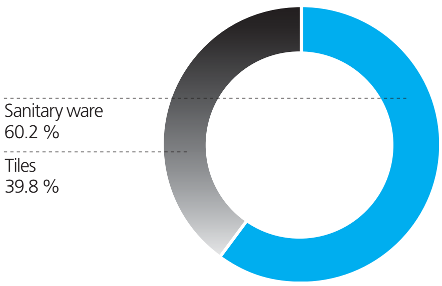


Five year summary

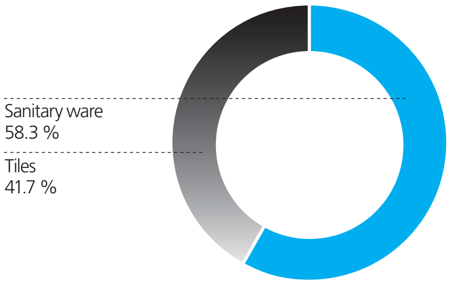
	2004	2005	2006	2007	**2008**	CAGR
Net sales	696.8	652.4	719.5	989.5	1,080.6	12%
Gross profit	300.1	242.4	252.3	346.3	379.5	6%
EBIT	187.6	139.6	118.1	156.9	172.0	(2%)
Net profit	136.1	88.8	79.2	107.0	108.8	(5%)
Reported EPS	7.92	4.44	3.96	2.71	2.81	(23%)
Adjusted EPS*	3.40	2.22	1.98	2.67	2.72	(5%)
Cash & equivalents	264.2	319.4	263.8	293.9	196.0	(7%)
Total assets	1,099.6	1,364.7	1,522.4	1,696.6	1,657.5	11%
Total debt	225.9	494.1	647.1	715.7	597.7	28%
Total liabilities	403.1	643.5	842.0	938.7	929.7	23%
Minority interest	5.2	5.2	5.0	8.8	9.4	16%
Shareholders' equity	691.3	716.0	675.3	749.1	718.4	1%

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

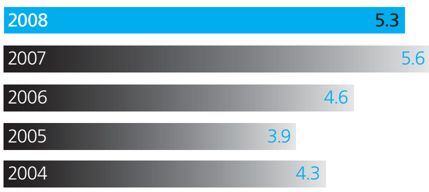
Business split
Sales from sanitary ware and tiles (%)



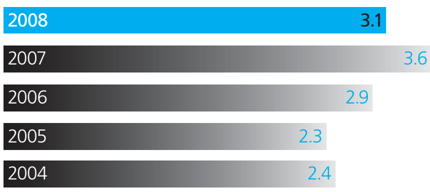
Business split
Gross profit from sanitary ware and tiles (%)



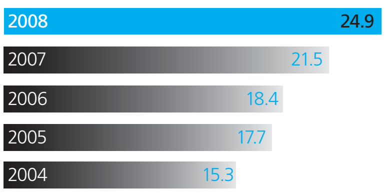
Sanitary ware sales volume
Million pieces



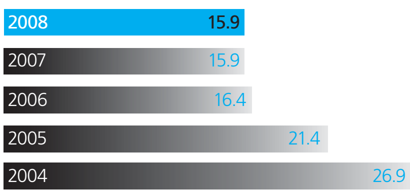
Sanitary ware export volume
Million pieces



Tile sales volume
Million sqm



EBIT margin
%



Chairman's statement

I am pleased to report a strong performance in 2008 with record numbers in local sales in Egypt and Lebanon and in our tiles division. I am also pleased to report a very good response by all concerned to the economic difficulties we are all currently facing.

2008 performance

The export markets all performed better with the expected exception of our OEM sales to Sanitec: the closing of a factory in 2007 and the commissioning of another, gave us an opportunity to double our sales in that year. Our ability to act as a swing producer is a selling point to European manufacturers.

Elsewhere we saw substantial growth in the Middle East as our new markets and new subsidiaries began to perform for us. Sales to Europe were also substantially higher – in particular through the first three quarters – and new markets were penetrated or improved: Greece, Germany and the professional sector in France.

It is also gratifying to report our first significant sales to the USA. This was an OEM sale to a large group there. We made that breakthrough against significant competition and hope to be at the beginning of a strong strategic relationship.

Finally I am pleased to report good success in our various corporate initiatives. Our affiliated companies in Algeria and Saudi Arabia are beginning to have traction and appeal in their respective markets and the recent elimination of all duties between Arab countries should provide us with substantial benefits there and in our other markets in the area. In France though Sarreguemines and Lecico France are still not where we want them to be progress has been made. In the UK, Lecico PLC has shown great progress in the first ten months of the year, and resilience in the last two: new efforts to market to OEM clients and to expand client base have given good results.

The financial crisis

Our performance in the first nine months of the year was outstanding in all markets. The accelerated financial crisis in fourth quarter caused an abrupt slowdown in demand in European markets and although this did not immediately affect our domestic and export markets in the Middle East, we have since seen a certain slow down.

At the time of writing the economies, though continuing to weaken, do not appear to be heading to another depression era: governments all over the world have reacted with energy and perhaps the worst will be avoided.

Well positioned for the future

Your company is preparing for the worst however and has instigated programs of cost savings and capacity management that should reduce the damage and allow us to maintain a reasonable level of performance and profitability. We are helped in the short term by the fact that our fixed costs are not as high as those of our international competitors and our ability to react is faster.

Lecico may well be one of the long-term beneficiaries of this crisis. The slowdown will put European manufacturers and markets under increased pressure and I believe the result will be an acceleration of industry trends and a faster shift to competitive suppliers like Lecico.

Thanks

It is a pleasure and an honour to work with a team as professional and devoted as the Lecico family. I can report without exaggeration that I have seen nothing but positive reaction to our current difficulties from all concerned.

Our colleagues and executives have moved aggressively, each in his division or area, to reduce costs and improve efficiencies and the results have been positive. Our sales teams are working very hard to improve our market position. Our industrialists and our labour force have been most cooperative and creative in finding solutions and improvements.

Finally the Egyptian government has been very courageous in its response to the economic crisis with increased incentives and in our case, the elimination for at least one year of the substantial cost increases imposed on energy in the last two years.

For their efforts, all of the above need to be thanked by me personally and by all of us as shareholders. It is thanks to them that I can confidently say that Lecico will go through this crisis in a strong position and will come out of it stronger. I also thank all our shareholders for their continued support.

Gilbert Gargour Chairman and CEO

Key Strategies	Achievements
• Increase market share in UK, Ireland and France.	• Unbranded sales to UK builders merchants – 2% of SW export sales in 2008. • Sales to UK DIY – 8% of export sales in 2008. • Lecico branded sales in UK – 26% of SW export sales and estimated 12% UK market share. • Lecico and Sarreguemines sales in France – 15% of SW export sales and estimated 5% market share in France.
• Expand into new European markets.	• Sales to Germany, Greece, Italy and Spain up 54% Y-o-Y and 251% on 2006 values – 2% of SW export sales.
• Expand footprint in Middle Eastern markets.	• Exports to the Middle East up 38% Y-o-Y – 9% of SW export sales vs. 6% in 2007. • Jordan and Algeria included in Lecico's top 20 export markets as of 2008.
• Expand OEM business with new partners.	• First OEM sales to US manufacturer begun in 4Q 2008. • OEM business in France up 16% year on year – 1st year where customer is over 1% SW export sales. • New premium OEM customer in the UK started in late 2007.

Managing Director's statement

Elie Baroudi
Managing Director

I am proud to present to you a strong performance for the year 2008 especially considering the challenges we faced in the past year. When looking at the year, we can divide it into two parts: the first nine months of the year and the last quarter. The first nine months of 2008 were characterized by strong performance in both our sanitary ware and tile segments, with strong growth in all markets.

However, in the first nine months of 2008, Lecico's margins were under pressure from high inflation which drove up all our input costs and more specifically from the energy price increases enacted by the government in 2007 and July 2008, which increased our average energy prices significantly.

The last quarter of 2008 was more challenging, with the global economic slowdown impacting our sales volumes and the weakening in the Sterling and Euro exchange rates driving down our export prices and margins.

Strong performance despite cost inflation in 1-3Q
Lecico reported a 16% revenue growth in the first nine months of 2008, driven by higher sales in Lebanon and Egypt which were up 11% and 47% respectively. Overall, export revenues were up marginally despite the drop in sales to Sanitec, largely as a result of strong growth in Middle Eastern exports and better market penetration in Egypt.

High inflation in Egypt put significant pressure on our cost base in the first nine months of the year. Global commodity price inflation, coupled with a reduction in overall subsidies in Egypt drove CPI inflation to over 20%. This inflation led to an increase in the cost of most inputs in our production process from transport costs, raw materials and plastic products.

The high inflation also led the company to do two general wage increases in 2008. Lecico's salaries and wages expense rose by 11% year-on-year, primarily as a result of Lecico's commitment to help offset the impact of high inflation on its workers standard of living.

The government raised energy prices from July for the entire ceramics sector. For Lecico, this meant all of our operations in Egypt where impacted by higher energy rates, which raised overall energy costs by 70%. This increase followed the previous energy price increase applied to intensive energy users in mid-2007. This previous increase only affected our Khorshid operation (around 50% of our production) and led to an approximately 25% increase in energy prices for Lecico as a group. Lecico's energy expense rose by 44% year-on-year, primarily as a result of these energy price increases.

Despite these cost pressures, Lecico's gross margin rose marginally year-on-year for the first nine months of 2008. Better efficiency in sanitary ware and economies of scale in our tile plant following a capacity increase in late 2007 and our success in operating our factory above designed capacity utilisation rates have positively impacted margins.

Exchange rate and demand weakness in 4Q
The cost inflation of the first nine months of the year continued in the final quarter. This was compounded by weaker demand for our sanitary ware in Europe as the emerging global economic crisis depressed consumer confidence. Sanitary ware export volumes were down over 30% year-on-year in the fourth quarter.

The downturn was exacerbated by the sharp drop in Sterling and Euro in the fourth quarter, which strongly impacted our export revenues and profitability. The Egyptian Pound strengthened by approximately 26% against the Sterling and 12% against the Euro year-on-year. This led to a reduction in our average export prices (in Egyptian Pound terms) and has negatively impacted the profitability of these exports despite a corresponding reduction in the cost of some imported raw materials and inputs.

