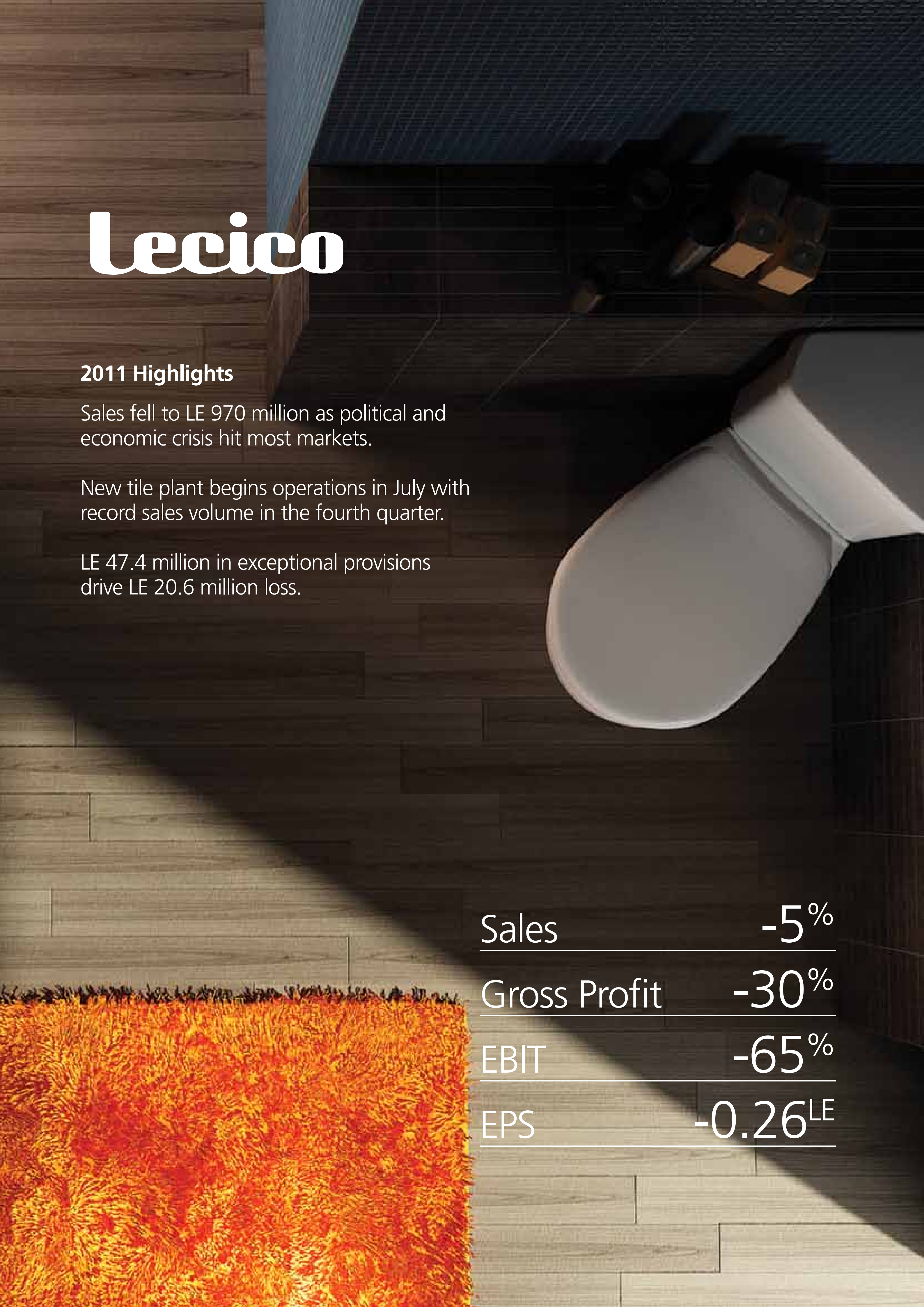
Lecico Egypt S.A.E. Annual Report and Accounts 2011

# Lecico

Annual report 2011



Lecico is one of the world's largest sanitary ware producers and a significant tile producer in Egypt and Lebanon. Over its more than 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 and France.



# Lecico

## 2011 Highlights

Sales fell to LE 970 million as political and economic crisis hit most markets.

New tile plant begins operations in July with record sales volume in the fourth quarter.

LE 47.4 million in exceptional provisions drive LE 20.6 million loss.

| | |
|---|---|
| Sales | -5% |
| Gross Profit | -30% |
| EBIT | -65% |
| EPS | -0.26LE |

# At a glance

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

**EBIT MARGIN**
%

| | |
|---|---|
| **2011** | **6.7** |
| 2010 | 18.4 |
| 2009 | 17.3 |
| 2008 | 15.9 |
| 2007 | 15.9 |

**SANITARY WARE EXPORT VOLUME**
million pieces

| | |
|---|---|
| **2011** | **2.4** |
| 2010 | 2.9 |
| 2009 | 3.4 |
| 2008 | 3.1 |
| 2007 | 3.6 |

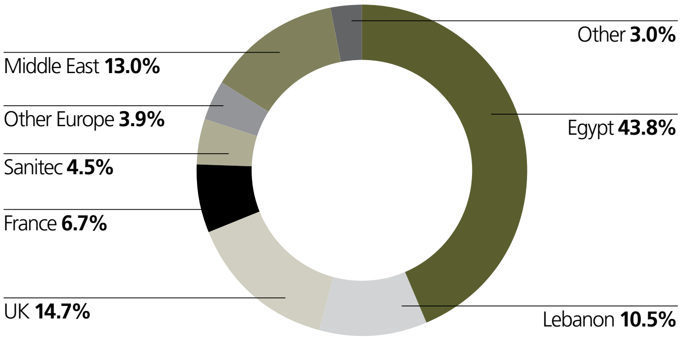
**SANITARY WARE SALES VOLUME**
million pieces

| | |
|---|---|
| **2011** | **4.3** |
| 2010 | 5.0 |
| 2009 | 5.6 |
| 2008 | 5.3 |
| 2007 | 5.6 |

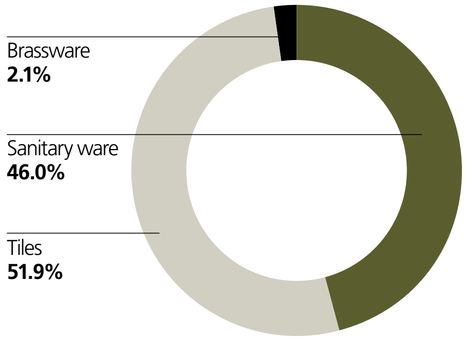
**TILE SALES VOLUME**
million sqm

| | |
|---|---|
| **2011** | **23.0** |
| 2010 | 23.6 |
| 2009 | 23.6 |
| 2008 | 24.9 |
| 2007 | 21.5 |

## BUSINESS SPLIT
SALES FROM SANITARY WARE AND TILES




## GROSS PROFIT FROM
SANITARY WARE AND TILES

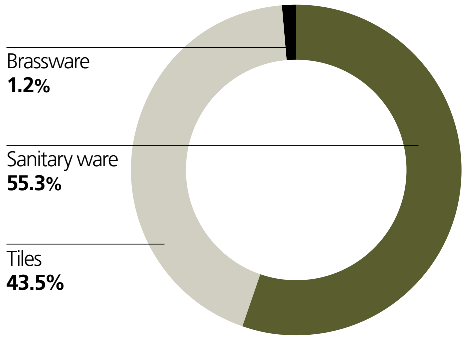


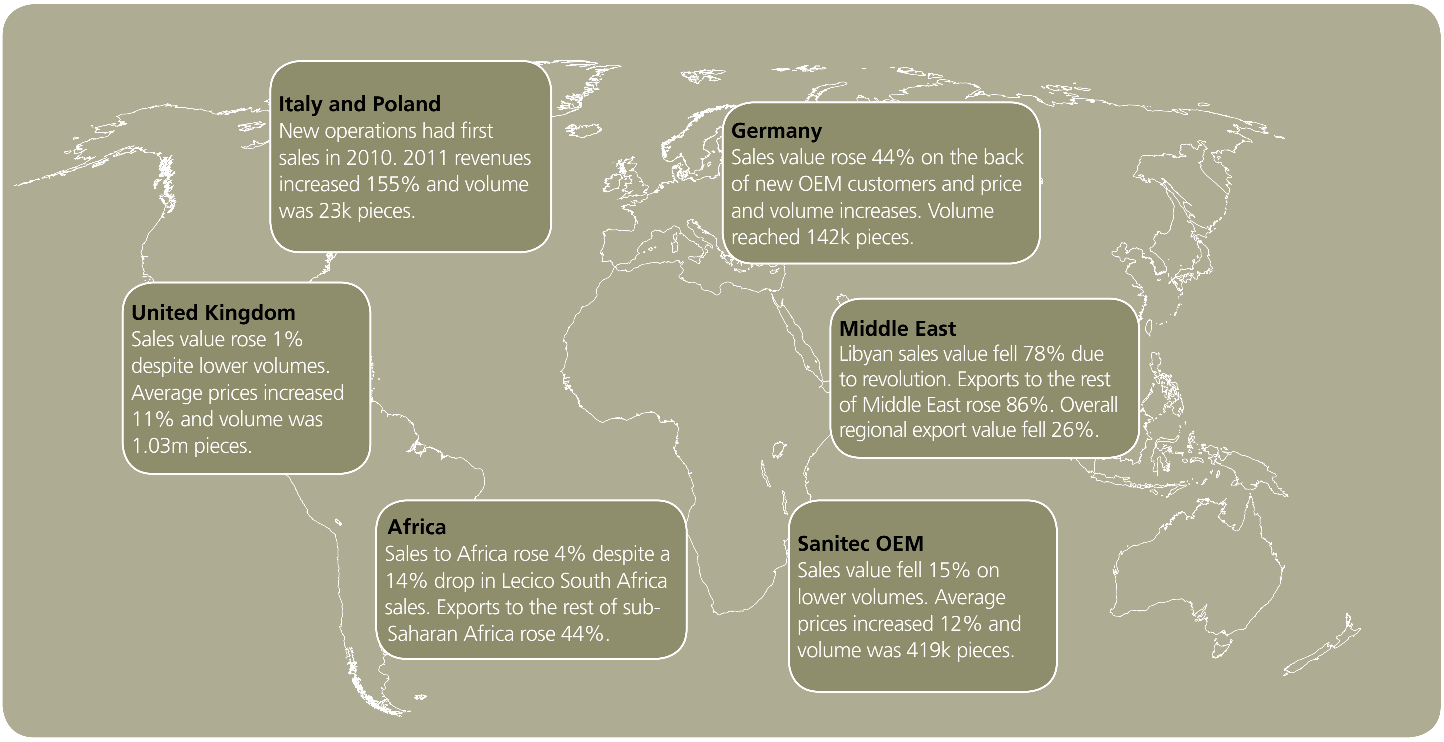

## FIVE YEAR SUMMARY

| **LE millions** | **2007** | **2008** | **2009** | **2010** | **2011** | **CAGR** |
|---|---|---|---|---|---|---|
| Net Sales | 989.5 | 1,080.7 | 1,055.2 | 1,019.2 | **970.7** | (0%) |
| Gross Profit | 346.3 | 379.5 | 383.1 | 367.3 | **257.5** | (7%) |
| EBIT | 156.9 | 172.0 | 182.6 | 188.0 | **65.5** | (20%) |
| Net Profit | 107.0 | 108.8 | 110.2 | 94.8 | **(20.6)** | - |
| Reported EPS | 5.5 | 2.8 | 2.8 | 1.6 | **-0.3** | - |
| Adjusted EPS* | 1.3 | 1.4 | 1.4 | 1.2 | **-0.3** | - |
| | | | | | | |
| Cash & Equivalents | 293.9 | 196.0 | 99.6 | 112.4 | **177.7** | (12%) |
| Total Assets | 1,696.6 | 1,657.5 | 1,571.6 | 1,812.0 | **1,926.8** | 3% |
| Total Debt | 715.7 | 597.7 | 444.8 | 625.4 | **861.4** | 5% |
| Net Debt | 421.8 | 401.7 | 345.2 | 513.1 | **683.7** | 13% |
| Total Liabilities | 938.7 | 929.7 | 739.5 | 938.0 | **1,139.4** | 5% |
| Minority Interest | 8.8 | 9.4 | 3.6 | 2.9 | **1.4** | (36%) |
| Shareholders' Equity | 749.1 | 718.4 | 828.5 | 871.1 | **786.0** | 1% |

* EPS Adjusted to include treasury shares and historic EPS adjusted retroactively.

