

MOSTAFA SHAWKI & CO

EASTERN COMPANY (S.A.E)

FINANCIAL STATEMENTS
TOGETHER WITH LIMITED REVIEW REPORT
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

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Limited Review Report

To: The Board of directors of Eastern Company (S.A.E)

Introduction

We have reviewed the accompanying financial position of Eastern Company (S.A.E) as of September 30, 2019, and the related statements of income, other comprehensive income, cash flows and changes in shareholders' equity for the financial period ended September 30, 2019 and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with Egyptian Accounting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

Limited review scope

We conducted our review in accordance with the Egyptian Standard applicable to review engagements No. 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Egyptian Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

- We could not match the raw materials inventory weights reported in the Custom Authority certificate of Cairo and Alexandria warehouses to the Company books. The company management did not prepare the necessary study to justify the differences reasons, which lead to our inability to conduct alternative audit procedures to determine the necessary adjustments for the raw materials inventory balance. Noting that the company did not record the custom duties due related to the raw materials inventory of tobacco in the custody of the custom warehouses of Cairo and Alexandria. A contingent liabilities recorded without taking into account the effect of adjustments that may result from physical count differences.
- The Company's management did not provide us with the feasibility study for the dormant balances in projects under construction amounted to 142 Million Egyptian Pound as of September 30, 2019.

- The Company's management did not prepare a study to evaluate the useful life of the fixed assets as of September 30, 2019 in accordance with the requirements of the Egyptian Accounting Standard no. (10) Fixed Assets. The impairment assets amounted to 2 006 Million Egyptian Pounds including 1 387 Million Egyptian Pounds still used in production, which may affect the current and future production cost value.
- The company's management did not prepare a study to assess if there are any indicators of impairment in the fixed assets, intangible assets, other assets and inventory which net cost amounted to as of September 30, 2019 respectively 5 024 Million, 2.6 Million, 0.8 Million, 7 780 Million Egyptian Pounds, to be in compliance with the Egyptian Accounting Standard of Impairment Assets no. (31).
- The company's management did not reclassify and record the value of strategic spare parts inventory included in the inventory items which amounted to 470 Million Egyptian Pounds as of September 30, 2019 in the fixed assets, which contradict with the Egyptian Accounting Standard no. (2).

Qualified Conclusion

Based on our review, except for the possible effect of the matters described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of **Eastern Company (S.A.E)** as of September 30, 2019, and its financial performance and cash flows for the period then ended in accordance with the Egyptian Accounting Standards and the prevailing Egyptian laws and regulations.

Cairo on: November 14, 2019

Auditor

Dr. Ahmed Shawki

MAZARS MOSTAFA SHAWKI



*Translation of Financial Statements
Originally Issued in Arabic*

EASTERN COMPANY (S.A.E)
STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2019

(Amounts expressed in Thousands of Egyptian Pounds)

<u>ASSETS</u>	<u>Notes</u>	<u>30/9/2019</u>	<u>30/6/2019</u>
<u>Non - Current Assets</u>			
Property, plant and equipment	(8)	5 024 184	4 951 149
Projects under construction	(9)	1 211 701	1 249 540
Investments property	(10)	9 303	9 303
Intangible assets	(11)	2 660	2 989
Investments long-term	(12)	20 668	120 668
Right of use leased assets	(13)	98 949	107 944
Other assets	(14)	848	875
Total Non- Current Assets		6 368 313	6 442 468
<u>Current assets</u>			
Inventories	(15)	7 780 633	7 956 653
Trade and notes receivables	(16)	151 762	381 975
Debtors and other debit balances	(17)	561 131	511 395
Trade payables - advance payments	(18)	148 292	55 475
Cash and cash equivalent	(19)	7 320 622	6 029 005
Total Current Assets		15 962 440	14 934 503
Total Assets		22 330 753	21 376 971
<u>Equity</u>			
Issued and paid capital	(20)	2 250 000	2 250 000
Reserves	(21)	3 985 819	3 985 819
Retained earnings	(22)	1 511 692	1 540 289
Net profit for the period/ year		1 059 001	--
Total equity		8 806 512	7 776 108
<u>Non - Current Liabilities</u>			
Deferred tax	(23)	176 565	185 245
Long-term provisions - pension	(24)	571 535	571 535
Total Non-Current liabilities		748 100	756 780
<u>Current Liabilities</u>			
Provisions	(25)	392 270	393 137
Trade and notes payables	(26)	894 275	1 457 488
Creditors and other credit balances	(27)	10 667 078	10 458 668
Trade receivables - advance payments	(28)	67 519	56 351
Financial lease contract obligations	(29)	71 732	93 585
Income tax payable		683 267	384 854
Total current liabilities		12 776 141	12 844 083
Total liabilities		13 524 241	13 600 863
Total of equity and liabilities		22 330 753	21 376 971