Lecico's gross profit fell 11% and its gross margin was marginally lower in the fourth quarter as continued strong performance in the company's tile division offset the drop in sanitary ware division's gross profits and margins.

2009 Outlook
The year ahead is likely to be a difficult one with exports negatively impacted by continued demand weakness in our export markets and continued pressure on export prices and margins as a result of the relative weakness of the Sterling and the Euro against the Egyptian Pound.

These negative pressures on performance will be counterbalanced by government support in the form of lower energy prices. In February of 2009 the Egyptian government announced the reversal of the energy price increases enacted as of 30 June 2008 for a number of sectors including the ceramic sector. This energy price increase reversal is effective from 1 February 2009 until the end of 2009 and is equivalent to a reduction of 38% in the year-end 2008 cost of energy for Lecico Egypt. In the first nine months of 2008, energy costs accounted for approximately 14% of the company's total cost of production.

Lecico is also taking steps to cut expenses and headcount to offset the expected lower sales and production volumes. This cost cutting exercise will be comprehensive and will include rationalising production across Lecico's factories and cutting down on administration, distribution and marketing expenses.

Most importantly, Lecico will be aggressive in going after new business opportunities, both in new and existing markets. I believe that the current weakness and uncertainty will actually increase our competitiveness, as customers will be more aggressive in looking for competitive producers of quality sanitary ware to replace higher-cost European suppliers. Lecico is one of the few sanitary ware manufacturers that combines a financial strength and security with the ability to offer European quality products, designs and service levels at competitive prices. Something customers in developed markets will appreciate more and more in the difficult times ahead.

New customers and markets in Europe

Entering new markets in Europe and developing new OEM customers is a key strategic goal for Lecico. In 2008, several new OEM customers were developed and the company made inroads into Germany, Greece and Eastern Europe.

March 08

Lecico announces four new hires to head its Group Operations, its French subsidiary, its UK sales and one of its Borg El-Arab factories.

April 08

Tile production reaches over 2m sqm per month as capacity expansion added in 2007 exceeds designed capacity.

May 08

International Ceramics starts operations. International Ceramics will include sanitary ware production, decoration and porcelain tiles plant.

60%

Sales growth in Greece, Germany and CEE

3

New European markets in 2008

Growing
Middle Eastern exports

Expanding into Middle Eastern markets and increasing market share in existing regional markets is a key strategic goal for Lecico and a significant growth driver in 2008. Regional exports growth was driven by Libya, Iraq, Algeria and Morocco.

June 08

Lecico receives award for second best Website and Annual Report presented by the Egyptian Institute of Directors.

July 08

100% bonus issue to shareholders completed doubling shares outstanding to 40 million. Part of plan to improve local share liquidity.

July 08

Sam Kabbara appointed GM of Lecico JV trading company in Saudi Arabia.

August 08

Lecico's Saudi Arabian JV signs lease for upscale show room in Jeddah (Summer 2009 target grand opening).

24%

Middle Eastern export value growth

150 LE m

Value of Middle Eastern exports

Record year for tile division

Lecico's tile division recorded record sales volumes, values, profit margins and profit contribution in 2008 on the back of efficiency gains and capacity increase. Sales volumes in tile division rose 16% to 24.9 m sqm.

August 08

Lecico announces record performance for the second quarter. New record highs in quarterly sales volumes, revenues, operating and net profit.

August 08

Lecico completes acquisition of 7.9% of company shares from Sanitec, who exited as shareholder but remains outsourcing customer.

November 08

First OEM orders shipped to the United States. Part of an ongoing multi-brand outsourcing relationship.

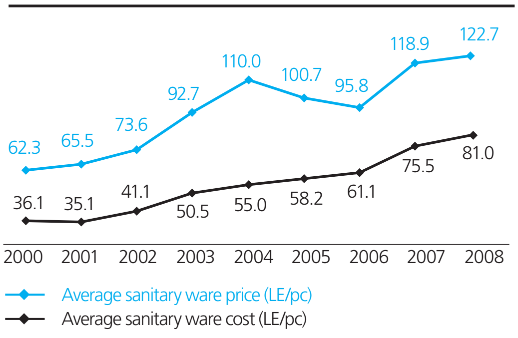
34%

Year-on-year growth in tile revenues

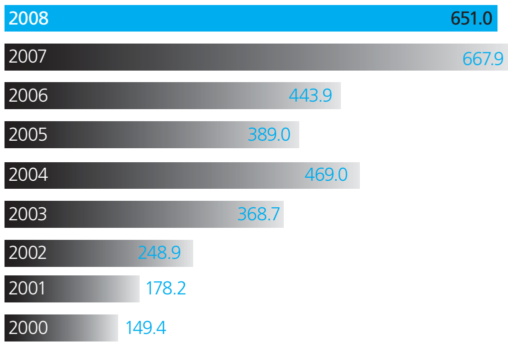
54%

Year-on-year growth in tile gross profits

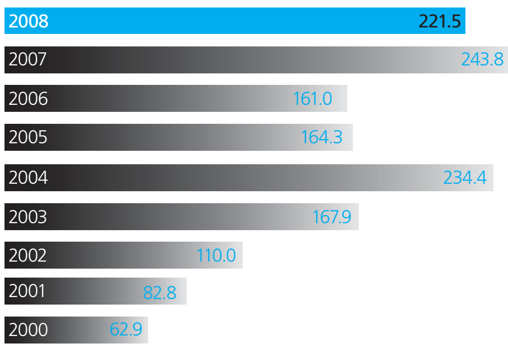
Operational review
Sanitary ware



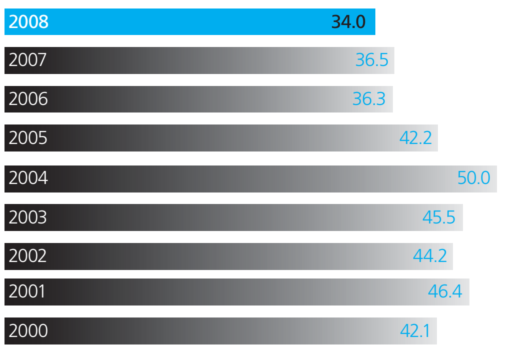
Sanitary ware revenues
LE millions



Sanitary ware gross profit
LE millions



Sanitary ware gross margin
%



Lecico's sanitary ware activities were slightly weaker year-on-year in 2008. Strong growth in sanitary ware sales in Egypt, coupled with significant price increases in Lecico's Middle Eastern markets partially offset lower sales to Europe with the return to normal sourcing levels for Sanitec and the beginnings of a slow down in Europe in the fourth quarter.

Similarly, the Company was able to make significant improvements in the efficiency of its sanitary ware operations, but these improvements only partially offset the increase in input costs as a result of unusually high inflation and government-mandated increases in labour and energy costs in the middle of the year.

Despite the cost increases seen in 2008, Lecico still maintains a significant cost advantage over its European and Mediterranean peers. Economies of scale and relatively lower costs of skilled labour and energy allow the Company to produce European quality standards at competitive costs.

Strong performance in domestic markets offset by drop in OEM volumes

Despite reporting record sales in the Egyptian market in 2008, overall sanitary ware sales were down 3% year-on-year, to LE 651 million, (2007: LE 667.9 million), largely as a result of a return to normal outsourcing levels for Sanitec. Sanitary ware sales accounted for 60.2% of the Company's consolidated sales in 2008 (2007: 67.5%).

In 2007, Lecico helped support Sanitec's move of internal production capacity by supplying them with around 600,000 additional pieces of swing production (total sales volume 1.24 million pieces) as they closed down capacity in one location and rolled out new capacity in another.

Lecico's sales volumes with Sanitec dropped sharply in 2008 as a result of the roll-out of their new capacity in Poland. Sales to Sanitec went down by 50% year-on-year to 639,000 pieces in 2008.

Excluding sales to Sanitec, sanitary ware export volumes were marginally higher year-on-year as a result of growth in Middle Eastern markets (especially Libya, Iraq and Jordan), Africa and new European markets.

Sales in Egypt grew 21% year-on-year to reach a new record level for Lecico of 2.06 million pieces (2007: 1.71 million pieces). Management believes this growth represents a significant improvement in market share as well as reflecting a strong overall market for the year.

High inflation and increases in energy and labour costs offset efficiency gains

Lecico was able to significantly improve the efficiency of its sanitary ware operations in 2008 as a result of targeting WC scrap and refire rates in all three of its Egyptian factories. Overall scrap rates for Lecico were reduced by 2% year-on-year and overall yields also improved by 2%.

However, these efficiency gains were offset by over 20% general inflation for the year in Egypt, which pushed up the cost of most input goods and services. This general cost inflation was compounded by a government mandated 70% increase in energy prices and a government mandated second round of salary increases in the middle of the year.

The net effect of these cost increases and the improvement in overall efficiency was an increase of 7% in average production cost per piece.

The rise in average prices was outpaced by the rise in costs and average gross profit per piece dropped 4% to LE 41.7 per piece (2007: LE 43.4 per piece), leading to a drop in sanitary ware gross profits of 9% year-on-year to LE 221.5 million (2007: LE 243.8 million). Gross margins for sanitary ware fell 1.5 percentage points to 34.0% (2007: 36.5%). Sanitary ware gross profits accounted for 58.3% of the Company's gross profits in 2008 (2007: 70.4%).

Sanitary ware exports by volume

000s pieces	2003	2004	2005	2006	2007	2008	CAGR
UK	767.6	825.2	677.3	956.6	1,072.1	1,051.6	6.5%
Sanitec	348.3	683.0	636.1	829.2	1,244.5	638.6	12.9%
France	317.9	304.2	256.4	416.6	580.2	556.2	11.8%
Ireland	110.0	114.3	135.6	127.4	105.5	61.6	(11.0%)
Other Europe	77.7	124.0	114.0	94.7	127.5	142.9	13.0%
Middle East	155.3	167.1	254.6	301.2	329.9	455.8	24.0%
Other	204.8	170.9	192.6	157.9	178.6	156.7	(5.2%)
Total exports	1,981.6	2,388.7	2,266.7	2,883.6	3,638.2	3,063.4	9.1%

Sanitary ware capacity and sales by volume

000s pieces	2003	2004	2005	2006	2007	2008	CAGR
Sanitary ware capacity	3,800	4,600	4,800	4,800	5,360	6,750	10.1%
Sanitary ware sales volume	3,977	4,265	3,861	4,633	5,619	5,304	5.6%
Capacity utilisation (%)	105%	93%	80%	97%	105%	79%	
Egypt sales volume	1,710	1,600	1,383	1,549	1,711	2,063	6.6%
Lebanon sales volume	286	276	211	200	269	177	(10.5%)
Export sales volume	1,982	2,389	2,267	2,884	3,638	3,063	6.4%
Exports as a percent of total sales (%)	49.8%	56.0%	58.7%	62.2%	64.8%	57.8%	

Operational review
Tiles

Strong domestic demand, a burgeoning regional market for exports and the benefit of the significant 4.5 million square meter expansion in tile capacity was completed in March 2007 and led to record sales levels for Lecico's Tiles division in 2008. The current strong demand picture allowed the Company to increase prices in Egypt, Lebanon and most of its export markets.