## SALES FROM
SANITARY WARE AND TILES



# Chairman's statement

**This has been a dramatic year for all of us at Lecico as we have watched history being made. In Egypt and across our Middle East, we have seen courage and the desire for positive change prevail over fear. This can only bode well for the growth and development of the area and we must all continue to strive to do our best for our countries, our people and our company. I am confident that we will.**

However, change has not come without problems or difficulties and Lecico has had a few throughout the last year, in Egypt, in Libya and in our European markets. The combination of political transformation here and economic uncertainty in many of our main European markets has cost us dearly. But transformation, this major, does not come without tribulation and uncertainty. Nonetheless major steps and challenges have already been met and will hopefully continue to be managed as we go towards a brighter future as a region and as a company.

Lecico and its people have responded well to the challenges:

- Our sales and particularly in Egypt were surprisingly strong and continue to be good, reflecting the country's population pyramid and the fact that some 60 % of the population is under thirty.
- Libyan sales have picked up very rapidly after the long and bloody revolution and are already at the point of overtaking levels reached in previous years.
- New markets have been aggressively and successfully developed in North Africa, Saudi Arabia and the Gulf.
- In Europe we have acquired an impressive list of new clients. Accordingly we had to manufacture a sizeable volume of new and challenging products which contributed to higher costs. We are now over the hump of these difficulties and are starting to see significant efficiency improvements on these pieces.
- Our new tile capacity has sold out well and we are already beginning to plan to complete the expansion that has been started. Hopefully we can do so in 2013.

Challenges remain:

- Our European subsidiaries in France and the UK have been heavily affected by the slowdown in Europe and we have begun to work much harder to prepare and take advantage of the expected recovery there.
- In Lebanon we have introduced a new activity that is quite promising. We have introduced a line of solar water heaters that should do well in a country where energy is very expensive. The product fits in with our distribution channels, but in our early days we need to push hard for this new business to get traction.
- In Egypt the same can be said for the introduction of our brassware business. While our early efforts have been successful and profitable we need to grow the scale of the business.
- We must also become even more aggressive in our local Egyptian and Lebanese markets to increase our share of growing markets, particularly in Sanitary Ware.

I am comforted by my confidence that our basic strategic position remains very strong and that we now have the opportunity to recover and to resume our growth. I am comforted by the loyalty the courage of our people. I am comforted by the quality of our assets and our knowledge.
I also want to thank all shareholders for supporting their company at this time and for their agreement to forego dividends this year. This was not an easy decision for us to make but our financial position needs to be improved in order to allow us to revert to growth.

**Gilbert Gargour**
Chairman and CEO

# Managing Director's statement

**CHALLENGING ENVIRONMENT DRIVES LOSS IN 2011**
As a result of the challenging environment globally and regionally, 2011 has been Lecico's most difficult year with the company reporting a net loss.

Performance was affected by operational disruption in Egypt and shrinking sanitary ware demand in export. Margins suffered as lower volumes combined with cost inflation were compounded by increased expenses from the investment and start-up costs for our new tile factory.

As a result our net profits fell 72% year-on-year at a record low of LE 26.7 million before the LE 47.4 million in extraordinary provisions taken in the fourth quarter. After provisions, we reported a loss for the year of LE 20.6 million.

**DESPITE GROWTH IN NEW MARKETS**
We realised significant growth with new and smaller markets and with new OEM customers in Europe, but this was overshadowed by the drop in demand in our key markets.

In Europe, total sales fell 4% on the back of a 10% drop in revenues from the UK, France and Sanitec. However, the sales to the rest of Europe grew 65% on the back of a 33% increase in volumes to reach 273k pieces. Growth came from new OEM business, first sales into Scandinavia and continued growth in Ireland, Germany, Italy, Poland and Greece. In the Middle East the situation was similar. Revolution in Libya led to an almost complete closure of the market and as a result our total Middle Eastern export sales fell 26%. However, regional exports excluding Libya grew 87% on the back of a 14% increase in sanitary ware volumes to reach 273k pieces and a 135% increase in tile volumes to reach 2.97 million square meters. Regional growth was focused in Saudi Arabia, Algeria, Iraq, Jordan and North Africa.

In total, revenue from exports fell 11% in 2011.

**LOW PRODUCTIVITY AND HIGHER COSTS**
Sanitary ware production was down 18% in 2011 due to diminished demand and days lost during the revolution and subsequent strikes. Lower productivity – coupled with inflation in labour, energy and other costs – led to a 23% increase in cost per piece before provisions.

Tile production was only 3% lower in 2011, but this reflects a combination of disrupted business and lost exports to Libya partially compensated by increased volumes following the roll out of our new factory in the second half. In fact, capacities - and associated costs – were up by around 12% year-on-year and we saw a drop in overall utilisation. This loss in economies of scale, coupled with the same cost inflation seen in sanitary ware, led to a 16% increase in production cost per square meter.

As a result core operational gross profits – before any provisions – fell 24% to LE 280 million and our gross profit margin fell 7.2 percentage points to 28.8%. We were able to reduce our sales and administrative overheads again in the year but operating profit – before provisions –was still down 40% at LE 113 million and our EBIT margin fell 6.9 percentage points to 4.5%.

**LE 47.4 MILLION IN PROVISIONS**
Our results were further reduced by the LE 47.4 million in provisions we took in the fourth quarter. We took LE 22 million in sanitary ware inventory provisions and LE 0.5 million in tile inventory provisions, both against the risk on commercial values of our slow moving and stagnant stocks. We took a further LE 24.9 million in provisions against receivables risks and tax liabilities.

As a result of these provisions, we went from a pre-provision net profit of LE 26.7 million to a reported net loss of LE 20.6 million.

While I am optimistic that we will return to profitability in the coming year, the environment will remain challenging with our key markets subject to volatility and poor economic prospects. Cost inflation will remain a pressure, but if market conditions allow us to continue growing sales better economies of scale should allow us to offset this and deliver better margins.

**Elie Baroudi**
Managing Director

# -14%

Sales volumes down due to weakness in key export markets.

# +21%

Growth in exports to the Middle East excluding Libya.

# +57%

growth in Europe exports excluding UK and France.

## SANITARY WARE GROSS PROFIT

LE million

| | |
|---|---|
| 2011 | 118.5 |
| 2010 | 175.0 |
| 2009 | 192.0 |
| 2008 | 221.5 |
| 2007 | 243.8 |

## SANITARY WARE GROSS MARGIN

%

| | |
|---|---|
| 2011 | 22.1 |
| 2010 | 30.6 |
| 2009 | 30.9 |
| 2008 | 34.0 |
| 2007 | 36.5 |

## SANITARY WARE REVENUES

LE million

| | |
|---|---|
| 2011 | 537.0 |
| 2010 | 571.4 |
| 2009 | 621.5 |
| 2008 | 651.0 |
| 2007 | 667.9 |

# Sanitary ware

**Sanitary ware performance suffered in 2011 as economic and political crisis negatively impacted almost all Lecico's main markets driving down sales volumes and reducing economies of scale. Lecico was able to make significant sales to new customers and markets – particularly in the second half of the year – but this only partially offset the impact of core market weakness.**

Lower sales volumes were compounded by cost inflation as a result of a significant jump in labour costs following the strike settlement in February and higher energy costs over the year as a result of the full impact of energy price increases done in July 2010. In light of significantly higher unit production costs and the poor economic outlook in most of Lecico's markets, management took an extraordinary LE 47.4 million in provisions including sanitary ware inventory provisions of LE 22.0 million against slow moving and stagnant stocks which further inflated costs for the segment.

Sanitary ware sales accounted for 55.3% of the Company's consolidated sales in 2011 (2010: 56.1%).

## POLITICAL EVENTS DROVE VOLUME DROP IN ALL KEY MARKETS

Sanitary ware sales volumes were down 14% year-on-year in 2011 at 4.26 million pieces compared to 4.97 million pieces in 2010. The drop in volumes came from both production disruption and weaker demand. Production was disrupted due to political events in Egypt. Lecico lost 5 days of sanitary ware production over the year as a result of labour stoppages. In addition the company suffered several weeks of reduced capacity in late January and early February as the revolution in Egypt impacted operations through higher absenteeism and irregular working hours.

On the demand side almost all the company's major markets suffered due to either political or economic crisis. Lecico's main European markets – the UK and France – both continued to suffer from weak economies and fears over the impact of the on-going Eurozone crisis. Lecico sales to the UK and France of own brand, OEM and white label products fell 18% year-on-year to 1.63 million pieces.

In the Middle East, revolutions impacted sales in both Egypt and Libya. Sales in Egypt were down 12% at 1.64 million pieces with very low sales in the first quarter especially. The Libyan revolution resulted in a complete stoppage of the market for most of the year, with sanitary ware sales volumes down 75% to 74 thousand pieces.

## MARGINS HIT BY COST INFLATION AND LARGE PROVISIONS

Average sanitary ware prices were up 9% year-on-year to LE 125.9 per piece, as a result of better export pricing on the back of increases done over 2010 and the benefit of the weaker Egyptian pound.

Excluding provisions, sanitary ware gross profits fell 20% to LE 140.5 million with gross margins for the segment down 4.5 percentage points at 26.2% with costs increasing reflecting higher labour costs and energy costs for the year, lower economies of scale on production, the currency effect on the price of imported inputs and the additional costs of producing new products for new customers.

After the LE 22 million in provisions taken against slow moving and stagnant inventories, the company reported a net profit of LE 118.5 million with gross margins for the segment down 8.6 percentage points at 22.1%.

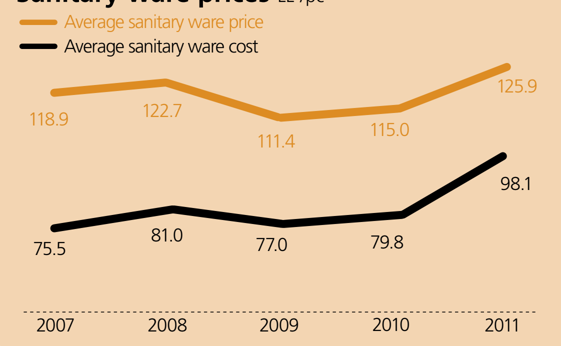
## SANITARY WARE CAPACITY AND SALES BY VOLUME

| 000s pieces | 2007 | 2008 | 2009 | 2010 | **2011** | CAGR |
|---|---|---|---|---|---|---|
| Sanitary ware capacity | 5,360 | 6,750 | 6,750 | 6,750 | **6,750** | 5.9% |
| Sanitary ware sales volume | 5,619 | 5,304 | 5,577 | 4,967 | **4,264** | (6.7%) |
| Capacity utilisation (%) | 105% | 79% | 83% | 74% | **63%** | |
| Egypt sales volume | 1,711 | 2,063 | 2,034 | 1,866 | **1,636** | (1.1%) |
| Lebanon sales volume | 269 | 177 | 179 | 202 | **200** | (7.2%) |
| Export sales volume | 3,638 | 3,063 | 3,364 | 2,899 | **2,428** | (9.6%) |
| Exports as a % of total sales (%) | 64.8% | 57.8% | 60.3% | 58.4% | **56.9%** | |

## SANITARY WARE EXPORTS BY VOLUME

| 000s pieces | 2007 | 2008 | 2009 | 2010 | **2011** | CAGR |
|---|---|---|---|---|---|---|
| UK | 1,072.1 | 1,051.6 | 1,355.4 | 1,135.6 | **1,032.8** | (0.9%) |
| Sanitec | 1,244.5 | 638.6 | 623.2 | 550.4 | **419.0** | (23.8%) |
| France | 580.2 | 556.2 | 531.7 | 344.5 | **212.0** | (22.2%) |
| Ireland | 105.5 | 61.6 | 30.7 | 22.6 | **23.3** | (31.5%) |
| Other Europe | 127.5 | 142.9 | 183.3 | 163.3 | **249.6** | 18.3% |
| Middle East | 329.9 | 455.8 | 486.8 | 535.3 | **351.9** | 1.6% |
| Other | 178.6 | 156.7 | 152.4 | 147.1 | **138.9** | (6.1%) |
| Total exports | 3,638.2 | 3,063.4 | 3,363.5 | 2,898.8 | **2,427.5** | (9.6%) |

**Sanitary ware prices** LE /pc



Tiles are generally sold as a complementary product to sanitary ware in the Middle East. Both products are sold through the same channels in the region with most distributors making more money on tile sales. Accordingly, Lecico bundles tiles with sanitary ware in fixed proportions and uses tile demand to pull sanitary ware sales.

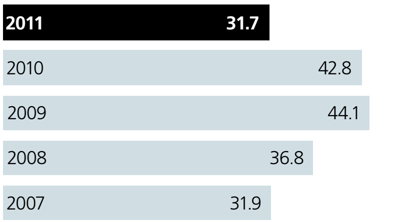
**+8%**
Growth in sales in Egypt.