- The accompanying notes are an integral part of these financial statements.
- Limited review report attached.

(Accountant/ Niveen Ali Hussein)
General Manager / Final accounts and
financial statements

(Accountant/ Osama Fouad Mohamed)
Chief of the financial sector

(Accountant/ Tarek Sharf Eldin Barakat)
Supervisor of the financial sector

(Hany Aman)
Managing Director

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EASTERN COMPANY (S.A.E)
STATEMENT OF INCOME
FOR THE FINANCIAL PERIOD AS OF SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

	<u>Notes</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
Sales/Revenue	(30)	3 682 375	3 392 154
Cost of goods sold	(31)	(2 226 833)	(2 104 643)
Gross profit		1 455 542	1 287 511
Other revenue	(32)	7 773	15 214
Sale and distribution expenses	(33)	(118 123)	(121 602)
General and administrative expenses	(34)	(50 557)	(41 655)
Other expenses	(35)	(31 294)	(1 135)
<u>Result of operation activities</u>		1 263 341	1 138 333
Financing income	(36)	96 960	128 704
Financing expenses	(37)	(4 305)	(138)
<u>Net cost financing income</u>		92 655	128 566
Other financial investments income	(38)	3 291	4 088
<u>Profit before tax</u>		1 359 287	1 270 978
Income tax and deferred tax expenses	(39)	(300 286)	(279 799)
Profit from continued operations		1 059 001	991 188
Profit of the period		1 059 001	991 188
Earnings per share	(40)	0.44	0.42

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EASTERN COMPANY (S.A.E)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD AS OF SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

	<u>30/9/2019</u>	<u>30/9/2018</u>
Net profit of the period	1 059 001	991 188
Other Comprehensive Income	--	--
Exchange differences resulting from translating the foreign operations	--	--
Financial investments available for sale	--	--
Cash flow hedges	--	--
Remeasurements of defined benefit pension plans	--	--
Company share of other comprehensive income from associates	--	--
Income tax relating to other comprehensive income items	--	--
Total other Comprehensive Income of the period after deduct tax	<u>--</u>	<u>--</u>
Total Comprehensive Income of the period	<u>1 059 001</u>	<u>991 188</u>

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EASTERN COMPANY (S.A.E)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FINANCIAL PERIOD AS OF SEPTEMBER 30, 2019

(Amounts expressed in Thousands of Egyptian Pounds)

	<u>Issued and Paid up capital</u>	<u>Legal reserve</u>	<u>Statutory reserve</u>	<u>Capital reserve</u>	<u>Other reserves</u>	<u>Total reserves</u>	<u>Retained earnings</u>	<u>Net profit of the period</u>	<u>Total equity</u>
Balance as of July 1, 2018	1 500 000	1 116 106	1 673 498	529 911	1 210 857	4 530 372	452 895	--	6 483 267
Transferred from legal and other reserves for capital increase	750 000	(500 000)	--	--	(250 000)	(750 000)	--	--	--
Adjustment of expenses and revenues from previous years	--	--	--	--	--	--	63 204	--	63 204
Transferred to reserves from profit dividends for the year 2018/2019	--	185 677	--	19 770	--	205 447	1 024 190	--	1 229 627
Balance as of June 30, 2019	2 250 000	801 783	1 673 498	549 681	960 857	3 985 819	1 540 289	--	7 776 108
Balance as of July 1, 2019	2 250 000	801 783	1 673 498	549 681	960 857	3 985 819	1 540 289	--	7 776 108
Adjustment of expenses and revenues from previous years	--	--	--	--	--	--	(28 597)	--	(28 597)
Net profit for the period from 1/7/2019 to 30/9/2019	--	--	--	--	--	--	--	1 059 001	1 059 001
Balance as of September 30, 2019	2 250 000	801 783	1 673 498	549 681	960 857	3 985 819	1 511 692	1 059 001	8 806 512