The record sales volumes, higher prices and improved efficiency in production delivered record levels of sales and profitability for Lecico's tile division.

Today, tiles are generally sold to the Group's domestic markets in Egypt and Lebanon and exported to the Middle East alongside sanitary ware. Tiles segment have contributed strongly in elevating the group performance through the record sales achieved in 2008.

Production volumes accelerate

Tile production volumes reached 24.9 million square metres in 2008 (2007: 21.5 million square meters) with improved efficiency allowing the company to exceed its designed capacity of 22.5 million square meters. Although this capacity was rolled out early in 2007, it was largely utilised to allow uninterrupted supply of product while repairs and maintenance were carried out on the existing lines in that year. Consequently most of the benefit of the expansion was realised in 2008. In 2008, all the new capacity increase was absorbed by the strong growth in both Egypt and Lebanon with the plant continuing to work at 100% utilisation.

A record year with strong performance

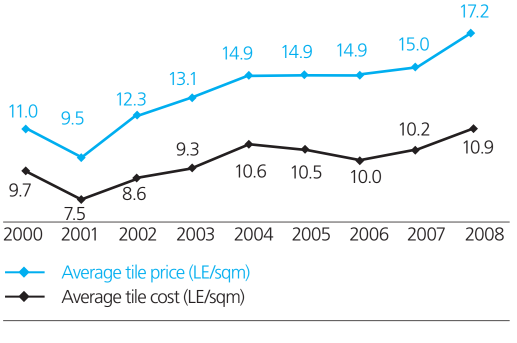
Sales volume rose 16% year-on-year to reach 24.9 million square metres with sales in Egypt and Lebanon up by 18% and 63% respectively. Average tile price rose 15% to LE 17.2 per square meter (2007: LE 15.0 per square meter) on the back of price increases in most markets and as a result of increased sales into Lebanon, which remains Lecico's premier market for pricing and positioning. Tile turnover rose an impressive 34% to LE 429.6 million (2007: LE 321.5 million) and accounted for 39.8% of total sales revenues compared to 32.5% in 2007.

Growth was particularly strong in Lebanon due to the company's new initiative to import Egyptian tiles and use them as a price leader to push Lebanese products. Exports volumes were flat year-on-year at 5.2 million square metres accounting for 21.1% of sales volumes (2007: 24.2%).

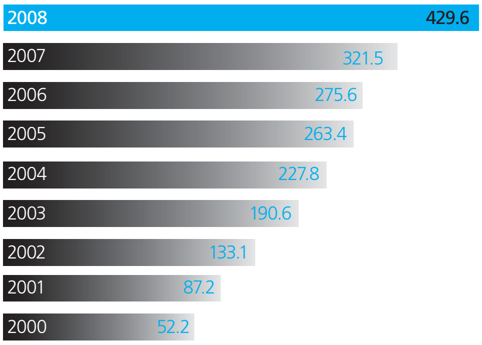
Gross profits reached LE 158.0 million, a growth of 54% (2007: LE 102.7 million) and a new record level of profit contribution from the tile division as a result of record sales volumes, higher prices and continued improvements in efficiencies and economies of scale. Gross margins in the Tile segment rose 4.9 percentage points to reach 36.8% (2007: 31.9%), a new record level of profitability for the segment. Tiles gross profits accounted for 41.7% of the Company's gross profits in 2008 (2007: 29.6%).

Tile capacity and sales by volume

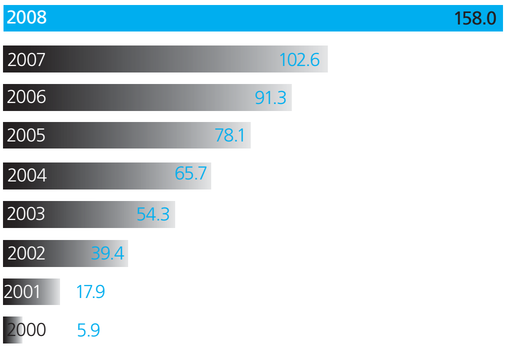
000s sqm	2003	2004	2005	2006	2007	2008	CAGR
Tile capacity	14,500	16,500	18,220	18,220	21,000	22,500	8.1%
Tile sales volume	14,592	15,334	17,698	18,442	21,461	24,946	12.9%
Capacity utilisation (%)	101%	93%	97%	101%	102%	111%	
Egypt sales volume	12,301	12,788	13,595	13,386	15,073	17,713	8.5%
Lebanon sales volume	1,278	962	948	1,002	1,205	1,958	19.4%
Export sales volume	1,013	1,584	3,155	4,053	5,183	5,276	35.1%
Exports as a percent of total sales (%)	6.9%	10.3%	17.8%	22.0%	24.2%	21.1%	



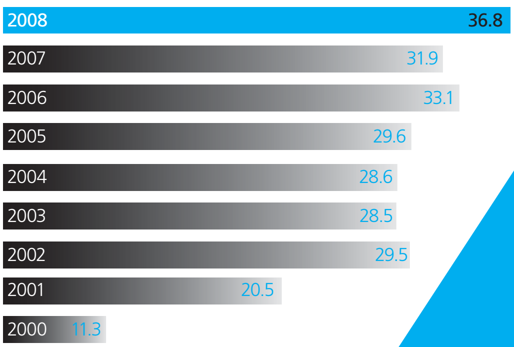
Tile revenues
LE millions



Tile gross profit
LE millions



Tile gross margin
%



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 corporate reputation.

In accordance with reporting guidelines the Board takes regular account of the significance of social, environmental and ethical matters to the business of the Company and the measures covered in this report are monitored and reviewed with the aim of continually improving performance.

Employees

Lecico recognises that its reputation is dependent on the quality, effectiveness and skills 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 2008.

Training and development

Over 456 members of staff from all areas of the Group have attended vocational and personal development courses in 2008. Language training remains a key area for training, as well as courses in IT, Finance, Marketing and Time Management. Developing our middle management is an important priority to underpin the growth of the organisation and to support this company sponsored the MBA education of a number of our employees.

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.

A colourful accessible quarterly staff newsletter has been rolled out during the year which includes a briefing on Company performance and latest news. Customer and staff profiles are covered in each issue, alongside specific health and safety advice and an update on key performance indicators, such as productivity. The newsletter is also intended to improve two-way communication and solicits and covers staff suggestions and feedback.

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.

In 2008, the Company operated 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 entire administrative staff.

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 Haj and Omra pilgrimages and giving salary bonuses to the staff in Ramadan and around other key holidays.

In 2008, these programmes included a total of over 5,088 subsidised holiday days enjoyed by staff and a total expense in holiday, bonuses and pilgrimage support of over LE 970,000.

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.

During the year, Lecico has donated to a number of charity organizations and schools including the Dar El Orman Orphanage where employees spent the day, bringing presents and spend time with the children.

The total value of the Company's donations in 2008 was LE 398,757 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 2008.

Environment

Lecico is committed to developing its business in an environmentally responsible manner, with regard to 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.

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

Revenue Growth driven by record tiles performance in 2008

Lecico's strong growth in 2008 was driven by regional Middle Eastern markets and in particular the performance of its tile division in those markets. Increased capacity, strong demand and higher pricing offset inflationary pressures and counterbalanced the early indications of slowing markets in Europe in the last quarter in 2008.

Energy price increases drive overall cost inflation in Egypt

This growth was achieved despite significant cost pressures resulting from high inflation in Egypt. In 2008 CPI inflation peaked at over 20% year-on-year with a global increase in commodity and food prices compounded by a government policy to reduce subsidies. This drove an across the board increase in input prices and was particularly acute for Lecico as a result of a series of energy price increases enacted over the past three years.

The government raised some energy prices on the 21st of July 2006, including a 25% increase in natural gas and diesel prices. This had a direct effect on the Company's energy costs, as approximately 50% are natural gas-based. Additionally, the increase in the cost of diesel fuel and some types of petrol had the effect of increasing transportation costs for all production inputs and on inflation in general.

In September 2007, the government announced a plan to double gas and electricity prices over several years for the top energy users in Egypt. This includes Lecico's Khorshid factory which currently accounts for approximately 60% of the Company's total production – 95% of tile production and 42% of sanitary ware production. Gas and electricity prices for Khorshid were subsequently raised 35% and 22% respectively in September and October 2007.

In July 2008, the difference between top energy users and other sanitary ware and tile manufacturers in Egypt was eliminated in another round of energy price increase. The government normalised all ceramic manufacturers energy costs while raising some energy prices increase in natural gas and electricity prices. This had a direct effect on the Company's energy costs. Additionally, the increase in the cost of diesel fuel and some types of petrol had the effect of increasing transportation costs for all production inputs.

Operational review

Revenue grew 9% in 2008 to LE 1080.7 million (2007: LE 989.5 million). Sales growth was driven by increased sales of Lecico tiles sales in Egypt and Lebanon. Tiles generated an increasing proportion of sales, accounting for 39.8% of revenues as compared with 32.5% in 2007.

Gross profits grew 10% to LE 379.5 million with gross margin for the year up by 0.1 percentage points to 35.1% driven mainly by the exceptional tiles margin amounting 36.8% for 2008. Tiles generated an increasing proportion of gross profits, accounting for 41.7% of consolidated gross profits as compared with 29.6% in 2007.

Distribution and administration expenses rose 8.7% to LE 195.9 million (2007: LE 180.2 million). However, distribution and administration expenses fell proportionately to 18.1% of net sales, down 1.0 percentage point (2007: 19.1%).

Net other operating income showed a loss of LE 11.6 million compared to a LE 9.2 million loss for the same period last year.