**-3%**
Drop in volumes due to loss of Libya.

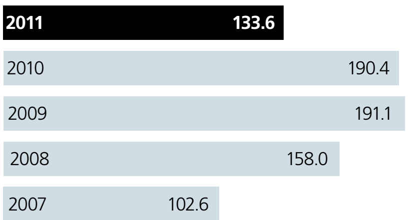
**-2%**
Drop in average price due to lower exports and local discounts.

# Tiles

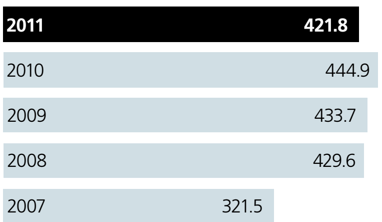
## TILE GROSS MARGIN
%




## TILE GROSS PROFIT
LE million




## TILE REVENUES
LE million




## NEW TILE CAPACITY OFFSETS PRODUCTION DISRUPTION

In 2011 Lecico continued to operate its tiles segment at full capacity but effective capacity was negatively impacted by business disruption in Egypt. Tile sales volumes were down 3% year-on-year in 2011 at 23.0 million square meters compared to 23.6 million square meters in 2010.

Lecico lost 11 days of production over the year as a result of labour stoppages in Khorshid in February and July. In addition the company suffered several weeks of reduced capacity in the first quarter as the revolution in Egypt impacted operations through higher absenteeism and irregular working hours.

This was partially offset by the inauguration of the Company's new tile plant in July 2011 which allowed Lecico to recover some volumes lost during the first part of the year and reach record quarterly sales volumes in the fourth quarter.

## GROWTH IN SALES TO EGYPT AND NEW MIDDLE EASTERN MARKETS

On the demand side, the Libyan revolution led to a drop of 3.1 million square meters year-on-year. However, Lecico was able to replace more than 50% of these lost volumes through increased exports to other Middle Eastern markets.

The company also succeeded to grow volumes significantly in Egypt despite weak sales in the first quarter due to the political situation. Sales volumes to Egypt grew 8% year-on-year to reach 17.3 million square meters. Egyptian sales accounted for 75% of total tile sales in 2011 compared to 68% in 2010.

Average sales prices fell 2% year-on-year to reach LE 18.4 per square meter, reflecting an increased proportion of lower-priced Egyptian sales and the effect of a 5% price discount offered in Egypt in the first half of 2011 to try and offset any impact on demand from political events.

As a result of lower sales volumes and average prices, revenue was down 5% at LE 421.8 million for the year.

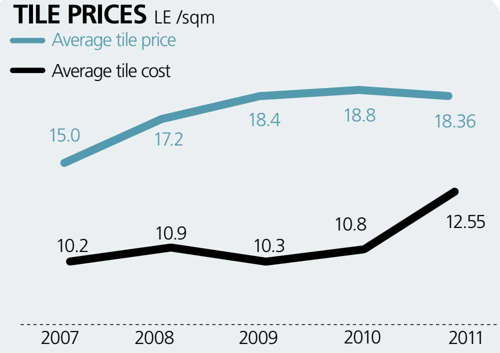
There was a 17% increase in the average cost per square meter to LE 12.6 as a result of a significant wage increase following the labour settlement in February, higher energy costs year-on-year in the first half of 2011 following the July 2010 energy price increase and lower economies of scale due to the impact of business disruption and the build-up of capacity in the new plant.

Gross profits were down 30% year-on-year at LE 133.6 million and the segment's gross margin fell 11.1 percentage points to reach 31.7%.

## TILE CAPACITY AND SALES BY VOLUME

| 000s sqm | 2007 | 2008 | 2009 | 2010 | **2011** | CAGR |
|---|---|---|---|---|---|---|
| Tile capacity | 21,000 | 22,500 | 22,500 | 22,500 | **24,750** | 4.2% |
| Tile sales volume | 21,461 | 24,946 | 23,631 | 23,632 | **22,971** | 1.7% |
| Capacity utilisation (%) | 102% | 111% | 105% | 105% | **93%** | |
| | | | | | | |
| Egypt sales volume | 15,073 | 17,713 | 15,817 | 16,102 | **17,340** | 3.6% |
| Lebanon sales volume | 1,205 | 1,958 | 2,071 | 2,336 | **1,837** | 11.1% |
| Export sales volume | 5,183 | 5,276 | 5,743 | 5,195 | **3,794** | (7.5%) |
| Exports as a % of total sales (%) | 24.2% | 21.1% | 24.3% | 22.0% | **16.5%** | |

## TILE PRICES LE /sqm



In August 2010, Lecico began commercial operations of its new brassware product segment under the brand name Sarrdesign.

**27%**
of sales come from Economy range launched in July.

**11.9M**
LE 11.9 million revenue in first full year of operations.

**40K**
Sales volume of 40k pieces in first full year of operations.

# Brassware

## FIRST FULL YEAR OF NEW PRODUCT LAUNCH FOR LECICO

2011 was the first full year of operations for Lecico's new brassware plant and product segment. Lecico is still very much in the roll out stage and building a market footprint in Egypt under its luxury "Sarrdesign" brand. The company also launched an economy range of brassware under the "Lecico" brand in late summer and is establishing the initial market footprint for this brand also.

In August 2010, Lecico began commercial operations of its new brassware product segment. Lecico regards Brassware is a natural complement to its existing business, since the product is sold through the same distribution channels as sanitary ware and tiles.

Lecico launched its brassware under the brand name Sarrdesign as a JV partnership with Engineer Raouf Shaarawi, the former Chairman and Managing Director of Jacob Delafon in Egypt. Engineer Shaarawi brings over 25 years of experience in the taps business as the local partner of Jacob Delafon - overseeing the manufacturing of brassware for supply to Europe and building the market footprint for the brand in Egypt. Sarrdesign brassware is a 70/30 partnership between Lecico and the Sharaawi family under the company name "Burg Armaturen Fabrik – Sarrdesign S.A.E".

The brassware investment was LE 16.5 million for a plant with a production capacity of up to 300,000 units per annum located on land leased from Lecico.

The current factory is estimated to have the potential to generate incremental annual revenues of around LE 50 million at full capacity over a normal mix of products. However, the Company sees a much larger potential market depending on the success of this venture. Lecico estimates the brassware market in Egypt at over 4.0 million units and sees a great potential for brassware exports from Egypt.

## SARRDESIGN BRASSWARE AVAILABLE IN 77 SHOWROOMS BY END 2011

In 2010, Sarrdesign selected 12 main distributors having high end showrooms in greater Cairo and Alexandria and Delta and furnished displays in 18 outlets by the year-end. Sarrdesign also presented in the three main Egyptian trade shows for bathroom ware and home furnishings (Interbuild, ICS and Le Marche) over the course of the year.

In 2011, Sarrdesign added an additional distributor and began to roll out distribution to the second level of sales represented by large and medium-sized retailers. Between distributor and retailer showrooms, Sarrdesign's retail presence grew from 18 showrooms at the end of 2010 to 77 showrooms.

Sarrdesign's point of sale presence, tradeshow participation and marketing profile is being coordinated with Lecico's luxury sanitary ware brand Sarreguemines (see 2009 Annual Report), to present – as much as possible – a complete high-end solution concept.

## LECICO-BRANDED ECONOMY PRODUCT LAUNCHED IN SUMMER 2011

In late July 2011, the company introduced its new series of "Lecico" branded, economy brassware to sell as a complement to its tile and sanitary ware in the Egyptian market. Lecico is still refining its strategy with this product to maximize market share.

Despite its mid-year start and only limited market penetration in the second half, the Lecico brand brassware sales in 2011 reached 10,800 pieces and accounted for 27% of total brassware sales volumes.

## BRASSWARE CONTRIBUTES 2% TO GROSS PROFITS IN 2011

In 2011, Lecico's brassware had a sales volume of 39,839 pieces (compared to 9,180 pieces from August launch in 2010) with an average price of LE 299 per piece compared with LE 316 per piece in 2010. The average cost per unit was LE 161 with a gross margin of 46.2%.

Gross profit for the year reached LE 5.5 million accounting for 2% of group reported gross profit in 2011.

## BRASSWARE SEGMENTAL ANALYSIS

| | FY 2011 | FY 2010 | % 11/10 |
|---|---|---|---|
| Brassware volumes (pcs) | | | |
| Egypt ( pcs) | 39,471 | 9,180 | 430% |
| Lebanon (pcs) | 0 | 0 | 0% |
| Export (pcs) | 368 | - | 0% |
| **Total brassware volumes ( pcs)** | **39,839** | **9,180** | **434%** |
| Exports/total sales volume (%) | 0.9% | 0.0% | 0.9% |
| | | | |
| **Brassware revenue (LE m)** | **11.9** | **2.9** | **411%** |
| Average selling price (LE/pc) | 299.3 | 316.0 | 95% |
| Average cost per piece (LE/pc) | 161.1 | 100.9 | 160% |
| Brassware cost of sales | (6.4) | (0.9) | 693% |
| Brassware ware gross profit | 5.5 | 2.0 | 279% |
| Brassware gross profit margin (%) | 46.2% | 68.1% | (21.9%) |

# Corporate social responsibility

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

## EMPLOYEES

Lecico recognises it is dependent on the quality and effectiveness of its employees. The Company has a good track record in recruitment and retention.

In a labour settlement reached following the worker's strike in February 2011, Lecico offered a number of additional benefits that added 27% to the company's wage bill. Aside from salary increases, the benefits introduced included:

- 5% of any profit distributed as a dividend will be distributed to all workers.
- A meal allowance extended to all workers in the company's Borg El Arab plants.
- 1.5 extra months of salary per annum bonus to workers in the company's Khorshid plants.

## TRAINING AND DEVELOPMENT

854 members of staff from all areas of the Group have attended internal development courses in 2011 and 40 members of staff have received external training. Language training remains a key focus, as well as courses in IT, Finance, Marketing and Time Management and safety and environmental compliance to the international ISO 18001 and ISO 14001 standards.

## 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 and notice boards.

To further improve two-way communication, the Company has a Worker's Follow-Up Committee representing staff from all departments and factories that meets regularly with the Executive Board. In February 2011, following the strike in our factories, workers representatives from each factory were added to ensure it was more representative of the different departments and employees in the company.

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

## EMPLOYMENT POLICY

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

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

The Company operates a number of employee pension schemes across its business including a retirement fund and has recently offered a tailored partial contribution private health insurance plan to its administrative staff. Lecico contributed over LE 3.1 million in pension contributions, accident and medical insurance support for its staff in 2011. The Company also paid out LE 1.5 million in 2011 to 400 labourers who had left the company between 2001 and 2006 to offset lower retirement packages in those years.

## HOLIDAYS AND PILGRIMAGES

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

In 2011, these programmes included a total of over 2,531 subsidised holiday days enjoyed by staff and a total expense in holiday and pilgrimage support of over LE 150,000.

## COMMUNITY

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

The total value of the Company's donations during 2011 was LE 420,903 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 2011.

Lecico also trained circa 100 plumbers in a new internal local training programme designed to support local businesses and promote water saving products.

The Company also funded local sporting facility rental and equipment for its workers to play football twice a week.

## ENVIRONMENT AND HEALTH & SAFETY

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

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

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

As one of Egypt's leading manufacturers, Lecico considers Corporate Social Responsibility (CSR) to be an integral part of the way it operates and an important contributor to its reputation.

## 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.

## PROFIT AND LOSS STATEMENT HIGHLIGHTS

| | | FY | % | | FY | | 2007-11 |
|---|---|---|---|---|---|---|---|
| (LE m) | 2011 | 2010 | 11/10 | 2009 | 2008 | 2007 | CAGR% |
| Sanitary Ware | 537.0 | 571.4 | 94% | 621.5 | 651.0 | 667.9 | (5%) |
| Tiles | 421.8 | 444.9 | 95% | 433.7 | 429.6 | 321.5 | 7% |
| Brassware | 11.9 | 2.9 | | | | | |
| **Net Sales** | **970.7** | **1,019.2** | **95%** | **1,055.2** | **1,080.7** | **989.5** | **(0%)** |
| Sanitary Ware/Net Sales | 55.3% | 56.1% | (0.8%) | 58.9% | 60.2% | 67.5% | |
| | | | | | | | |
| Cost of Sales | (713.2) | (651.9) | 109% | (672.1) | (701.1) | (643.1) | 3% |
| Cost of Sales/Net Sales | (73.5%) | (64.0%) | (9.5%) | (63.7%) | (64.9%) | (65.0%) | |
| **Gross Profit** | **257.5** | **367.3** | **70%** | **383.1** | **379.5** | **346.3** | **(7%)** |
| Gross Profit Margin | 26.4% | 36.0% | (9.6%) | 36.3% | 35.1% | 35.0% | |
| Distribution & Admin (D&A) | (156.5) | (171.4) | 91% | (186.0) | (195.9) | (180.3) | (3%) |
| D&A/Net Sales | (16.1%) | (16.8%) | 0.7% | (17.6%) | (18.1%) | (18.2%) | |
| Net Other Operating Income | (35.6) | (7.9) | 451% | (14.5) | (11.6) | (9.2) | 40% |
| Net Other Operating Income/Net Sales | (3.7%) | (0.8%) | (2.9%) | (1.4%) | (1.1%) | (0.9%) | |
| **EBIT** | **65.5** | **188.0** | **35%** | **182.6** | **172.0** | **156.9** | **(20%)** |
| EBIT Margin (%) | 6.7% | 18.4% | (11.7%) | 17.3% | 15.9% | 15.9% | |
| **Net Profit** | **(20.6)** | **94.8** | **-22%** | **110.2** | **108.8** | **107.0** | - |
| Net Profit Margin | - | 9.3% | - | 10.4% | 10.1% | 10.8% | |

# Financial

### FY 2011: REGIONAL INSTABILITY AND EUROZONE CRISIS DRIVER LOWER SALES AND EXCEPTIONAL PROVISIONS

2011 was a very challenging year for Lecico with the revolution in Egypt and unrest across the region leading to business disruption and driving up costs.

Trade was stopped for six days due to port and road closures in Egypt early in the year. The company also suffered 2 days of complete production stoppage due to a general strike in all factories in February and another nine days work stoppage in its Khorshid facility (Khorshid accounts for 30% of sanitary ware production and 74% of total tile production) in July.

Libya, Lecico's largest regional export market, has effectively been closed since mid-February due to political instability and conflict in the country. In 2010, Libya accounted for 6% and 16% of the company's sanitary ware and tile sales volumes respectively. In 2011, sanitary ware exports to Libya fell 75% or 220k pieces and tile exports fell 80% or 3.1m square meters.

Lecico's main European export markets were also significantly weaker in 2011 as a result of continued economic uncertainty over the future of the euro and Eurozone. Sales to Europe were down 3.5% year-on-year on the back of a significant drop in volumes despite Lecico's success in developing new customers and markets.

Sales to Egypt remained resilient despite political events growing 3% year-on-year with growing tile and brassware sales offsetting a drop in sanitary ware and lower average pricing in the first half of 2011 as a result of additional discounts offered to encourage sales.

Year-on-year production costs increased on the back of higher energy and labour costs. Energy costs were increased on 1 July 2010 by an average of 17% for Lecico (approximately 2.3% increase in cost of sales) and 2011 was the first year that this increase affected costs for the full year. Labour costs increased by approximately 27% (increasing cost of sales by just under 5%) from February onwards following Lecico's labour settlement to end its first strike.

In addition to these specific cost increases, lower overall sales and production levels reduced economies of scale driving up unit production costs.

Profitability was also negatively impacted by significant provisions taken in the fourth quarter. Lecico took an extraordinary LE 47.4 million in provisions in the quarter following a review of inventories and receivables in the light of the challenging regional and international environment: sanitary ware inventory provisions of LE 22.0 million against slow moving and stagnant stocks; LE 0.5 million against slow moving tiles; and a further LE 24.9 million in provisions against receivables risks and tax liabilities.

### OPERATIONAL REVIEW

Revenue fell 5% from the previous year to LE 970.7 million. The segmental sales mix for the year saw sanitary ware fall 0.8 percentage points year-on-year to account for 55.3% of sales.

Gross profit fell by 30% to reach LE 257.5 million, as a result of LE 22.5 million provisions taken against inventories in the fourth quarter compounding the cost inflation seen during the year. The gross profit margin fell 9.5 percentage points year-on-year to reach 26.5%

Before provisions, gross profit was down 24% at LE 280.0 million and the gross profit margin was down 7.2 percentage points at 28.8%.

In absolute terms, distribution and administration (D&A) expenses decreased by 9% to LE 156.5 million despite a weaker Egyptian pound inflating the D&A expenses of Lecico's foreign subsidiaries in EGP terms. The decrease came from continued cost saving initiatives undertaken by management and cancellation of CMS management fees amounting to LE 9.6 million. Proportional D&A expenses fell 0.7 percentage points to 16.1% of net sales compared to 16.8% in 2010.

Net other operating expense was LE 35.6 million compared to LE 7.9 million last year, due to LE 24.9 million in provisions created in the fourth quarter against receivables and taxes.

EBIT fell 65% year-on-year to reach LE 65.5 million for 2011, with the EBIT margin down 11.7 percentage points at 6.7%.

Excluding the LE 47.4 million in extraordinary provisions taken in the fourth quarter, EBIT was down 40% at LE 112.8 million and the EBIT margin was down 6.9 percentage points at 11.6%.

Net financing expenses were up 30% year-on-year during 2011 to reach LE 71.8 million. Interest income increased 26% to reach LE 6.7 million in 2011 and finance expenses were up 30% at LE 78.5 million, reflecting higher bank charges on growing debt balances.

Lecico's tax charges for 2011 were LE 6.7 million versus LE 28.4 million for the same period last year.

The company reported a net loss of LE 20.6 million. Excluding provisions, net profit was down 72% year-on-year at LE 26.7 million with a net margin of 2.8% compared to 9.3% in the same period last year.

### SANITARY WARE

Sanitary ware sales volume decreased by 14% or 703,000 pieces to 4.3 million pieces as a direct result of the significant disruption to Lecico's operations in the first quarter as a result of the revolution in Egypt, the virtual closure of the Libyan market since mid-February and demand weakness across Europe.

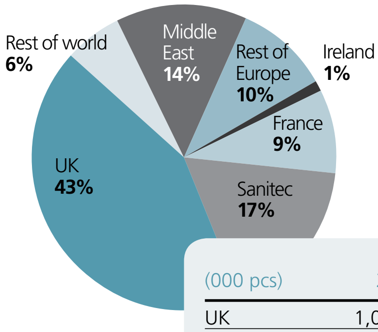
Revenues were down 6% year-on-year at LE 537.0 million. Exports represented 56.9% of volumes compared to 58.4% in 2010. Average sanitary ware prices were up 9% year-on-year to LE 125.9 per piece, as a result of better export pricing on the back of increases done over 2010 and the benefit of the weaker Egyptian pound.

Average cost per piece was up 23% year-on-year at LE 98.2 per piece as a result of the provisions taken against slow moving and stagnant inventories.

Sanitary ware gross profits for the year fell 68% to LE 118.5 million with a margin of 22.1%.

Excluding provisions, sanitary ware gross profits fell 20% to LE 140.5 million with gross margins for the segment down 4.5 percentage points at 26.2%.

# Financial




## SANITARY WARE EXPORTS BY DESTINATION

| (000 pcs) | 2011 | % of total | 2010 | % of total | % 11/10 |
|---|---|---|---|---|---|
| UK | 1,032.8 | 43% | 1,135.6 | 39% | 91% |
| Sanitec | 419.0 | 17% | 550.4 | 19% | 76% |
| France | 212.0 | 9% | 344.5 | 12% | 62% |
| Ireland | 23.3 | 1% | 22.6 | 1% | 103% |
| Rest of Europe | 249.6 | 10% | 163.3 | 6% | 153% |
| Middle East | 351.9 | 14% | 535.3 | 18% | 66% |
| Other | 138.9 | 6% | 147.1 | 5% | 94% |
| **Total exports** | **2,427.5** | **100%** | **2,898.8** | **100%** | **84%** |

### TILES

Tile sales volumes fell 3% in 2011 to 23.0 million square meters as a direct result of the significant disruption to Lecico's operations in Egypt and the virtual closure of the Libyan market since mid-February. The inauguration of the Company's new tile plant in July 2011 allowed Lecico to recover some volumes lost during the first part of the year and reach record quarterly sales volumes in the fourth quarter.

Average net prices fell 2% year-on-year to reach LE 18.4 per square meter.

Tiles revenues fell 5% year-on-year to LE 421.8 million in 2011.

Average cost per square meter increased 17% to reach LE 12.5 per square meter. Tile gross profits were down 30% year-on-year to LE 133.6 million and margins for the segment fell 11.1 percentage points to 31.7%.

### BRASSWARE

Sales volume for first twelve months were 38,839 pieces with a revenue of LE 11.9 million, Gross profit was LE 5.5 million with margin 46.2%.

Revenue and margin for the period do not necessarily reflect normative run rates for this segment given the small volume of operation since startup.

### FINANCIAL POSITION

The value of Lecico's assets increased 6% at the end of December 31, 2011 to reach LE 1,926.8 million, driven primarily by an increase in cash, and inventories. Total liabilities were up 21% at LE 1,139.4 million. Net debt to equity showed an increase to 0.87x reflecting the increase in bank borrowings as a result of cash outflow to pay the cash dividend during 2011, capex for the new tile plant and increases in working capital.

### RECENT DEVELOPMENTS AND OUTLOOK

**Outlook for 2012:** The recent and ongoing political events in Egypt and the region and the continued economic uncertainty and weakness across Europe are certain to have an effect on the company's activities in 2012. These risks to the top line will be compounded by higher energy costs and continued inflationary pressures on costs in Egypt.

Sales in Egypt in the second half of 2011 were very strong, we cannot have any certainty about the continuation of that demand in 2012 as political events unfold. If the relative stability seen over the past few months improves, the company can expect a continuation of sales volume growth in 2012.

The Libyan market began to trade again in modest volumes late in the fourth quarter of 2011 and has continued to pick up strongly in the first two months of 2012. However, as in Egypt, we cannot have any certainty about the continuation of that demand in 2012 as political events unfold. If the country continues to rebuild with relative stability Lecico could see the recovery of a significant amount of the sales volumes seen in 2010.

The demand outlook for Europe remains depressed and the company is working to offset this expected weakness in its core markets with the continued development of new markets, customers and products.

However, whether or not this will translate into overall volume growth in exports to Europe is clearly dependent on the scale of the drop in overall demand in its key markets. If that drop is reasonably limited, Lecico would expect to see volume growth in exports to Europe.

On the cost side, the company is confident that it can realize significant economies of scale in all segments in a relatively benign demand scenario and is confident that the efficiency of its sanitary ware unit will improve over the year as the large numbers of new products launched in 2011 are normalized in production.

However, these improvements in production will be at least partially offset by cost inflation pressures. The government has raised gas prices by 30% and electricity prices by 22%, which will affect Lecico's costs from January onwards, adding around LE 24 million to the company's cost of production at 2011 production volumes. Furthermore, the company expects to see continued labour and food-price led inflation on inputs and services combined with higher financing costs and higher tax rates as the government in Egypt continues to try to manage a slowing economy while improving and expanding social welfare programs.

As a result of these risks to the top line and cost pressures, 2012 will be a challenging year and estimating performance is difficult due to the unpredictability of the events that will shape our results over the year.