EBIT profits for the period grew 10% year on-year to reach LE 172.0 million, (2007: LE 156.9 million) with the EBIT margin flat at 15.9%.

Net financing expenses were LE 39.0 million in the year compared to LE 39.5 million for 2007. Total foreign exchange gains for the year reached LE 5.7 million compared to a gain of LE 11.3 million last year. In the fourth quarter the Company took the decision to reduce both its Egyptian Pound cash holdings and its dollar debt, increasing net finance expenses but reducing the risk of Fx losses in the event of a weakening of the Pound against the dollar.

Lecico's tax charges for the period were LE 19.8 million versus LE 13.5 million last year. This tax charge is a combination of deferred taxes and income taxes. The effective tax rate on these charges increased 2.8 percentage points to 14.2% (2007: 10.4%).

Net profit grew 2% year-on-year to reach LE 108.8 million (2007: LE 107.0 million), with margins for the period down 0.7 percentage points to 10.1%.

Sanitary ware

Sanitary ware sales revenue were down 3% compared to 2007 at LE 651.0 million, with sales volumes down 6% to 5.3 million pieces sold. Customer demand in Europe came under pressure driven by decrease in outsourcing to Sanitec.

The drop in volumes from the Sanitec outsourcing contract, pushed export volumes down by 0.58 million pieces compared to the last year. The drop in export volumes was partially offset by a growth in sales in Egypt.

Average sanitary ware prices rose 3% to LE 122.7 per piece (2007: LE 118.9 per piece), with price increases in most markets, although these were partially offset by exchange rate variances.

Average cost per piece rose 7% LE 81.0 per piece (2007: LE 75.5 per piece), reflecting inflationary cost and energy increases in Egypt.

Gross profits for Sanitary ware down 9% to LE 221.5 million (2007: LE 243.8 million), with the division's gross profit margin falling 1.5 percentage points in the period to reach 34.0%.

Principle risks and uncertainties	Strategy and examples
Inflation and significant increases in energy prices	Strategy: Focus on cost savings and efficiency improvements measures. 2008 Example: In sanitary ware, scrap rates on WCs were reduced by an average of 3.5% and WC refire rates were reduced by an average of 1.6%. In tiles, accelerated production rates and economies of scale partially offset raw material and energy price inflation limiting tile cost inflation to 7%.
Economic slowdown in developed markets	Strategy: Grow market share in existing markets and enter new markets 2008 Example: Focus on the Middle East. Regional exports value grew 24% to reach LE 150 million with sales to Libya, Jordan, Algeria, Iraq and Syria all growing by over 30%.
Economic slowdown in regional markets	Strategy: Grow market share in domestic markets of Egypt and Lebanon. 2008 Example: Sales in Egypt and Lebanon reached new record levels with combined sales growing 32%. Egyptian sanitary ware and tiles sales volumes hit new record levels with average prices for both sanitary ware and tiles up 18%.
Reduction in outsourcing volumes to key customers	Strategy: Broaden OEM client base to diversify risk. 2008 Example: Lecico began OEM supply to a major brand in the United States with a larger contract secured for 2009. Lecico expanded its UK OEM business with significant supply to a leading higher-end boutique brand which is looking to shift all production to Lecico in 2009.
Fluctuations in exchange rates	Strategy: Squaring balance sheet to limit USD exposure. 2008 Example: Contrary to the strategy in 2007, where Lecico funded Egyptian Pound deposits with cheap Dollar debt, the company grew concerned about possible EGP weakness in 2008 and accordingly reduced its balance sheet exposure, shrinking both cash and debt balances accordingly. Net effect was LE 5.6 million in foreign exchange gains and a lower net finance expense year-on-year.

Profit and loss statement highlights

	FY		%	FY			2004-08
(LE m)	**2008**	2007	07/06	2006	2005	2004	CAGR%
Sanitary ware	651.0	667.9	97%	443.9	389.0	469.0	9%
Tiles	429.6	321.5	134%	275.6	263.4	227.8	17%
Net sales	**1,080.7**	**989.5**	**109%**	**719.5**	**652.4**	**696.8**	**12%**
Sanitary ware/net sales	60.2%	67.5%	(7.3%)	61.7%	59.6%	67.3%	
Cost of sales	(701.1)	(643.1)	109%	(467.2)	(410.0)	(396.7)	15%
Cost of sales/net sales	(64.9%)	(65.0%)	100%	(64.9%)	(62.8%)	(56.9%)	
Gross profit	**379.5**	**346.3**	**110%**	**252.3**	**242.4**	**300.1**	**6%**
Gross profit margin	35.1%	35.0%	0.1%	35.1%	37.2%	43.1%	
Distribution & admin (D&A)	(195.9)	(180.3)	109%	(122.9)	(106.8)	(113.8)	15%
D&A/net sales	(18.1%)	(18.2%)	0.1%	(17.1%)	(16.4%)	(16.3%)	
Net other operating income	(11.6)	(9.2)	–	(11.3)	4.1	1.3	–
Net other operating income/net sales	(1.1%)	(0.9%)	(0.1%)	(1.6%)	0.6%	0.2%	
EBIT	**172.0**	**156.9**	**110%**	**118.1**	**139.6**	**187.6**	**(2%)**
EBIT margin	15.9%	15.9%	0.1%	16.4%	21.4%	26.9%	
Net profit	**108.8**	**107.0**	**102%**	**79.2**	**88.8**	**136.1**	**(5%)**
Net profit margin	10.1%	10.8%	(0.7%)	11.0%	13.6%	19.5%	

Financial review

Tiles

Lecico's tile division had a record performance in 2008 with new highs in sales volume, value, margin and profit contribution. Tile sales volumes were up by 16% compared to 2007, reaching 24.9 million square metres driven by growth in sales in Egypt and Lebanon.

Average tile prices rose 15% to LE 17.2 per square meter (2007: LE 15.0 per square meter), with price increases enacted in all markets.

Average cost rose 7% to LE 10.9 per square meter (2007: LE 10.2 per square meter) with energy price and other input cost inflation largely offset by improved efficiency and better economies of scale.

Gross profits rose 54% to reach LE 158.0 million for the year (2007: LE 102.7 million) with the division's gross profit margin rising 4.9 percentage points in the period to reach 36.8%.

Financial position

The value of Lecico's assets decreased 2% year-on-year to reach LE 1,657.5 million, driven by a decrease in cash and receivables used in the reduction of bank borrowings. This decrease was partially offset by an increase in inventory and fixed assets.

Total liabilities remained essentially unchanged at LE 929.7 million although certain balance sheet financial restructuring took place with a decrease in long terms bank loans offset by an increase in other long term liabilities for the buyback of treasury shares from Sanitec.

Overall, net debt to equity showed a slight decline to 0.56x.

Recent developments and outlook

Acquisition of Sanitec shares: In August of 2008, Lecico Egypt completed the acquisition of 3,157,895 shares (7.9% of outstanding shares) from the Sanitec Group. Lecico bought the shares at a price of LE 34.775 per share (equivalent to US$ 6.5 per share). The payment for these shares will be done in installments over the coming four years, with a portion of the payment as a function of pieces to be outsourced by Sanitec from Lecico.

The acquisition means that Sanitec is no longer a shareholder in Lecico, however the terms of the share acquisition should help solidify the trade partnership between Lecico and the Sanitec Group.

Lecico distributed these shares to all shareholders as bonus shares as part of the profit distribution for the financial year ending December 31, 2008.

Outlook for 2009: The year ahead is likely to be shaped by continuation of the global economic slowdown and 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.

Lower Energy prices for 2009: 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. Lecico Egypt understands that this decree will apply to both the ceramic sanitary ware and the ceramic tile sectors, as did the price increases affected at the end of June last year.

Natural gas prices have been reduced from USD 3.00 per million BTUs to USD 1.70 and electricity prices have been reduced from LE 0.334 per Kilo Watt Hour to LE 0.234. This reversal of the last energy price increase is equivalent to a reduction of 38% in the year-end 2008 cost of energy for Lecico Egypt. In 2008, energy costs accounted for approximately 14% of the company's total cost of production.

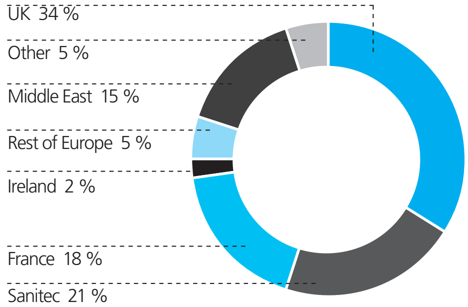
Recent weakness in Sterling and Euro: The Egyptian Pound strengthened by approximately 26% against the Sterling and 12% against the Euro over the last twelve months. This strengthening has led to a reduction in our average export prices to these markets (in Egyptian Pound terms) and has negatively impacted the profitability of these exports despite a corresponding reduction in the cost of some imported raw materials and inputs.

Capacity expansion and capital investment: As part of its efforts to conserve cash and maintain its strong balance sheet and financial position the company has decided to put on hold over the next few months all major CAPEX plans except for committed projects. This decision will be reviewed again in light of market developments.

Sanitary ware exports by destination

(000 pcs)	2008	% of total	2007	% of total	% 08/07
UK	1,051.6	34%	1,072.1	29%	98%
Sanitec	638.6	21%	1,244.5	34%	51%
France	556.2	18%	580.2	16%	96%
Ireland	61.6	2%	105.5	3%	58%
Rest of Europe	142.9	5%	127.5	4%	112%
Middle East	455.8	15%	329.9	9%	138%
Other	156.7	5%	178.6	5%	88%
Total exports	**3,063.4**	**100%**	**3,638.2**	**100%**	**84%**

Sanitary ware exports by destination



Sanitary ware segmental analysis

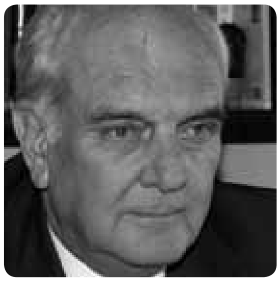
	FY		%	FY			2004-08
(LE m)	**2008**	2007	07/06	2006	2005	2004	CAGR%
Sanitary ware volumes (000 pcs)							
Egypt	2,063	1,711	121%	1,549	1,383	1,600	7%
Lebanon	177	269	66%	200	211	276	(10%)
Export	3,063	3,638	84%	2,884	2,267	2,389	6%
Total sanitary ware volumes	**5,304**	**5,619**	**94%**	**4,633**	**3,861**	**4,265**	**6%**
Exports/total sales volume	57.8%	64.8%	(7.0%)	62.2%	58.7%	56.0%	
Sanitary ware revenue	**651.0**	**667.9**	**97%**	**443.9**	**389.0**	**469.0**	**9%**
Average selling price (LE/pc)	123	119	103%	96	101	110	3%
Average cost per piece (LE/pc)	81	75	107%	61	58	55	10%
Sanitary ware cost of sales	(429.5)	(424.2)	101%	(282.9)	(224.7)	(234.6)	16%
Sanitary ware gross profit	**221.5**	**243.8**	**91%**	**161.0**	**164.3**	**234.4**	**(1%)**
Sanitary ware gross profit margin (%)	34.0%	36.5%	(2.5%)	36.3%	42.2%	50.0%	

Tile segmental analysis

	FY		%	FY			2004-08
(LE m)	**2008**	2007	07/06	2006	2005	2004	CAGR%
Tile volumes (000 sqm)							
Egypt	17,713	15,073	118%	13,386	13,595	12,788	8%
Lebanon	1,958	1,205	163%	1,002	948	962	19%
Export	5,276	5,183	102%	4,053	3,155	1,584	35%
Total tile volumes	**24,946**	**21,461**	**116%**	**18,442**	**17,698**	**15,334**	**13%**
Exports/total sales volume	21.1%	24.2%	(3.0%)	22.0%	17.8%	10.3%	
Tile revenue	**429.6**	**321.5**	**134%**	**275.6**	**263.4**	**227.8**	**17%**
Average selling price (LE/sqm)	17.2	15.0	115%	14.9	14.9	14.9	4%
Average cost per piece (LE/sqm)	10.9	10.2	107%	10.0	10.5	10.6	1%
Tile cost of sales	(271.6)	(219.0)	124%	(184.3)	(185.3)	(162.1)	14%
Tile gross profit	**158.0**	**102.6**	**154%**	**91.3**	**78.1**	**65.7**	**25%**
Tile gross profit margin (%)	36.8%	31.9%	4.9%	33.1%	29.6%	28.9%	

Board of directors







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 and has been a Director of the Egyptian Finance Company 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 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.

Name	Age	Representing	Appointed to the Board
Mr. Gilbert Gargour	65	Intage	1981
Mr. Elie Baroudi	62	Management	2003
Mr. Alain Gargour	56	Intage	1997
Mr. Toufick Gargour	67	Intage	1974
Mr. Georges Ghorayeb	58	Management	2003
Mr. Pertti Lehti	50	Independent	2002
Mr. Juergen Lorenz	66	Independent	2003
Eng. Aref Hakki	74	Independent	1998
Mr. Mohamed Younes	70	Independent	2004
Mr. Taher Gargour	39	Management	2008

* Member of Lecico Egypt Audit Committee

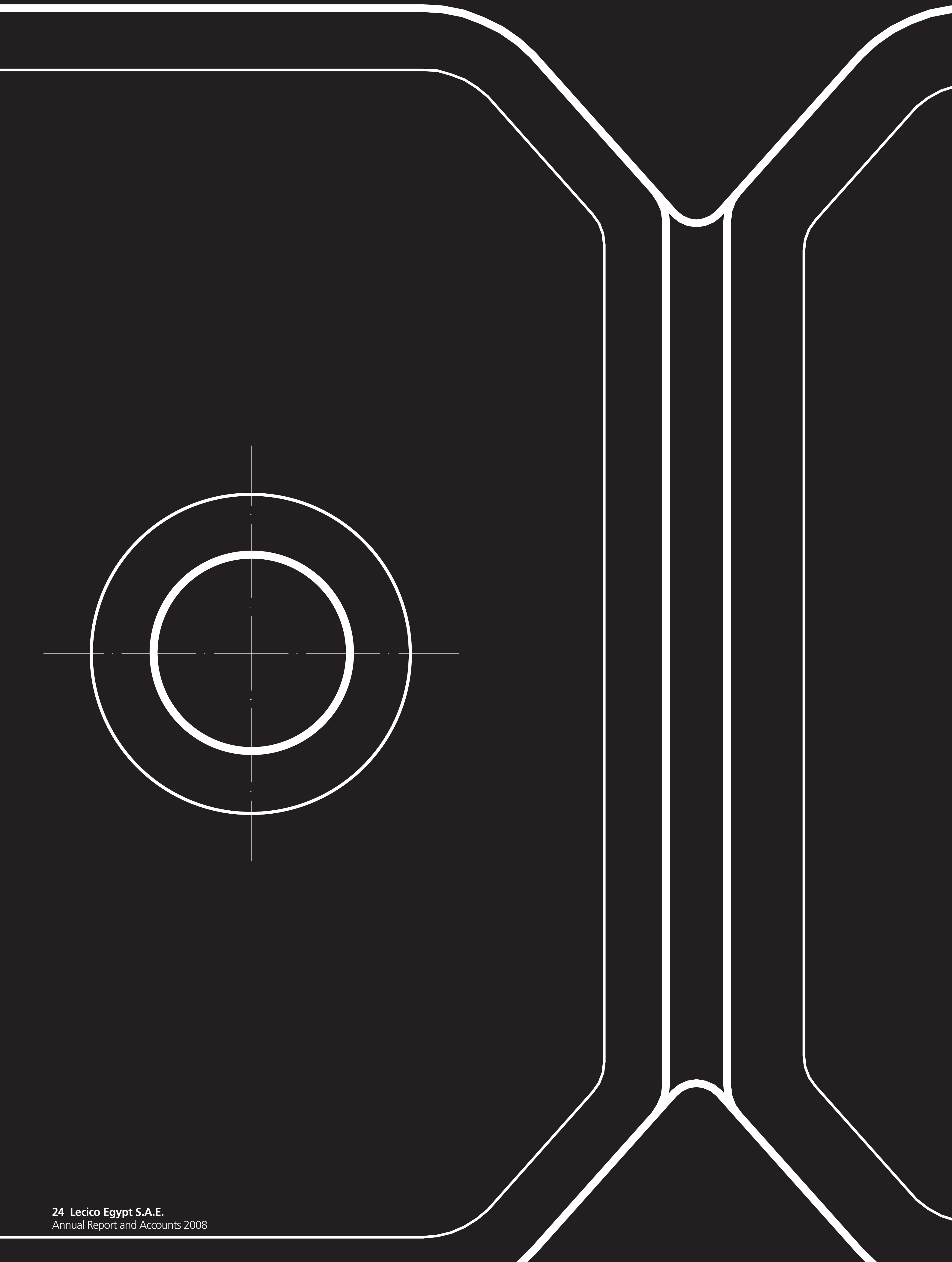
Mr. Pertti Lehti Non-executive Director
He has been a Director since 2002. He is a citizen of Finland and was a Senior Vice-President for Ceramics Production at Sanitec from October 2001 until July 2007. Prior to this, he was the Managing Director of Ido Bathroom Ltd. (Finland) (1995 to 2001) and Managing 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 was a Founder and a Member of the Board of Directors of the Egyptian Investment Management Association.

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.



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

Report on the consolidated financial statements

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 2008, 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 the Company and its subsidiaries as at 31 December 2008 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 Hazem Hassan
Alexandria March 2nd, 2009

Consolidated income statement

For the Year Ended December 31, 2008

	Note no.	**31/12/2008 LE**	31/12/2007 LE
Net Sales		**1,080,652,777**	989,475,030
Cost of Sales		**(701,135,326)**	(643,125,945)
Gross Profit		**379,517,451**	346,349,085
Other Income	(23)	**4,308,398**	3,109,444
Distribution Expenses		**(85,522,006)**	(75,818,052)
Administrative Expenses		**(110,404,231)**	(104,436,197)
Other Expenses	(24)	**(15,909,572)**	(12,279,856)
Result from Operating Activities		**171,990,040**	156,924,424
Investment Income		**1,148,031**	1,245,396
Finance Income	(25)	**20,257,639**	33,052,930
Financing Expenses		**(53,640,067)**	(61,214,468)
		139,755,643	130,008,282
Employees' Participation in Profit		**(9,600,000)**	(8,828,473)
Profit Before Income Tax		**130,155,643**	121,179,809
Income Tax Expense		**(13,503,968)**	(7,854,953)
Deferred Income Tax		**(6,306,678)**	(5,632,689)
Profit for the Year		**110,344,997**	107,692,167
Attributable to:			
Equity Holders of the Company		**108,845,580**	106,979,772
Minority Interest		**1,499,417**	712,395
Profit for the Year		**110,344,997**	107,692,167
Earnings Per Share (LE/Share)	(26)	**2.81**	2.71

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

Consolidated balance sheet

For the Year Ended December 31, 2008

	Note no.	31/12/2008 LE	31/12/2007 LE
Assets			
Property, Plant and Equipment	(4)	**698,591,173**	585,106,242
Projects in Progress	(5)	**71,422,870**	130,106,098
Intangible Assets	(6)	**17,577,511**	17,329,446
Other Investments	(7)	**4,550,539**	4,129,736
Long-Term Notes Receivable		**150,000**	300,000
Long-Term pre-paid rent		**2,402,464**	2,751,865
Total Non-Current Assets		**794,694,557**	739,723,387
Inventory	(8)	**431,230,575**	370,150,277
Trade and Other Receivables	(9)	**235,576,980**	292,774,834
Trading Investments	(10)	**114,488,425**	239,581,497
Cash and Cash Equivalents	(11)	**81,530,470**	54,353,714
Total Current Assets		**862,826,450**	956,860,322
Total Assets		**1,657,521,007**	1,696,583,709
Equity			
Share Capital	(13)	**200,000,000**	100,000,000
Reserves	(14)	**330,885,575**	310,519,055
Retained Earnings	(15)	**190,862,678**	239,579,423
Profit for the Year		**108,845,580**	106,979,772
Treasury Shares	(16)	**(112,204,707)**	(7,999,398)
Total Equity Attributable to Equity Holders of the Company		**718,389,126**	749,078,852
Minority Interest		**9,401,989**	8,797,537
Total Equity		**727,791,115**	757,876,389
Liabilities			
Long-Term Loans and Borrowings	(17)	**97,806,171**	204,215,031
Other Long-Term Liabilities	(18)	**113,236,180**	11,508,172
Deferred Income Tax	(19)	**18,858,354**	12,551,676
Provisions	(20)	**9,587,100**	8,540,904
Total Non-Current Liabilities		**239,487,805**	236,815,783
Bank Overdrafts		**419,517,015**	412,489,370
Loans and Borrowings	(21)	**80,362,454**	99,044,680
Trade and Other Payable	(22)	**173,086,405**	170,424,320
Provisions	(20)	**17,276,213**	19,933,167
Total Current Liabilities		**690,242,087**	701,891,537
Total Liabilities		**929,729,892**	938,707,320
Total Equity and Liabilities		**1,657,521,007**	1,696,583,709