## SANITARY WARE SEGMENTAL ANALYSIS

| (LE m) | FY 2011 | 2010 | % 11/10 | 2009 | FY 2008 | 2007 | 2007-11 CAGR% |
|---|---|---|---|---|---|---|---|
| Sanitary ware volumes (000 pcs) | | | | | | | |
| Egypt | 1,636 | 1,866 | 88% | 2,034 | 2,063 | 1,711 | (1%) |
| Lebanon | 200 | 202 | 99% | 179 | 177 | 269 | (7%) |
| Export | 2,428 | 2,899 | 84% | 3,364 | 3,063 | 3,638 | (10%) |
| **Total sanitary ware volumes** | **4,264** | **4,967** | **86%** | **5,577** | **5,304** | **5,619** | **(7%)** |
| Exports/total sales volume (%) | 56.9% | 58.4% | (1.5%) | 60.3% | 57.8% | 64.8% | |
| | | | | | | | |
| **Sanitary ware revenue** | **537.0** | **571.4** | **94%** | **621.5** | **651.0** | **667.9** | **(5%)** |
| Average selling price (LE/pc) | 125.9 | 115.0 | 109% | 111.4 | 122.7 | 118.9 | 1% |
| Average cost per piece (LE/pc) | 98.1 | 79.8 | 123% | 77.0 | 81.0 | 75.5 | 7% |
| Sanitary ware cost of sales | (418.5) | (396.4) | 106% | (429.5) | (429.5) | (424.2) | (0%) |
| **Sanitary ware gross profit** | **118.5** | **175.0** | **68%** | **192.0** | **221.5** | **243.8** | **(16%)** |
| Sanitary ware gross profit margin (%) | 22.1% | 30.6% | (8.5%) | 30.9% | 34.0% | 36.5% | |

## TILE SEGMENTAL ANALYSIS

| (LE m) | FY 2011 | 2010 | % 11/10 | 2009 | FY 2008 | 2007 | 2007-11 CAGR% |
|---|---|---|---|---|---|---|---|
| Tile volumes (000 sqm) | | | | | | | |
| Egypt | 17,340 | 16,102 | 108% | 15,817 | 17,713 | 15,073 | 4% |
| Lebanon | 1,837 | 2,336 | 79% | 2,071 | 1,958 | 1,205 | 11% |
| Export | 3,794 | 5,195 | 73% | 5,743 | 5,276 | 5,183 | (8%) |
| **Total tile volumes** | **22,971** | **23,633** | **97%** | **23,631** | **24,946** | **21,461** | **2%** |
| Exports/total sales volume (%) | 16.5% | 22.0% | (5.5%) | 24.3% | 21.1% | 24.2% | |
| | | | | | | | |
| **Tile revenue** | **421.8** | **444.9** | **95%** | **433.7** | **429.6** | **321.5** | **7%** |
| Average selling price (LE/sqm) | 18.4 | 18.8 | 98% | 18.4 | 17.2 | 15.0 | 5% |
| Average cost per piece (LE/sqm) | 12.5 | 10.8 | 117% | 10.3 | 10.9 | 10.2 | 5% |
| Tile cost of sales | (288.2) | (254.5) | 113% | (242.6) | (271.6) | (219.0) | 7% |
| **Tile gross profit** | **133.6** | **190.4** | **70%** | **191.1** | **158.0** | **102.6** | **7%** |
| Tile gross profit margin (%) | 31.7% | 42.8% | (11.1%) | 44.1% | 36.8% | 31.9% | |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| Name | Age | Representing | Appointed to the Board |
|---|---|---|---|
| Mr. Gilbert Gargour | 69 | Intage / Management | 1981 |
| Mr. Alain Gargour | 59 | Intage | 1997 |
| Mr. Toufick Gargour | 70 | Intage | 1974 |
| Mr. Ellie Baroudi | 65 | Management | 2003 |
| Mr. Taher Gargour | 42 | Management | 2008 |
| Mr. Georges Ghorayeb | 61 | Management | 2003 |
| Mr. Pertti Lehti | 53 | Management | 2002 |
| Eng. Aref Hakki | 77 | Independent | 1998 |
| Dr. Hani Sarie-Eldin | 46 | Independent | 2010 |
| Dr. Rainer Simon | 61 | Independent | 2011 |
| Mr. Mohamed Younes | 73 | Independent | 2004 |

# Board of Directors

**1. 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 is a co-owner of Intage and is the brother of Mr. Toufick Gargour and Mr. Alain Gargour, both Lecico Directors and co-owners of Intage.

**2. 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 a citizen of both Lebanon and the United Kingdom and holds an MBA from the University of Chicago. He is also the Chairman of Gargour Holdings S.A and serves as a Director of the Abu Soma Development Company, the Egyptian Investment Company, Lecico Lebanon, Lecico UK and as a member of Lecico Egypt's Audit Committee. He is a Director and co-owner of Intage.

**3. Mr. Toufick Gargour**
Non-executive Director
He has been a Director of the Company since 1974 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 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).

**4. 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).

**5. 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.

**6. 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.

**7. Mr. Pertti Lehti**
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). In 2011 he left his job as President and CEO of Finndomo, and joined Lecico as Supply Chain Director.

**8. 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.

**9. Dr. Hani Sarie-Eldin**
Non-executive Director
He has been a Director since March 2010. He is a citizen of Egypt and holds a PhD in International Business Law from Queen Mary and Westfield College, University of London. Dr. Sarie-Eldin founded Sarie-Eldin & Partners Law Firm in 2007 and is the firm's Chairman. Prior to establishing the firm, he spent two years as Chairman of the Egyptian Capital Markets Authority and previously held senior positions in the Al-Futtaim Group and the Shalakany Law Office. Dr. Sarie-Eldin is currently a member of the Board of Directors of various Egyptian corporations and Banks.

**10. Dr. Rainer Simon**
Non-executive Director
Dr. Rainer Simon has been a Director since March 2011. He is a German citizen and holds a doctorate of Economics from Saint Gallen (Switzerland). Dr. Simon is the owner of BirchCourt GmbH since 2005 and previously held senior positions at Continental AG, Keiper-Recaro GmbH and has been executive director of Grohe AG. Between 2002 and 2005 he was CEO and member of the Board of Sanitec AG and served as a board member of Lecico Egypt representing Sanitec. He presently serves as the Chairman of the Supervisory Board of Joyou AG Hamburg/ Nan'an China and is also a member of the Boards of Uponor OY Helsinki Finland and SARA Holding Beirut.

**11. Mr. Mohamed Younes ***
Non-executive Director
He has been a Director since 2004. He is a citizen of Egypt and the United States of America and 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. Mr. Younes is currently a member of the Board of Directors of various Egyptian corporations and Banks. In addition to serving as a Lecico Director and the Chairman of its Audit Committee, he is a Founder and a Member of the Board of Directors of the Egyptian Investment Management Association.

* Member of Lecico Egypt Audit Committee

# Financials

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

We have audited the accompanying consolidated financial statements of Lecico Egypt (S.A.E.) and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated income statement, the consolidated statement of changes in shareholder's equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

**Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of Lecico Egypt (S.A.E.) and its subsidiaries as at December 31, 2011 and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to note no. (14) to the consolidated financial statements. The management intends to reinvest, indefinitely, the earnings of the foreign subsidiaries. These earnings might be subject to tax at different rates upon distribution, depending on subsidiaries' country of incorporation.

KPMG

**KPMG Hazem Hassan**

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

Alexandria on March 7th, 2012

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

We have audited the accompanying consolidated financial statements of Lecico Egypt (S.A.E.) and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2011, 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.

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

**Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of Lecico Egypt (S.A.E.) and its subsidiaries as at December 31, 2011 and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to note no. (14) to the consolidated financial statements. The management intends to reinvest, indefinitely, the earnings of the foreign subsidiaries. These earnings might be subject to tax at different rates upon distribution, depending on subsidiaries' country of incorporation.

KPMG

**KPMG Hazem Hassan**

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

Alexandria on March 7th, 2012

# Consolidated income statement

For the Year Ended December 31, 2011

| | Note no. | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|---|
| Net Sales | | **970,738,433** | 1,019,161,174 |
| Cost of Sales | | **(713,153,093)** | (651,878,303) |
| **Gross Profit** | | **257,585,340** | 367,282,871 |
| Other Income | (23) | **2,498,624** | 7,401,550 |
| Distribution Expenses | | **(60,113,318)** | (64,314,982) |
| Administrative Expenses | | **(96,404,817)** | (107,131,731) |
| Other Expenses | (24) | **(38,053,284)** | (15,302,921) |
| **Result from Operating Activities** | | **65,512,545** | 187,934,787 |
| Investment Income | | **2,567,835** | 2,102,571 |
| Finance Income | (25) | **6,664,337** | 5,317,043 |
| Financing Expenses | (26) | **(78,465,550)** | (60,450,764) |
| | | **(3,720,833)** | 134,903,637 |
| Employees' Participation in Profit | | **(12,112,979)** | (13,194,476) |
| **(Loss) / Profit Before Tax** | | **(15,833,812)** | 121,709,161 |
| Current Income Tax Expense | | **(5,782,073)** | (27,877,483) |
| Deferred Income Tax | | **(906,645)** | (518,909) |
| **(Loss) / Profit For The Year** | | **(22,522,530)** | 93,312,769 |
| **Attributable to:** | | | |
| Equity Holders of the Parent | | **(20,582,800)** | 94,820,645 |
| Minority Interest | | **(1,939,730)** | (1,507,876) |
| **(Loss) / Profit For The Year** | | **(22,522,530)** | 93,312,769 |
| **(Loss) / Earnings Per Share (LE/Share)** | (27) | **(0.26)** | 1.19 |

Notes (1) to (36) are an integral part of these consolidated financial statements.

# Consolidated balance sheet

For the Year Ended December 31, 2011

| | Note no. | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|---|
| **Assets** | | | |
| Property, Plant and Equipment | (4) | **709,220,971** | 663,288,478 |
| Projects in Progress | (5) | **87,240,039** | 149,948,982 |
| Intangible Assets | (6) | **24,012,032** | 23,079,438 |
| Other Investments | (7) | **4,609,264** | 4,445,503 |
| Long-Term Notes Receivable | (8) | **17,481,000** | 22,793,000 |
| Long-Term Pre-Paid Rent | | **1,356,131** | 1,704,908 |
| **Total Non-Current Assets** | | **843,919,437** | 865,260,309 |
| Inventory | (9) | **524,631,912** | 473,262,317 |
| Trade and Other Receivables | (10) | **380,626,423** | 361,074,309 |
| Trading Investments | (11) | **71,342,059** | 73,476,898 |
| Cash and Cash Equivalents | (12) | **106,335,853** | 38,897,855 |
| **Total Current Assets** | | **1,082,936,247** | 946,711,379 |
| **Total Assets** | | **1,926,855,684** | 1,811,971,688 |
| **Equity** | | | |
| Share Capital | (14) | **400,000,000** | 300,000,000 |
| Reserves | (15) | **302,882,746** | 294,289,792 |
| Retained Earnings | (16) | **103,722,738** | 181,994,514 |
| (Loss) / Profit for the Year | | **(20,582,800)** | 94,820,645 |
| **Total Equity Attributable to Equity Holders of the Company** | | **786,022,684** | 871,104,951 |
| Non-Controlling Interest | | **1,441,205** | 2,894,046 |
| **Total Equity** | | **787,463,889** | 873,998,997 |
| **Liabilities** | | | |
| Long-Term Loans and Borrowings | (17) | **88,235,296** | 11,458,602 |
| Other Long-Term Liabilities | (18) | **33,528,938** | 62,428,639 |
| Deferred Income Tax | (19) | **20,585,935** | 19,595,877 |
| Provisions | (20) | **12,219,996** | 9,928,070 |
| **Total Non-Current Liabilities** | | **154,570,165** | 103,411,188 |
| Bank Overdrafts | (13) | **741,275,290** | 557,103,238 |
| Loans and Borrowings | (21) | **31,875,504** | 56,863,314 |
| Trade and Other Payables | (22) | **170,453,198** | 201,830,896 |
| Provisions | (20) | **41,217,638** | 18,764,055 |
| **Total Current Liabilities** | | **984,821,630** | 834,561,503 |
| **Total Liabilities** | | **1,139,391,795** | 937,972,691 |
| **Total Equity and Liabilities** | | **1,926,855,684** | 1,811,971,688 |

Notes (1) to (36) are an integral part of these consolidated financial statements.
Auditor's report attached.
March 7, 2012.

Financial Manager
**Mohamed Hassan**

Managing Director
**Elie J. Baroudi**

# Consolidated cash flow statement

For the Year Ended December 31, 2011

| | Note no. | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|---|
| **Cash Flow from Operating Activities** | | | |
| Net (Loss) / Profit for the Year | | **(20,582,800)** | 94,820,645 |
| **Adjustments Provided to Reconcile Net Profit To Net Cash Provided by Operating** | | | |
| Fixed Assets Depreciation and Translation Differences | (4) | **89,023,594** | 77,249,429 |
| Intangible Assets Amortization and Translation Differences | (6) | **1,009,906** | 1,120,836 |
| Employees Participation in Net Profit | | **12,112,979** | 13,194,476 |
| Long Term Prepaid Rent Expense | | **348,777** | 348,780 |
| Capital Gain | | **(128,859)** | (2,708,154) |
| Provided Provisions, Impairment Receivables and Translation Differences | | **38,343,526** | 13,371,636 |
| Income tax | | **5,782,073** | 27,877,483 |
| Deferred income Tax | | **906,645** | 518,909 |
| Difference Resulted From Discounting of Long Term Notes Receivables | | **-** | 3,700,000 |
| Decrease in Minority Interest | | **(1,452,841)** | (643,315) |
| Change in Translation Reserve | | **(6,016,356)** | 7,777,985 |
| | | **119,436,644** | 236,628,710 |
| **Changes in Working Capital** | | | |
| (Increase) Decrease in Inventory | | **(57,022,705)** | (108,711,715) |
| (Increase) Decrease in Receivables | | **(19,155,282)** | (24,408,138) |
| Increase (Decrease) in Payables | | **(6,345,061)** | 13,279,352 |
| Change in Other Long-Term Liabilities | | **(28,899,697)** | (23,700,716) |
| Paid Income Tax | | **(28,256,949)** | (21,419,339) |
| Utilised Provisions | | **(8,998,613)** | (7,525,193) |
| Proceeds From Current Investments | | **2,134,839** | (7,000,229) |
| **Net Cash (used in) Provided by Operating Activities** | | **(27,196,824)** | 57,142,732 |
| **Cash Flow from Investing Activities** | | | |
| Payments for Property, Plant & Equipment Additions & Projects in Progress | | **(72,661,618)** | (138,746,173) |
| Payments for Intangible Assets | | **(1,942,500)** | (311,709) |
| Payment for Other Current Investments | | **(163,761)** | (238,198) |
| Proceeds from Sales of Property, Plant & Equipment | | **543,331** | 3,973,034 |
| Change in Long-Term Notes Receivable | | **5,312,000** | (26,493,000) |
| **Net cash used in investing activities** | | **(68,912,548)** | (161,816,046) |
| **Cash Flow from Financing Activities** | | | |
| Repayment of Long Term Loans and its Current Portion | | **51,788,877** | (43,005,404) |
| Payments for Employees' Share in Net Profit | | **(12,037,618)** | (10,259,949) |
| Dividends Paid | | **(60,375,941)** | (59,950,927) |
| Net Change in Cash and Cash Equivalents During the Year | | **(116,734,054)** | (217,889,594) |
| Cash and Cash Equivalents at Beginning of the Year | (13) | **(518,205,383)** | (300,315,789) |
| **Cash and Cash Equivalents at the End of the Year** | (13) | **(634,939,437)** | (518,205,383) |

Notes (1) to (36) are an integral part of these consolidated financial statements.