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

Financial Manager
Mohamed Hassan

Managing Director
Elie J. Baroudi

Consolidated cash flow statement

For the Year Ended December 31, 2008

	Note no.	**31/12/2008 LE**	31/12/2007 LE
Cash Flow from Operating Activities			
Net Profit for the Year		**108,845,580**	106,979,772
Adjustments			
Fixed Assets Depreciation and Translation Differences	(4)	**69,950,319**	56,113,904
Intangible Assets Amortisation and Translation Differences	(6)	**495,631**	237,381
Employees Participation in Net Profit		**9,600,000**	8,828,473
Current Income Tax		**13,503,968**	4,354,953
Deferred Income tax		**6,306,678**	5,632,689
Prepaid Rent Expense		**349,403**	190,819
Capital Gains		**(299,381)**	(50,100)
Provided Provisions Impairment of Inventories and Receivables and Translation Differences		**12,615,931**	13,266,440
Reversal of Expired Provision		**(123,795)**	-
Change in Minority Interest		**604,452**	3,744,437
Decrease in Translation Reserve		**12,971,571**	(2,267,176)
		234,820,357	197,031,592
Increase in Inventory		**(63,568,792)**	(47,953,563)
Increase in Receivables		**56,026,010**	(44,900,343)
Increase in Payables		**(8,346,260)**	22,886,344
Utilised Provisions		**(10,442,556)**	(1,074,073)
Change in Other Long-Term Liabilities		**(2,509,210)**	1,323,227
Paid Income Tax		**(7,732,523)**	(6,896,826)
Change in Other Current Investments		**122,468,072**	(134,601)
Net Cash Provided from Operating Activities		**320,715,098**	120,281,757
Cash Flow from Investing Activities			
Fixed Assets Additions		**(125,601,984)**	(127,301,591)
Payment for Intangible Assets		**(743,696)**	(432,926)
Payment for Long-Term Rent		**-**	(2,360,000)
Net Changes in Available for Sale Investments		**(420,803)**	141,430
Proceeds from Sales of Fixed Assets		**1,149,343**	151,675
Change in Long-Term Notes Receivable		**150,000**	890,484
Net Cash Used in Investing Activities		**(125,467,140)**	(128,910,928)
Cash Flow from Financing Activities			
(Paid) Receipts from Long-Term Loans		**(125,091,093)**	120,707,552
Payment for Purchasing Treasury Stock		**(7,967,489)**	(7,140,611)
Proceeds from Selling Treasury Stock		**17,146,947**	-
Difference Result from Discounting of Other Long-Term Liabilities to its Present Value		**10,272,525**	-
Dividend of Treasury Stock		**10,886**	-
Payment for Employees' Share in net Profit		**(12,095,623)**	(3,544,526)
Payment Related to Cancelled Treasury Stock		**-**	(432,174)
Dividends Paid		**(60,000,000)**	(18,924,935)
Net Cash (used in) Provided from Financing Activities		**(177,723,847)**	90,665,306
Net Change in Cash and Cash Equivalents during the Year		**17,524,111**	82,036,135
Cash and Cash Equivalents at Beginning of the Year	(12)	**(355,510,656)**	(437,546,791)
Cash and Cash Equivalents at the End of the Year	(12)	**(337,986,545)**	(355,510,656)

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, 2008

	Issued & Paid up Capital LE	Reserves LE	Retained Earnings LE
Balance at December 31, 2006	100,000,000	368,838,888	187,908,034
Adjustments	-	-	(2,219,369)
Transfer to Retained Earnings	-	-	79,230,451
Cancellation of the Treasury Shares	(5,000,000)	(54,030,219)	-
Expenses Related to Cancelled Shares	-	(291,942)	(140,234)
Selling Treasury Shares Acquired by a Subsidiary at Loss	-	(779,234)	-
Increasing Capital by Stock Dividends	5,000,000	-	(5,000,000)
Acquired Treasury Shares	-	-	-
Dividends Declared	-	-	(20,199,459)
Translation Adjustment of Foreign Subsidiaries	-	(3,218,438)	-
Minority Interest in New Subsidiaries	-	-	-
Share of Capital Increase in Subsidiary	-	-	-
Profit for the Year	-	-	-
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	-
Treasury Shares Dividends	-	-	10,886
Acquired Treasury Shares	-	-	-
Difference Result from Discounting Other Long-Term Liabilities	-	10,272,525	-
Increasing Capital by Stock Dividends	100,000,000	-	(100,000,000)
Declared Dividends	-	-	(60,000,000)
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

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**
79,230,451	(60,668,166)	675,309,207	5,053,100	680,362,307
-	-	(2,219,369)	242,473	(1,976,896)
(79,230,451)	-	-	-	-
-	59,030,219	-	-	-
-	-	(432,176)	-	(432,176)
-	1,637,947	858,713	74	858,787
-	-	-	-	-
-	(7,999,398)	(7,999,398)	-	(7,999,398)
-	-	(20,199,459)	-	(20,199,459)
-	-	(3,218,438)	(439,255)	(3,657,693)
-	-	-	3,750	3,750
-	-	-	3,225,000	3,225,000
106,979,772	-	106,979,772	712,395	**107,692,167**
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
-	(112,204,707)	(112,204,707)	-	(112,204,707)
-	-	10,272,525	-	10,272,525
-	-	-	-	-
-	-	(60,000,000)	-	(60,000,000)
-	-	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**

Notes to the consolidated financial statements

For the Year Ended December 31, 2008

1. Reporting Entity

The consolidated financial statements of the Company as at and for the year ended December 31, 2008 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 31/12/2008 %	Ownership Interest 31/12/2007 %
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	99.77	99.77
El Sharaf For Ceramics (S.A.E.)	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

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 recognised in the period in which the estimate is revised and in any future periods affected.

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

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

3. Significant Accounting Policies

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

3.1 Basis of Consolidation

Subsidiaries

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

Transactions Eliminated on Consolidation

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

Unrealised gains arising from transactions with subsidiaries are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised 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

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.

3.2.1 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 recognised 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 recognised 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 amortied 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 derecognised, 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 recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised 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 recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, and is recognised 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 recognised 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 are recognised 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 recognised 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 derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised 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	3-10
Motor Vehicles	3-10
Tools	5
Furniture, Office Equipment and Computers	5-10

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 recognised 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 period 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 amortised over ten years. Key money in Lebanon is not amortised.

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 recognised in the income statement where the group has the positive intent and ability to hold an investment to maturity, then they are stated at amortised 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 recognised 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 derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the consolidated income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised 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 recognised / derecognised by the Group on the date it commits to purchase / sell the investments. Securities held-to-maturity are recognised / derecognised 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 recognised in the consolidated income statement.

3.9 Inventories

Inventories are valued at lower of cost and net realisable value. Net realisable 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 recognised 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 period.

3.11.2 Restructuring

A provision for restructuring is recognised 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 recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised 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 recognised 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 recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.13 Revenue Recognition

Goods Sold and Services Rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised 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 recognised as it accrues on a timely basis.

3.14 Borrowing Cost

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

Those borrowing costs to be considered as parts of a qualified fixed asset that take a substantial period to be prepared for its intended use are capitalised. 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 recognised 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 recognised in the income statement.

Impairment losses recognised 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 recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised 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 01/01/2008	127,773,961	184,395,436	2,078,410	568,529,869	37,976,258	22,211,673	18,353,641	**961,319,248**
Translation Differences	(4,469)	(885,818)	(102,425)	(574,507)	(1,110,504)	-	(7,879)	**(2,685,602)**
Year Additions	34,106,300	38,496,219	554,129	91,610,246	4,146,425	10,301,802	5,070,091	**184,285,212**
Year Disposals	-	-	(299,519)	(4,977,633)	(2,327,134)	(104,500)	(62,960)	**(7,771,746)**
At 31/12/2008	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**
Accumulated Depreciation								
At 01/01/2008	-	50,473,083	397,223	279,601,010	26,053,441	8,928,291	10,759,958	**376,213,006**
Adjustments	-	(193,959)	-	193,926	-	92,349	(92,349)	**(33)**
Translation Differences	-	(510,262)	(24,994)	(270,650)	(775,007)	-	(4,985)	**(1,585,898)**
Year Depreciation	-	8,685,730	636,357	48,080,580	4,967,001	4,455,789	2,025,191	**68,850,648**
Disposals acc. Depreciation	-	-	(299,519)	(4,977,633)	(1,575,441)	(11,321)	(57,870)	**(6,921,784)**
At 31/12/2008	-	58,454,592	709,067	322,627,233	28,669,994	13,465,108	12,629,945	**436,555,939**
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**
Net Book Value at 31/12/2007	127,773,961	133,922,353	1,681,187	288,928,859	11,922,817	13,283,382	7,593,683	**585,106,242**

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, 2008 the cost of these fixed assets amounted to LE 149.1 million and its net book value amounted to LE 131.7 million.

5. Projects In Progress

	31/12/2008 LE	31/12/2007 LE
Land *	**3,509,054**	3,361,475
Machinery Under Installation	**45,216,185**	73,049,062
Buildings Under Construction	**5,706,424**	17,044,844
Advance Payment	**13,046,291**	34,604,494
L/C for Purchase of Fixed Assets	**3,944,916**	2,046,223
	71,422,870	130,106,098

* 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 LE	Trademarks LE	Development Costs LE	Other Intangibles LE	Total LE
Cost					
Balance at 01/01/2008	15,474,579	316,427	1,365,401	747,883	**17,904,290**
Translation Differences	-	(15,162)	(376,535)	(12,834)	**(404,531)**
Year Additions	-	60,940	682,756	-	**743,696**
Balance at 31/12/2008	15,474,579	362,205	1,671,622	735,049	**18,243,455**
Amortisation & Impairment Losses					
Balance at 01/01/2008	-	131,238	443,606	-	**574,844**
Translation Differences	-	(6,308)	(180,170)	-	**(186,478)**
Year Amortisation	-	14,748	262,830	-	**277,578**
Balance at 31/12/2008	-	139,678	526,266	-	**665,944**
Carrying Amount at 31/12/2008	15,474,579	222,527	1,145,356	735,049	**17,577,511**
Carrying Amount at 31/12/2007	15,474,579	185,189	921,795	747,883	**17,329,446**

7. Other Investments

	Ownership %	31/12/2008 LE	31/12/2007 LE
Murex Industries and Trading (S.A.L.)	40 %	**4,101,220**	4,108,664
STILE S.P.A Italia *	50 %	**428,247**	-
Other Investments		**21,072**	21,072
		4,550,539	4,129,736

* Lecico UK (a subsidiary) signed an agreement with S.F.A Italia S.P.A to own 50% out of the share capital of STILE S.P.A; this amount represents the company's share in the 25% of the paid up capital of STILE S.P.A.

Notes to the consolidated financial statements

For the Year Ended December 31, 2008

8. Inventory

	31/12/2008 LE	31/12/2007 LE
Raw Materials, Consumables and Spare Parts	**183,241,312**	153,119,922
Work in Process	**24,016,516**	24,270,133
Finished Products	**238,225,774**	200,247,491
L/Cs for the Purchase of Goods	**5,773,629**	10,050,893
	451,257,231	387,688,439
Less:		
Impairment of Inventory	**(20,026,656)**	(17,538,162)
	431,230,575	370,150,277

9. Trade and Other Receivables

	Note no.	31/12/2008 LE	31/12/2007 LE
Trade Receivables		**140,228,505**	164,785,211
Notes Receivable		**87,502,068**	86,782,063
Sundry Debtors		**11,001,866**	19,015,203
Suppliers – Debit Balances		**1,075,880**	1,105,480
Related Parties – Trade, Notes and Other Receivables	(27)	**28,287,238**	57,091,964
Tax Administration – Tax Withheld		**214,408**	75,995
Tax Administration – Sales Tax		**3,718,027**	4,926,427
Other Debit Balances		**2,395,481**	1,389,117
Prepaid Expenses		**11,528,960**	6,353,984
Accrued Revenues		**1,940,629**	2,393,628
		287,893,062	343,919,072
Less:			
Impairment of Receivables		**(52,316,082)**	(51,144,238)
		235,576,980	292,774,834

Transactions with Key Management

The Board of Directors of the Parent Company control 0.06% of the voting shares of the Parent Company.

The balances of the Board of Directors of the Parent Company amounted to LE 50,000 (debit balances) and LE 214,017 (credit balances) as at December 31, 2008. These balances are included in sundry debtors and creditors in receivables and other current payables respectively.

Emoluments for the Board of Directors of the Parent Company, for the year ended December 31, 2008 charged to the other operating expenses in the consolidated income statement amounted to LE 2,561,681 (December 31, 2007: LE 1,327,956).

10. Trading Investments

	31/12/2008 LE	31/12/2007 LE
Treasury Bills	**20,000,000**	111,039,800
Less:		
Issuance Discount	**(448,535)**	(2,968,063)
Acquisition Cost of Treasury Bills	**19,551,465**	108,071,737
Treasury Bonds (Held for Trading)	**57,778,000**	87,663,200
Bank – Certificates of Deposit (Held for Trading)	**-**	5,500,000
Callable Money Market Securities	**37,158,960**	38,346,560
	114,488,425	239,581,497

11. Cash & Cash Equivalents

	31/12/2008 LE	31/12/2007 LE
Banks - Time Deposit	**60,632,326**	3,150,000
Banks - Current Accounts	**19,510,337**	49,990,262
Cash on Hand	**1,387,807**	1,213,452
	81,530,470	54,353,714

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

	31/12/2008 LE	31/12/2007 LE
Banks - Time Deposits	**60,632,326**	3,150,000
Banks - Current Accounts	**19,510,337**	49,990,262
Cash on Hand	**1,387,807**	1,213,452
Treasury Bills due During Three Months from Purchasing Date	**-**	2,625,000
	81,530,470	56,978,714
Less:		
Bank Overdrafts	**(419,517,015)**	(412,489,370)
	(337,986,545)	(355,510,656)

12.1 Bank Overdrafts

Bank overdrafts represent credit facilities partially secured by certain notes, receivables and inventories. The authorised facilities limit in respect of all overdrafts of the group is LE 757 million, and the unutilised amount is LE 382.7 million.

13. Share Capital

13.1 Authorised Capital

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

13.2 Issued and Paid up Capital

As per the extra-ordinary general assembly of the Parent Company decision dated April 1, 2008 the issued capital was increased by an amount of LE 100 million to be LE 200 million through the issuance of stock distributed. Accordingly the issued capital became LE 200 million distributed over 40 million nominal share with par value of LE 5 per share fully paid, such increase was annotated in the commercial register on June 12, 2008.

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.

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, 2006	20,000,000	15,571,032	269,720,953	52,765,085	10,781,818	**368,838,888**
Cancellation of Treasury Shares	-	-	(54,030,219)	-	-	**(54,030,219)**
Selling Treasury Shares Acquired by a Subsidiary at Loss	-	-	(779,234)	-	-	**(779,234)**
Expenses Related to Cancelled Treasury Shares	-	-	(291,942)	-	-	**(291,942)**
Translation Adjustment for Foreign Subsidiaries	-	-	-	-	(3,218,438)	**(3,218,438)**
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 (Note 16,18.2)	-	-	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**

* 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, 2008 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 expect to reinvest the retained earnings in its subsidiaries.

16. Treasury Shares

Treasury shares is represented in:

	Number of Shares	31/12/2008 LE	31/12/2007 LE
Acquisition Costs of the Remaining GDRs Acquired in May 2007	210,526	**-**	7,999,398
Acquisition Cost of the Treasury Shares Acquired by the Parent Company in August 2008 *	3,157,895	**110,141,872**	-
Acquisition Cost of the Treasury Shares Acquired by the Parent Company in December 2008	150,000	**2,062,835**	-
Total		**112,204,707**	7,999,398

* The Parent Company acquired 3,157,895 of its shares which were owned by its shareholders for an amount of LE 110,141,872 in aggregate. According to the signed purchase contract, this amount will be repaid through the next 4 years starting from August 10, 2009. The liabilities arising from this acquisition was included in other long term liabilities according to its net present value. The difference resulting from this discounting was included in the special reserve (Note 14 and 18.3).

17. Loans and Borrowings

	31/12/2008 LE	31/12/2007 LE
17.1 European Investment Bank Loan (EIB) The amount represents the outstanding counter value of the foreign currency loan granted to the Parent Company by the EIB, which is equivalent to Euro 1,259,166 (variable interest rate). The balance will be repaid in 2 semi-annual installments on June and December 2009. The loan is guaranteed by a letter of guarantee issued by CIB in favour of the EIB amounting to Euro 1,259,166.	**9,645,212**	20,549,595
17.2 Loan from Barclays Bank Egypt The loans granted to the Parent Company by Barclays Bank were fully paid in 2008.	**-**	31,500,000
17.3 International Finance Corporation (IFC) The outstanding counter value of the foreign currency loan granted from IFC under the amended loan agreement dated January 16, 2005 equivalent to USD 5,687,500 is to be repaid over 7 semiannual installments at a variable interest rate.	**31,338,125**	40,365,000
17.4 Commercial International Bank (CIB) 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 1,895,833, to be repaid over 7 semiannual installments with a variable interest rate. The IFC and CIB loans in (17.3) and (17.4) 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 favour of the lenders. The two loans in (17.3) and (17.4) are guaranteed by the two subsidiaries companies, Lecico for Ceramic Industries and European Ceramics.	**10,446,040**	13,455,006
17.5 Commercial International Bank (CIB) The outstanding counter value of the medium term loan granted to the Parent Company from CIB amounting to USD 1,302,084, to be repaid in 3 installments through 2009, with a variable interest rate.	**7,174,483**	16,770,825
17.6 Commercial International Bank (CIB) The outstanding counter value of the medium term loan granted to the Parent Company from CIB amounting to USD 1,015,622, to be repaid in 2 semiannual installments through 2009.	**5,596,077**	10,882,912
17.7 Commercial International Bank (CIB) The outstanding counter value of the medium term loan granted to the Parent Company from CIB amounting to USD 651,039, to be repaid in 3 semiannual installments starting from through 2009, with a variable interest rate. 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**	8,385,382
17.8 Commercial International Bank (CIB) The Balance of the loan granted to the Parent Company from CIB amounting to USD 7,800,000, to be repaid in 13 quarterly installments starting from March 31, 2009 and ending March 31, 2012, with a variable interest rate.	**42,978,000**	56,304,000
17.9 Commercial International Bank (CIB) The balance of the loan granted to the Parent Company from CIB amounting to USD 3,755,556 to be repaid in 13 quarterly installments starting from March 31, 2009 and ending March 31, 2012, with a variable interest rate.	**20,693,114**	27,109,333
17.10 Audi Bank The loan granted to the Parent Company from Audi Bank was fully paid through 2008.	**-**	23,537,280
17.11 Citibank The loan granted to the Parent Company from Citi Bank amounting to USD 5,000,000, to be repaid in 10 quarterly installments starting from April 26, 2009 and ending July 26, 2011, after a grace period 2 years with a variable interest rate .	**27,550,000**	27,600,000
17.12 Credit Libanais The loan granted to The Lebanese Ceramic Industries Co. (S.A.L.) (subsidiary) was fully paid through 2008.	**-**	1,328,261
17.13 Societe Generale Lebanon The balance of the loan granted to The Lebanese Ceramic Industries Co. (S.A.L) (subsidiary) amounting to USD 5,500,000 repayable over five years and half in semi-annual installments ending in 2009 with a variable interest rate.	**16,530,000**	11,036,339
	175,538,276	288,823,933
Less: Installments due within one year which are classified as current liabilities (note 21).	**(77,732,105)**	(84,608,902)
	97,806,171	204,215,031