# Consolidated statement of changes in shareholders' equity

For the Year Ended December 31, 2011

| | Issued & Paid up Capital LE | Reserves LE |
|---|---|---|
| **Balance at December 31, 2009** | 200,000,000 | 282,910,608 |
| Transfer to Retained Earnings | - | - |
| Transfer to Legal Reserve | - | 3,601,166 |
| Increasing Issued & Paid up Capital | 100,000,000 | - |
| Dividends Declared | - | - |
| Adjustments | - | - |
| Translation Adjustment of Foreign Subsidiaries | - | 7,778,018 |
| Profit for the Year | - | - |
| **Balance at December 31, 2010** | 300,000,000 | 294,289,792 |
| Transfer to Retained Earnings | - | - |
| Transfer to Legal Reserve | - | 5,700,592 |
| Increasing Issued & Paid up Capital | 100,000,000 | - |
| Dividends Declared | - | - |
| Adjustments | - | - |
| Translation Adjustment of Foreign Subsidiaries | - | 2,892,362 |
| Loss for the Year | - | - |
| **Balance at December 31, 2011** | 400,000,000 | 302,882,746 |

Notes (1) to (36) are an integral part of these consolidated financial statements.

| Retained Earnings LE | Profit/Loss for the year LE | Equity of the Parent Company's Shareholders LE | Non-controlling Interest LE | **Total Equity LE** |
|---|---|---|---|---|
| 235,460,826 | 110,178,359 | 828,549,793 | 3,537,361 | **832,087,154** |
| 110,178,359 | (110,178,359) | - | - | - |
| (3,601,166) | - | - | - | - |
| (100,000,000) | - | - | - | - |
| (60,000,000) | - | (60,000,000) | - | (60,000,000) |
| (43,505) | - | (43,505) | 247,139 | 203,634 |
| - | - | 7,778,018 | 617,422 | 8,395,440 |
| - | 94,820,645 | 94,820,645 | (1,507,876) | 93,312,769 |
| 181,994,514 | 94,820,645 | 871,104,951 | 2,894,046 | **873,998,997** |
| 94,820,645 | (94,820,645) | - | - | - |
| (5,700,592) | - | - | - | - |
| (100,000,000) | - | - | - | - |
| (60,000,000) | - | (60,000,000) | - | (60,000,000) |
| (7,391,829) | - | (7,391,829) | (213,572) | (7,605,401) |
| - | - | 2,892,362 | 700,461 | 3,592,823 |
| - | (20,582,800) | (20,582,800) | (1,939,730) | (22,522,530) |
| 103,722,738 | (20,582,800) | 786,022,684 | 1,441,205 | **787,463,889** |

# Notes to the consolidated financial statements

For the Year Ended December 31, 2011

## 1. Reporting Entity

The consolidated financial statements of the Company as at and for the year ended December 31, 2011 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 31/12/2011 % | Ownership Interest 31/12/2010 % |
|---|---|---|---|
| Lecico for Ceramics Industries (S.A.E.) | Egypt | 99.99 | 99.99 |
| TGF for Consulting and Trading (S.A.E.) | Egypt | 99.41 | 99.41 |
| Lecico for Financial Investments (S.A.E.) | Egypt | 99.33 | 99.33 |
| Lecico (UK) Ltd. | United Kingdom | 100.00 | 100.00 |
| Lecico for Investments Company Ltd. | United Kingdom | 100.00 | 100.00 |
| The Lebanese Ceramics Industries (S.A.L.) | Lebanon | 94.77 | 94.77 |
| International Ceramics (S.A.E.) | Egypt | 99.97 | 99.97 |
| Lecico for Trading and Distribution of Ceramics (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 |
| Burg Armaturen Fabrik - Sarrdesign (S.A.E.) | Egypt | 69.85 | 69.85 |

## 2. Basis of Preparation

### 2.1 Statement of Compliance

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

### 2.2 Basis of Measurement

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

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

### 2.3 Functional and Presentation Currency

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

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

### 2.4 Use of Estimates and Judgments

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

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

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

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

## 3. Significant Accounting Policies

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

### 3.1 Basis of Consolidation

**Subsidiaries**

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

**Transactions Eliminated on Consolidation**

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

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

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

### 3.2 Foreign Currency

#### 3.2.1 Foreign Currency Transactions

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

#### 3.2.2 Financial Statements of Foreign Operations

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

## 3.3 Financial Instruments

**(i) Non-Derivative Financial Instruments**

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

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

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

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

**Held-to-Maturity Investments**

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

**Available-for-Sale Financial Assets**

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

**Financial Assets at Fair Value Through Profit or Loss**

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

**Other**

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

**(ii) Share Capital**

**Ordinary Shares**

Ordinary shares are classified as equity.

**Repurchase of Share Capital (Treasury Shares)**

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

### 3.4 Property, Plant and Equipment

**(i) Recognition and Measurement**

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

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

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

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

**(ii) Subsequent Costs**

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

**(iii) Depreciation**

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

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

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

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

### 3.5 Leased Assets

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

**Finance Lease Payments**

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

### 3.6 Projects in Progress

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

## 3.7 Intangible Assets

**Goodwill**

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

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

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

**Intangible Assets**

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

## 3.8 Investments

**Investments in Debt and Equity Securities**

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

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

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

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

**Treasury Bonds of the Egyptian Government Held for Trading**

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

## 3.9 Inventories

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

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

## 3.10 Cash and Cash Equivalents

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

## 3.11 Provisions

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

### 3.11.1 End of Services Indemnity

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

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

### 3.11.2 Restructuring

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

### 3.12 Income Tax

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

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

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

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

### 3.13 Revenue Recognition

**Goods Sold and Services Rendered**

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

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

### 3.14 Borrowing Cost

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

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

### 3.15 Employees Benefits

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

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

### 3.15.2

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

### 3.16 Segment Reporting

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

### 3.17 Consolidated Cash Flow Statement

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

### 3.18 Impairment of Assets

**Impairment**

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

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

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

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

**Calculation of Recoverable Amount**

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

## 4. Property, Plant and Equipment

| | Land LE | Buildings LE | Leasehold Improvements LE | Machinery & Equipment LE | Motor Vehicles LE | Tools LE | Furniture, Office Equip. & Computers LE | Total LE |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 01/01/2011 | 165,553,210 | 226,896,311 | 1,672,749 | 727,556,843 | 49,922,694 | 49,912,816 | 25,148,322 | **1,246,662,945** |
| Translation Differences | 264,029 | 429,911 | 2,992 | 2,444,881 | 249,568 | - | 69,270 | **3,460,651** |
| Year Additions | 73,123 | 62,350,250 | 259,490 | 56,096,121 | 3,578,170 | 11,991,131 | 1,022,276 | **135,370,561** |
| Year Disposals | - | (1,355,099) | - | (11,351,812) | (1,814,425) | - | - | **(14,521,336)** |
| At 31/12/2011 | 165,890,362 | 288,321,373 | 1,935,231 | 774,746,033 | 51,936,007 | 61,903,947 | 26,239,868 | **1,370,972,821** |
| **Accumulated Depreciation** | | | | | | | | |
| At 01/01/2011 | - | 77,338,980 | 1,462,724 | 424,923,240 | 35,298,279 | 27,080,249 | 17,270,995 | **583,374,467** |
| Translation Differences | - | 129,969 | 92 | 1,998,170 | 157,989 | - | 60,867 | **2,347,087** |
| Year Depreciation | - | 11,454,512 | 178,434 | 61,708,161 | 5,026,032 | 9,443,203 | 2,326,816 | **90,137,158** |
| Disposals acc. Depreciation | - | (1,291,858) | - | (11,342,105) | (1,472,899) | - | - | **(14,106,862)** |
| At 31/12/2011 | - | 87,631,603 | 1,641,250 | 477,287,466 | 39,009,401 | 36,523,452 | 19,658,678 | **651,751,850** |
| **Net Book Value at 31/12/2011** | 165,890,362 | 200,689,770 | 293,981 | 297,458,567 | 12,926,606 | 25,380,495 | 6,581,190 | **709,220,971** |
| **Net Book Value at 31/12/2010** | 165,553,210 | 149,557,331 | 210,025 | 302,633,603 | 14,624,415 | 22,832,567 | 7,877,327 | **663,288,478** |

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

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

A subsidiary European Ceramics (S.A.E) has provided certain banks with power of attorney to pledge its fixed assets. At December 31, 2011 the cost of these fixed assets amounted to LE 158.7 million and its net book value amounted to LE 102.7 million.

## 5. Projects In Progress

| | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|
| Machinery Under Installation | **77,227,099** | 73,722,284 |
| Buildings Under Construction | **4,927,421** | 65,139,356 |
| Advance Payment | **4,946,351** | 2,717,882 |
| L/C for Purchase of Fixed Assets | **139,168** | 8,369,460 |
| | **87,240,039** | 149,948,982 |

## 6. Intangible Assets

| | Goodwill LE | Trademarks LE | Development & Other Costs LE | Other Intangibles LE | Total LE |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 01/01/2011 | 19,632,675 | 605,852 | 4,492,935 | 726,252 | **25,457,714** |
| Translation Differences | 100,969 | (4,035) | 74,386 | 27,500 | **198,820** |
| Year Additions | - | 1,942,500 | - | - | **1,942,500** |
| **Balance at 31/12/2011** | 19,733,644 | 2,544,317 | 4,567,321 | 753,752 | **27,599,034** |
| **Amortisation & Impairment Losses** | | | | | |
| Balance at 01/01/2011 | - | 300,049 | 2,078,227 | - | **2,378,276** |
| Translation Differences | - | (10,819) | (29,319) | - | **(40,138)** |
| Year Amortisation | - | 93,637 | 1,155,227 | - | **1,248,864** |
| **Balance at 31/12/2011** | - | 382,867 | 3,204,135 | - | **3,587,002** |
| **Carrying Amount at 31/12/2011** | 19,733,644 | 2,161,450 | 1,363,186 | 753,752 | **24,012,032** |
| **Carrying Amount at 31/12/2010** | 19,632,675 | 305,803 | 2,414,708 | 726,252 | **23,079,438** |

## 7. Other Investments

| | Ownership % | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|---|
| Murex Industries and Trading (S.A.L.) | 40 % | **4,488,268** | 4,324,517 |
| El-Khaleeg for Trading and Investment | 99.9 % | **99,900** | 99,900 |
| Other Investments | | **21,096** | 21,086 |
| | | **4,609,264** | 4,445,503 |

### 8. Long-Term Notes Receivables

The long term notes receivables represent the present value of the notes receivables collected from certain clients of the parent company, of due dates more than one year from the reporting date, discounted at average effective interest rate of the parent company.