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, 2008

18. Other Long-Term Liabilities

	31/12/2008 LE	31/12/2007 LE
18.1		
Lease obligation to finance certain assets of Lecico (UK) Ltd. and its subsidiaries.	**5,411,100**	7 601 803
Less		
Installments due within one year, which are classified as current liabilities (Note 21).	**(1,621,857)**	(2,575,697)
	3,789,243	5,026,106
18.2		
Sales Tax Department (deferred sales tax related to imported machinery)	**4,924,723**	5,817,503
Notes payable – long term	**1,293,488**	1,484,644
	6,218,211	7,302,147
Less		
Installments due within one year, which are classified as current liabilities (Note 21).	**(1,008,492)**	(820,081)
	5,209,719	6,482,066
18.3		
Creditors related to acquiring treasury shares	**104,237,218**	-
The shown balance represent the present value of the liability (Note 14 and 16)		
	104 237 218	-
	113 236 180	11,508,172

19. Deferred Income Tax Assets and Liabilities

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

	Assets 31/12/2008 LE	**Liabilities 31/12/2008 LE**	Assets 31/12/2007 LE	Liabilities 31/12/2007 LE
Property, Plant and Equipment	**-**	**22,607,271**	-	16,638,814
Inventory	**(3,748,917)**	**-**	(4,087,138)	-
Total Deferred Income Tax (assets)/liabilities	**(3,748,917)**	**22,607,271**	(4,087,138)	16,638,814
Net Deferred Income Tax Liabilities	**-**	**18,858,354**	-	12,551,676

20. Provisions

	Balance as at 1/1/2008 LE	Translation Differences LE	Utilised Provisions LE	Reversal Provisions LE	Provided Provisions LE	**Balance as at 31/12/2008 LE**
Provision Disclosed in the Non Current Liabilities						
End of Service Indemnity Provision	8,540,904	(103,187)	(1,245,375)	(123,795)	2,518,553	**9,587,100**
	8,540,904	(103,187)	(1,245,375)	(123,795)	2,518,553	**9,587,100**
Provision Disclosed in the Current Liabilities						
Potential Losses and Claims Provision	19,933,167	(184,987)	(9,019,996)	-	6,548,029	**17,276,213**
	19,933,167	(184,987)	(9,019,996)	-	6,548,029	**17,276,213**
Total	28,474,071	(288,174)	(10,265,371)	(123,795)	9,066,582	**26,863,313**

21. Loans and Borrowings

	Note no.	**31/12/2008 LE**	31/12/2007 LE
Current Portion of Long-Term Loans	(17)	**77,732,105**	84 608 902
Current Portion of Other Long-Term Liabilities	(18)	**2,630,349**	3 395 778
Short Term Loan		**-**	11,040,000
		80 362 454	99,044,680

22. Trade and Other Payable

	Note no.	**31/12/2008 LE**	31/12/2007 LE
Trade Payable		**44,618,970**	56,979,282
Notes Payable		**23,972,872**	27,983,545
Trade Payable due to Related Parties	(27)	**5,906,202**	4,273,875
Social Insurance Authority and Tax Authority		**4,805,471**	6,118,046
Income Tax Payable		**12,465,905**	6,694,460
Accrued Expenses		**44,411,669**	31,365,176
Deposits due to Others		**52,701**	68,701
Sundry Creditors		**16,187,292**	16,343,601
Current Account for Sales Tax Department		**2,603,829**	1,650,397
Dividends Payable		**683,184**	624,069
Creditors for Purchasing Fixed Assets		**1,609,880**	-
Profit Sharing Provision for Employees of Certain Group Companies		**15,768,430**	18,323,168
		173,086,405	170,424,320

23. Other Income

	31/12/2008 LE	31/12/2007 LE
Other Revenues	**1,872,071**	1,767,140
Scrap Sales	**1,909,425**	1,292,204
Capital Gain	**403,107**	50,100
Reversal of Expired Provision	**123,795**	-
	4,308,398	3,109,444

24. Other Expenses

	31/12/2008 LE	31/12/2007 LE
Provided Provision for Claims	**6,548,030**	4,885,246
Impairment of Inventory	**2,500,000**	3,234,449
Impairment of Receivables	**1,400,000**	1,611,349
End of Service Indemnity	**2,518,557**	1,000,000
Amortisation of Intangible Assets	**277,578**	220,856
Board of Directors Remuneration	**2,561,681**	1,327,956
Capital Loss	**103,726**	-
	15,909,572	12,279,856

25. Finance Income

	31/12/2008 LE	31/12/2007 LE
Changes in Fair Value of Investments Held for Trading	**(881,356)**	-
Interest Revenues	**15,444,347**	21,741,347
Foreign Exchange Difference	**5,694,648**	11,311,583
	20,257,639	33,052,930

26. Earnings Per Share

The earnings per share for the Year Ended December 31, 2008 is computed as follows:

	31/12/2008 LE	31/12/2007 LE
Net Profit for the Year (in LE)	**108,845,580**	106,979,772
Average Number of Shares	**38,761,074**	39,460,526
Earnings per Share (LE/Share)	**2.81**	2.71

27. Related Parties

	Nature of Transaction	Transaction Amount LE	**31/12/2008 LE**	31/12/2007 LE
Debit Balances				
Sanitec Subsidiaries				
Keramag	Sales	-	**-**	3,529,608
Pozzi Ginori	Sales	-	**-**	4,338,404
Twyford	Sales	-	**-**	20,829,731
Twyford	Current	-	**-**	(2,828)
Kolo Sanitec	Sales	-	**-**	197,115
Sanitec	Current	-	**-**	53,040
Sanitec	Sales	-	**-**	121,687
Allia Sanitec	Sales	-	**-**	397,939
Eurocer S.A – Sanitec	Sales	-	**-**	521,003
Sanitec – Sphinx B.V	Sales	-	**-**	1,627,062
			-	31,612,761
Murex Industries and Trading (S.A.L)	Sales	92,408,756	**24,382,201**	21,172,236
	Notes Receivable	-	**723,844**	1,668,421
			25,106,045	22,840,657
T. Gargour et Fils – Jordan	Current	-	**559,870**	560,887
T. Gargour et Fils	Current		**11,021**	11,040
Board of Directors of The Lebanese Ceramic Industries Co. (S.A.L.)	Current	62,122	**6,298**	6,309
Lecico Saudi Arabia (Branch)	Sales	225,230	**2,604,004**	2,060,310
Total Debit Balances			**28,287,238**	57,091,964
Due to Related Parties				
Murex Industries and Trading (S.A.L)	Purchase	3,989,971	**151,637**	278,175
LIFCO	Rent	81,297	**246,716**	164,776
Board of Directors of The Lebanese Ceramic Industries Co. (S.A.L.)	Current	490,221	**92,824**	111,374
T. Gargour et Fils	Current	30,256	**62,841**	32,585
Ceramic Management Services Ltd. (CMS)	Technical Assistance Fees	20,183,020	**5,388,855**	1,452,502
Intage Holding Ltd	Current	2,197,792	**(36,671)**	2,234,463
Total Credit Balances			**5,906,202**	4,273,875

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For the Year Ended December 31, 2008

28. Information about Business Segment

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

	31/12/2008	31/12/2007
Sanitary Ware Segment		
Sales Volumes (in 000 pcs)		
Egypt	**2,063.1**	1,711.3
Lebanon	**177.2**	269.3
Export	**3,063.4**	3,638.2
Total Sales Volume (in 000 pcs)	**5,303.7**	5,618.7
Sales Revenues (LE million)	**651.0**	667.9
Average Selling Price (LE/pc)	**122.7**	118.9
Total Cost of Sales (LE million)	**429.5**	424.17
Gross Profit (LE million)	**221.5**	243.8
Tile Segment		
Sales Volumes (in 000 m²)		
Egypt	**17,712.6**	15,073.0
Lebanon	**1,958.0**	1,204.8
Export	**5,275.5**	5,183.5
Total Sales Volume (000 m²)	**24,946.1**	21,461.2
Sales Revenues (LE million)	**429.6**	321.5
Average Selling Price (LE/m²)	**17.2**	15.0
Total Cost of Sales (LE million)	**271.6**	219.0
Gross Profit (LE million)	**158.0**	102.6

29. Personnel Cost

The Personnel costs incurred during the year ended December 31, 2008 amounted to LE 164.5 million (December 31, 2007: LE 154.9 million).

30. Contingent Liabilities

30.1 Letters of Guarantee

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

Currency	31/12/2008	31/12/2007
LE	**17,977,256**	8,628,064
LBP (000)	**-**	249,384

30.2 Letters of Credit

Currency	31/12/2008	31/12/2007
LE	**5,501,934**	7,591,670

30.3 Other Guarantees

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 15.3 million). There was no outstanding balance under this loan at the 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 year 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, 2008 amounting to LE 25 million related to the purchase of fixed assets of the group (December 31, 2007: LE 6.2 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. GAFI had formed a committee to identify the date of starting the leasing activity the committee work is still outstanding. 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 its 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

Years 1977/1985
The Parent Company has obtained a final settlement and paid all the tax obligations for these years.

Years 1986/2000
The Parent Company's management decided to take advantage of the Egyptian tax law no. 91 for the year 2005 which permits the settlement of tax disputes, outstanding in the courts as at October 1st, 2004, at certain percentages of the disputed amounts. The Parent Company had cases in the courts for the years 1986 to 2000 that after consultation with experts, the group's management considered it to be in the best interests of the Parent Company to make such a settlement.

Years 2001/2002
The Parent Company's records were examined for these years; the Company was informed by the tax department of claims and objected to these claims during the legal period. The Parent Company has agreed with the tax department on some points in the internal committee and the other disputed points were transferred to the concerned court. These disputed points concerned the exemption of interest of the paid-up capital and additional depreciation deducted by the Company.

Year 2003
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.

Year 2004
The Parent Company's records were examined and the Parent Company was not notified by any tax claims.

Years 2005/2007
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 2004/2007
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 taxes obligations regarding the years till 2004 and examined till 30/06/2006.
- The period from July 1, 2006 till December 31, 2007 was not examined yet.

D Sales Tax

The tax examination until 2007 was finalised and led to unsettled differences due to amended sales tax claims. The settlement of these differences with the tax authority is still in process.

37. Comparative Figures

The following comparative figure was reclassified to comply with the classification of the current year figures.

In-depth profit and loss summary

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

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

Notes

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