### 9. Inventory

| | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|
| Raw Materials, Consumables and Spare Parts | **148,361,737** | 165,597,473 |
| Work in Process | **38,972,295** | 35,107,104 |
| Finished Products | **356,976,589** | 283,663,884 |
| | **544,310,621** | 484,368,461 |
| **Less:** | | |
| Impairment of Inventory | **(27,024,915)** | (21,371,805) |
| | **517,285,706** | 462,996,656 |
| Letters of Credit for Purchasing Goods | **7,346,206** | 10,265,661 |
| | **524,631,912** | 473,262,317 |

### 10. Trade and Other Receivables

| | Note no. | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|---|
| Trade Receivables | | **192,532,030** | 178,213,999 |
| Notes Receivable | | **141,439,950** | 82,520,777 |
| Sundry Debtors | | **24,658,041** | 89,784,701 |
| Suppliers – Debit Balances | | **680,338** | 681,929 |
| Due from Related Parties | (28) | **50,810,850** | 42,581,067 |
| Tax Administration – Other Taxes | | **76,530** | 861,522 |
| Tax Administration – Tax Withheld | | **405,986** | 438,203 |
| Tax Administration – Advance Payment | | **1,775,269** | 174,950 |
| Tax Administration – Sales Tax | | **4,274,811** | 6,719,931 |
| Other Debit Balances | | **16,585,714** | 8,258,919 |
| Social security | | **1,499,502** | 288,585 |
| Other Prepaid Expenses | | **9,265,162** | 12,520,881 |
| Accrued Revenues | | **930,119** | 1,133,237 |
| | | **444,934,302** | 424,178,701 |
| Less: | | | |
| Impairment of Receivables | | **(64,307,879)** | (63,104,392) |
| | | **380,626,423** | 361,074,309 |

**Transactions with Key Management**

The balances of the Board of Directors of the Parent Company amounted to LE 50,000 (debit balances) and LE 352,814 (credit balance) as at December 31, 2011. These balances are included in sundry debtors and creditors in receivables and payables.

The Board of Directors of the Parent Company control 0.04% of the voting shares of the Parent company.

Emoluments for the Board of Directors of the parent company, for the year ended December 31, 2011 charged to the other operating expenses in the consolidated income statement amounted to LE 3,036,927 (December 31, 2010: LE 2,785,885).

### 11. Trading Investments

| | 31/12/2011<br>LE | 31/12/2010<br>LE |
|---|---|---|
| Treasury Bonds (Held for Trading) | **23,888,000** | 29,888,000 |
| Callable Money Market Securities | **47,454,059** | 43,588,898 |
| | **71,342,059** | 73,476,898 |

### 12. Cash & Cash Equivalents

| | 31/12/2011<br>LE | 31/12/2010<br>LE |
|---|---|---|
| Banks – Time Deposit | **9,064,910** | 8,715,000 |
| Banks – Current Accounts | **93,215,117** | 28,063,255 |
| Cash on Hand | **4,055,826** | 2,119,600 |
| | **106,335,853** | 38,897,855 |

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

| | 31/12/2011<br>LE | 31/12/2010<br>LE |
|---|---|---|
| Banks – Time Deposits | **9,064,910** | 8,715,000 |
| Banks – Current Accounts | **93,215,117** | 28,063,255 |
| Cash on Hand | **4,055,826** | 2,119,600 |
| | **106,335,853** | 38,897,855 |
| **Less:** | | |
| Bank Overdrafts | **(741,275,290)** | (557,103,238) |
| | **(634,939,437)** | (518,205,383) |

#### 13.1 Bank Overdrafts

Bank overdrafts represent credit facilities partially secured by certain notes receivables and inventories. The authorized facilities limit in respect of all overdrafts is LE 929.8 million, and the unutilized amount is LE 221.3 million.

### 14. Share Capital

#### 14.1 Authorised Capital

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

#### 14.2 Issued and Paid up Capital

According to the resolution of the extraordinary general assembly meeting dated March 29, 2011; The issued and paid up capital was increased from LE 300 million to LE 400 million from the retained earnings as at December 31, 2010 , through issuing stock dividends distributed on the shareholders at rate of one stock dividend for each three original shares. Consequently the number of shares was increased from 60 million nominal shares to 80 million nominal shares. The par value of each share of LE 5 and is fully paid.

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

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

### 15. Reserves

| | Legal Reserve LE | * Other Reserves LE | Special Reserve Premium LE | ** Land Revaluation Surplus LE | Translation Reserve LE | **Total LE** |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2009** | 24,990,652 | 15,571,032 | 181,164,374 | 52,765,085 | 8,419,465 | **282,910,608** |
| Transferred to Legal Reserve | 3,601,166 | - | - | - | - | **3,601,166** |
| Translation Adjustment for Foreign Subsidiaries | - | - | - | - | 7,778,018 | **7,778,018** |
| **Balance at December 31, 2010** | 28,591,818 | 15,571,032 | 181,164,374 | 52,765,085 | 16,197,483 | **294,289,792** |
| Transferred to Legal Reserve | 5,700,592 | - | - | - | - | **5,700,592** |
| Translation Adjustment for Foreign Subsidiaries | - | - | - | - | 2,892,362 | **2,892,362** |
| **Balance at December 31, 2011** | 34,292,410 | 15,571,032 | 181,164,374 | 52,765,085 | 19,089,845 | **302,882,746** |

* 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.

### 16. Retained Earnings

At December 31, 2011 the retained earnings represent the retained earnings of the parent company and its share of the retained earnings of the consolidated subsidiaries. The parent company's management expects to reinvest the retained earnings in its subsidiaries.

## 17. Loans and Borrowings

| | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|
| 17.1 International Finance Corporation (IFC)<br>The outstanding counter value of the foreign currency loan granted from IFC under the amended loan agreement dated January 16, 2005 equivalent to USD 812,500 to be repaid in one installment at January 15, 2012 with a variable interest rate. | **4,899,375** | 14,161,875 |
| 17.2 Commercial International Bank (CIB)<br>The outstanding counter value of the foreign currency loan granted to the parent company from CIB according to the signed loan contract dated April 3, 2005 equivalent to USD 270,834, to be repaid in one installment at January 15, 2012 with a variable interest rate.<br>The IFC and CIB loans in (17-1) and (17-2) are granted to finance the expansion in a sanitary ware plant of the subsidiary company, European Ceramics which has provided a power of attorney to pledge its financed assets in favor of the lenders.<br>The two loans in (17-1) and (17-2) are guaranteed by the two subsidiaries companies, Lecico for Ceramic Industries and European Ceramics. | **1,633,129** | 4,720,637 |
| 17.3 Commercial International Bank (CIB)<br>The outstanding counter value of the loan granted to the parent company from CIB amounting to USD 600,000, to be repaid at March 31, 2012, with a variable interest rate. | **3,618,000** | 20,916,000 |
| 17.4 Commercial International Bank (CIB)<br>The outstanding counter value of the loan granted to the parent company from CIB amounting to USD 288,892 to be repaid in 2 installments at December 31, 2011 and March 31, 2012, with a variable interest rate. | **1,742,021** | 10,070,668 |
| 17.5 Citi Bank<br>The outstanding counter value of the loan granted to the parent company from Citi Bank was fully paid during the year. | **-** | 16,138,890 |
| 17.6<br>The utilized amount out of the loan granted to the parent company from Audi Bank, amounting LE 100 million to be repaid over 17 quarterly installments; the first installment will be due at 10 August 2012 and the last installment will be due at 10 May 2016. with a variable interest rate.<br>The loan purpose is restructuring of the parent company financial position.<br>This loan is guaranteed by a subsidiary company, Lecico for Ceramic Industries | **100,000,000** | - |
| | **111,892,525** | 66,008,070 |
| **Less:**<br>Installments due within one year which are classified as current liabilities (note 21). | **(23,657,229)** | (54,549,468) |
| | **88,235,296** | 11,458,602 |

The group had drawn down all availability under these loans arrangements with banks.

### 18. Other Long-Term Liabilities

| | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|
| 18.1 | | |
| Lease Obligation to Finance Certain Assets of Lecico (UK) Ltd. and its Subsidiaries. | **2,892,493** | 3,717,327 |
| **Less** | | |
| Installments Due Within One Year, Which are Classified as Current Liabilities (Note 21). | **(1,288,627)** | (1,271,915) |
| | **1,603,866** | 2,445,412 |
| 18.2 | | |
| Sales Tax Department (deferred sales tax related to imported machinery) | **1,768,070** | 2,795,796 |
| Notes payable – long term | **739,560** | 938,896 |
| | **2,507,630** | 3,734,692 |
| **Less** | | |
| Installments Due Within One Year Which are Classified as Current Liabilities (Note 21). | **(899,652)** | (1,041,931) |
| | **1,607,978** | 2,692,761 |
| 18.3 | | |
| Creditors related to acquiring treasury shares * | **30,317,094** | 57,290,466 |
| | **30,317,094** | 57,290,466 |
| **Total Other Long-Term Liabilities** | **33,528,938** | 62,428,639 |

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

### 19. Deferred Income Tax Assets and Liabilities

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

| | Assets 31/12/2011 LE | Liabilities 31/12/2011 LE | Assets 31/12/2010 LE | Liabilities 31/12/2010 LE |
|---|---|---|---|---|
| Accumulated Losses Carried Forward | **-** | **-** | (428,321) | - |
| Property, Plant and Equipment | **-** | **23,800,761** | - | 23,399,321 |
| Inventory | **(3,214,826)** | **-** | (3,375,123) | - |
| **Total Deferred Income Tax (assets)/liabilities** | **(3,214,826)** | **23,800,761** | (3,803,444) | 23,399,321 |
| **Net Deferred Income Tax Liabilities** | **-** | **20,585,935** | - | 19,595,877 |

### 20. Provisions

| | Balance as at 1/1/2011 LE | Translation Differences LE | Transfer from Creditors LE | Utilised Provisions LE | Provided Provisions LE | Balance as at 31/12/2011 LE |
|---|---|---|---|---|---|---|
| **Provision Disclosed in the Non Current Liabilities** | | | | | | |
| End of Service Indemnity Provision | **9,928,070** | **118,594** | **-** | **(320,162)** | **236,298** | **9,962,800** |
| Claims Provision | - | - | **2,257,196** | - | - | **2,257,196** |
| | 9,928,070 | 118,594 | **2,257,196** | (320,162) | 236,298 | **12,219,996** |
| **Provision Disclosed in the Current Liabilities** | | | | | | |
| Potential Losses and Claims Provision | 18,764,055 | 398,248 | - | (3,035,450) | 25,090,785 | **41,217,638** |
| | 18,764,055 | 398,248 | - | (3,035,450) | 25,090,785 | **41,217,638** |
| **Total** | 28,692,125 | 516,842 | 2,257,196 | (3,355,612) | 25,327,083 | **53,437,634** |

## 21. Loans and Borrowings

| | Note no. | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|---|
| Current Portion of Long-Term Loans | (17) | **23,657,229** | 54,549,468 |
| Current Portion of Other Long-Term Liabilities | (18) | **2,188,275** | 2,313,846 |
| Short Term Loan* | | **6,030,000** | - |
| | | **31,875,504** | 56,863,314 |

* On 23 December 2011, Lecico Lebanon (a subsidiary) renewed the short-term loan of USD million to finance working capital needs, which is repayable within one year maximum. The loan bears an interest of 5% per annum.

## 22. Trade and Other Payables

| | Note no. | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|---|
| Trade Payable | | **63,076,074** | 43,291,305 |
| Notes Payable | | **23,402,341** | 26,033,633 |
| Due to Related Parties | (28) | **1,431,445** | 4,432,238 |
| Social Insurance Authority and Tax Authority | | **5,423,785** | 5,910,451 |
| Income Tax Payable | | **4,691,317** | 27,166,193 |
| Accrued Expenses | | **28,162,849** | 27,935,408 |
| Deposits due to Others | | **61,801** | 42,701 |
| Sundry Creditors | | **21,864,347** | 45,116,217 |
| Current Account for Sales Tax Department | | **2,696,992** | 2,630,138 |
| Dividends Payable | | **389,929** | 765,860 |
| Creditors for Purchasing Fixed Assets | | **1,996,142** | 1,325,937 |
| Profit Sharing Provision for Employees of Certain Group Companies | | **17,256,176** | 17,180,815 |
| | | **170,453,198** | 201,830,896 |

## 23. Other Income

| | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|
| Capital Gain | **128,859** | 2,708,154 |
| Scrap Sales | **2,168,899** | 1,715,698 |
| Other Revenues | **200,866** | 2,977,698 |
| | **2,498,624** | 7,401,550 |

## 24. Other Expenses

| | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|
| Provided Provision | **30,733,786** | 9,900,000 |
| End of Service Indemnity | **236,298** | 1,446,856 |
| Impairment of Receivables | **82,175** | 9,248 |
| Amortisation of Intangible Assets | **1,248,864** | 1,160,932 |
| Board of Directors Remuneration | **3,036,927** | 2,785,885 |
| Miscellaneous expenses * | **2,715,234** | - |
| | **38,053,284** | 15,302,921 |

* due to decrease in demand and for inventory management purpose; Lecico Lebanon (a subsidiary) temporarily ceased its production line of tiles for the period from June 1st, 2011 till December 31st,2011 (7 months) however, the subsidiary continued to incur fixed and unavoidable overhead costs in that period.

### 25. Finance Income

| | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|
| Interest Revenues | **5,267,469** | 5,317,043 |
| Changes in Fair Value of Investments Held for Trading | **1,396,868** | - |
| | **6,664,337** | 5,317,043 |

### 26. Finance Expenses

| | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|
| Interest Expenses | **72,271,644** | 46,503,887 |
| Difference Resulted from Discounting of Long-Term Notes Receivables | **-** | 3,700,000 |
| Foreign Exchange Differences | **6,193,906** | 9,556,337 |
| Changes in Fair Value of Investments Held for Trading | **-** | 690,540 |
| | **78,465,550** | 60,450,764 |

### 27. Earnings Per Share

The earnings per share For the Year Ended December 31, 2011 is computed as follows:

| | 31/12/2011 LE | 31/12/2010 LE |
|---|---|---|
| Net (Loss)/Profit for the Year (in LE) | **(20,582,800)** | 94,820,645 |
| Number of Shares | **80,000,000** | 80,000,000 |
| **(Loss)/Earnings per Share ( LE/Share)** | **(0.26)** | 1.19 |

## 28. Related Parties

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

| | Nature of Transaction | Transaction Amount LE | **31/12/2011 LE** | 31/12/2010 LE |
|---|---|---|---|---|
| **Due from Related Parties** | | | | |
| Murex Industries and Trading (S.A.L) | Sales | 105,496,255 | **23,197,024** | 29,308,689 |
| | Notes Receivable | - | **883,116** | 1,172,668 |
| | | | **24,080,140** | 30,481,357 |
| T. Gargour et Fils - Jordan | Current | (590,353) | **-** | 590,353 |
| Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.) | Current | 251 | **6,892** | 6,641 |
| Lecico Saudi Arabia (Branch) | Sales | 23,349,010 | **26,430,772** | 11,208,134 |
| El-khaleeg for Trading and Investment | Current | 1,900 | **292,777** | 290,877 |
| Donald Scott | Current | | **269** | 3,705 |
| **Total Debit Balances** | | | **50,810,850** | 42,581,067 |
| **Due to Related Parties** | | | | |
| Murex Industries and Trading (S.A.L) | Purchase | 5,022,516 | **105,592** | 150,093 |
| LIFCO | Rent | 88,612 | **270,000** | 173,433 |
| Board of Directors of The Lebanese Ceramics Industries Co. (S.A.L.) | Current | 526,452 | **90,436** | 117,329 |
| Ets. T. Gargour | Current | (598,120) | **-** | 598,120 |
| Ceramics Management Services Ltd. (CMS) | Technical Assistance Fees | 8,257,373 | **965,417** | 3,393,263 |
| **Total Credit Balances** | | | **1,413,445** | **4,432,238** |

### 29. Information about Business Segments

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

| | **31/12/2011** | 31/12/2010 |
|---|---|---|
| **Sanitary Ware Segment** | | |
| **Sales Volumes (in 000 pcs)** | | |
| Egypt | **1,635.9** | 1,865.5 |
| Lebanon | **200.4** | 202.3 |
| Export | **2,427.5** | 2,898.8 |
| **Total Sales Volume (in 000 pcs)** | **4,236.8** | 4,966.6 |
| **Sales Revenues (LE million)** | **537.0** | 571.4 |
| Average Selling Price (LE/pc) | **126.0** | 115.0 |
| **Total Cost of Sales (LE million)** | **418.5** | 396.4 |
| **Gross Profit (LE million)** | **118.5** | 175.0 |
| **Tile Segment** | | |
| **Sales Volumes (in 000 $m^2$)** | | |
| Egypt | **17,339.7** | 16,101.8 |
| Lebanon | **1,836.8** | 2,335.9 |
| Export | **3,794.1** | 5,194.7 |
| **Total Sales Volume (000 $m^2$)** | **22,970.6** | 23,632.4 |
| **Sales Revenues (LE million)** | **421.8** | 444.9 |
| Average Selling Price (LE/$m^2$) | **18.4** | 18.8 |
| **Total Cost of Sales (LE million)** | **288.2** | 254.5 |
| **Gross Profit (LE million)** | **133.6** | 190.4 |
| **Brassware Segment** | | |
| **Sales volume (in pcs)** | | |
| Egypt | **39,839.0** | 9,180.0 |
| **Total Sales Volume (in pcs)** | **39,839.0** | 9,180.0 |
| **Sales Revenues (LE million)** | **11.9** | 2.9 |
| Average Selling Price (LE/pcs) | **299.3** | 316.0 |
| **Total Cost of Sales (LE million)** | **6.4** | 0.9 |
| **Gross Profit (LE million)** | **5.5** | 2.0 |

### 30. Personnel Cost

The Personnel costs incurred during the year ended December 31, 2011 amounted to LE 206.1 million (December 31, 2010: LE 169.9 million).

## 31. Contingent Liabilities

### 31.1 Letters of Guarantee

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

| Currency | 31/12/2011 | 31/12/2010 |
|---|---|---|
| LE | **14,867,768** | 15,629,704 |

### 31.2 Letters of Credit

| Currency | 31/12/2011 | 31/12/2010 |
|---|---|---|
| LE | **7,993,267** | 9,154,264 |

### 31.3

The parent company guaranteed one of its overseas subsidiaries in the loan granted to this subsidiary by one of the French Banks (Banque Audi France). The referred to loan is capped at an amount of Euro 2 million (equivalent to LE 15.5 million). There was no outstanding balance under this loan at the consolidated financial statement date.

## 32. Litigation

The Electricity Utility Organization in Lebanon has charged The Lebanese Ceramic Industries S.A.L. (a subsidiary) about LBP 855 million (equivalent to LE 3.4 million) as unpaid electricity charges for the period from March 1996 until August 2003. This Subsidiary has objected to these charges, and raised a legal case requesting the cancellation of such charges. This matter is still pending in the court and its outcome is not known as at the date of issuing the consolidated financial statements. No provisions have been taken by the subsidiary against this claim.

## 33. Capital Commitment

The capital commitment as at December 31, 2011 amounting to LE 7.2 million related to the purchase of fixed assets of the group (December 31, 2010: LE 14.7 million).

## 34. Financial Instruments

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

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

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

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

## 35. Financial Instruments Risk Management

### 35.1 Interest Risk

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

### 35.2 Credit Risk

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

### 35.3 Foreign Currency Exchange Rates Fluctuations Risk

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

## 36. Tax Position

### A Corporate Tax

**From inception till 2003**

Tax dispute was finalized and all tax obligations were paid.

**Year 2004/2006**

The Company's records were examined and the Company was informed of the tax department claims and the Company has objected within the legal period.

**Years 2007/2010**

The Company's records were not examined.

### B Salaries Tax

**Years till 2003**

The Company has obtained a final settlement and paid all the tax obligations for these years.

**Years 2004/2010**

The Company's records were not examined yet.

### C Stamp Duty

**From inception till 2004**

Tax dispute was finalized and all tax obligations were paid.

**From 2005 till 30/6/2006**

The tax examination occurred, and the Company was informed of tax claims and has objected during the legal period. The dispute was transferred to the internal committee of the tax department.

**From 1/7/2006 till Now**

Not examined yet.

### D Sales Tax

**Till 2010**

The company's records were examined and all tax obligations were paid.

# In-depth profit and loss summary

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sanitary Ware Segment** | | | | | | | | | | |
| Sales Volume (000s of pieces) | 3,380 | 3,977 | 4,265 | 3,861 | 4,633 | 5,619 | 5,304 | 5,577 | 4,967 | **4,264** |
| Exports as a Percentage of Total | 42.3% | 49.8% | 56.0% | 58.7% | 62.2% | 57.8% | 57.8% | 60.3% | 58.4% | **56.9%** |
| Average Price (LE/piece) | 73.6 | 92.7 | 110.0 | 100.7 | 95.8 | 118.9 | 122.7 | 111.4 | 115.0 | **125.9** |
| Sanitary Ware Revenue | 248.89 | 368.74 | 468.95 | 388.96 | 443.90 | 667.95 | 651.02 | 621.50 | 571.38 | **537.03** |
| Sanitary Ware Gross Profit | 109.98 | 167.86 | 234.38 | 164.28 | 160.98 | 243.78 | 221.48 | 191.97 | 174.98 | **118.53** |
| Sanitary Ware Gross Margin (%) | 44.2% | 45.5% | 50.0% | 42.2% | 36.3% | 36.5% | 34.0% | 30.9% | 30.6% | **22.1%** |
| **Tile Segment** | | | | | | | | | | |
| Sales Volume (000s of sqm) | 10,840 | 14,592 | 15,334 | 17,698 | 18,442 | 21,461 | 24,946 | 23,631 | 23,633 | **22,971** |
| Exports as a Percentage of Total | 5.4% | 6.9% | 10.3% | 17.8% | 22.0% | 24.2% | 21.1% | 24.3% | 22.0% | **16.5%** |
| Average Price (LE/sqm) | 12.3 | 13.1 | 14.9 | 14.9 | 14.9 | 15.0 | 17.2 | 18.4 | 18.8 | **18.4** |
| Tile Revenue | 133.11 | 190.56 | 227.85 | 263.42 | 275.60 | 321.53 | 429.63 | 433.70 | 444.90 | **421.80** |
| Tile Gross Profit | 39.36 | 54.25 | 65.74 | 78.09 | 91.31 | 102.57 | 158.04 | 191.10 | 190.40 | **133.60** |
| Tile Gross Margin (%) | 29.6% | 28.5% | 28.9% | 29.6% | 33.1% | 31.9% | 36.8% | 44.1% | 42.8% | **31.7%** |
| **Consolidated Profit and Loss** | | | | | | | | | | |
| Net Sales | 382.00 | 559.30 | 696.80 | 652.38 | 719.50 | 989.48 | 1,080.65 | 1,055.20 | 1,019.18 | **970.65** |
| Sanitary Ware (% of Net Sales) | 65.2% | 65.9% | 67.3% | 59.6% | 61.7% | 67.5% | 60.2% | 58.9% | 56.1% | **55.3%** |
| Gross Profit | 149.34 | 222.11 | 300.12 | 242.37 | 252.29 | 346.35 | 379.52 | 383.10 | 367.30 | **257.50** |
| Gross Margin (%) | 39.1% | 39.7% | 43.1% | 37.2% | 35.1% | 35.0% | 35.1% | 36.3% | 36.0% | **26.4%** |
| Sanitary Ware (% of Gross Profit) | 73.6% | 75.6% | 78.1% | 67.8% | 63.8% | 70.4% | 58.4% | 50.1% | 47.6% | **46.0%** |
| Distribution and Administrative Expense | 65.11 | 103.13 | 113.80 | 106.81 | 122.86 | 180.25 | 195.93 | 186.00 | 171.40 | **156.50** |
| D&A Expense/Sales (%) | 17.0% | 18.4% | 16.3% | 16.4% | 17.1% | 18.2% | 18.1% | 17.6% | 16.8% | **16.1%** |
| EBIT | 72.10 | 107.59 | 187.63 | 139.62 | 118.14 | 156.92 | 171.99 | 182.60 | 188.00 | **65.50** |
| EBIT Margin (%) | 18.9% | 19.2% | 26.9% | 21.4% | 16.4% | 15.9% | 15.9% | 17.3% | 18.4% | **6.7%** |
| Net Financing Expense | 27.19 | 31.57 | 35.19 | 16.52 | 27.90 | 39.47 | 39.08 | 41.64 | 53.10 | **69.20** |
| EBIT/Net Financing Expense (x) | 2.7 | 3.4 | 5.3 | 8.5 | 4.2 | 4.0 | 4.4 | 4.4 | 3.5 | **0.9** |
| Net Profit | 44.15 | 83.97 | 136.13 | 88.84 | 79.23 | 106.98 | 108.85 | 110.18 | 94.80 | **-20.60** |
| Net Margin (%) | 11.6% | 15.0% | 19.5% | 13.6% | 11.0% | 10.8% | 10.1% | 10.4% | 9.3% | **-2.1%** |
| Reported EPS (LE/Share) | 48.74 | 99.96 | 7.92 | 4.44 | 3.96 | 5.54 | 2.81 | 2.75 | 1.58 | **-0.26** |
| Adjusted EPS* (LE/Share) | 0.55 | 1.05 | 1.70 | 1.11 | 0.99 | 1.34 | 1.36 | 1.38 | 1.19 | **-0.26** |

* EPS Adjusted to reflect the current number of shares.

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