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EASTERN COMPANY (S.A.E)
STATEMENT OF CASH FLOW
FOR THE FINANCIAL PERIOD AS OF SEPTEMBER 30, 2019

(Amounts expressed in Thousands of Egyptian Pounds)

<u>Item</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
<u>Cash flows from operating activities</u>		
Cash sales and collection from receivables	13 642 315	13 044 353
Cash purchases and payments to suppliers	(2 031 631)	(2 151 201)
Salaries paid	(415 223)	(484 608)
Revenue from operating for others and other revenues	676 431	624 179
Proceeds from interest received	96 960	128 704
Interest paid	(581)	(138)
Taxes and fees paid	(10 526 473)	(10 018 732)
Export subsidy / Grants and Subsidies	547	114
Proceeds from insurance claims	52	1 831
Other payments	(8 859)	(4 513)
Net Cash flows from operating activities	<u>1 433 538</u>	<u>1 139 989</u>
<u>Cash flows from investment activities</u>		
Disbursement for purchasing fixed assets (projects under construction)	(158 016)	(75 008)
Proceeds from sales of fixed assets	52	--
Net Cash flows from investment activities	<u>(157 964)</u>	<u>(75 008)</u>
<u>Cash flows from financing activities</u>		
Dividends paid	(10 724)	(10 617)
Disbursement for finance lease liabilities	(25 576)	(34 416)
Net Cash flows from finance activities	<u>(36 300)</u>	<u>(45 033)</u>
Foreign currency exchange differences losses and gain	(47 657)	3 837
Treasury Bills purchased	100 000	--
Net cash for the period	<u>1 291 617</u>	<u>1 023 785</u>
Cash and cash equivalent at the beginning of the period	<u>6 029 005</u>	<u>3 759 891</u>
Cash and cash equivalent at the end of the period	<u>7 320 622</u>	<u>4 783 676</u>

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(Hany Aman)
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*Translation of Notes to Financial Statements
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EASTERN COMPANY (S.A.E)
NOTES TO THE FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

1- COMPANY

Company's commercial name:

Eastern Company (S.A.E) Located in Giza.

Establish date and location:

- The Company was established on 12/7/1920 in Giza city - the Arab Republic of Egypt.
- The Company was registered in the Commercial Register under No. 6069.
- The Company located at the sixth industrial zone – Oasis Road plots numbers 1 (87 to 98) - Fifth zone - 6th of October City - Giza.

Purpose

- The Company main activities are manufacturing and trading of Tobacco, its products and modern smoking alternatives and accessories/ practicing any investment, financial, commercial, industrial, agricultural or service activities (except all relevant provisions of the capital market according to the Law no. 95 for the year of 1992 with the commitment of the company to adjust its situation in accordance with the provisions of the Law No. 120 for the year of 1982.
- Real estate Ownership and Construction, purchasing and dividing lands for the purposes of utilization, rental or sale, import, export and commercial agencies.
- Establish, participate in establishing, purchasing of companies, contribute to them even if these entities are practicing its activities or part of it inside or outside the Arab Republic of Egypt, in order to develop or achieve any of its goals in accordance to the provisions of the laws, regulations and current decisions. Taking into consideration issuing the necessary licenses to practice these activities. The Company may participate or cooperate in any way with other companies which have similar or non-similar activities.

Trading Shares on the Stock Exchange Market:

The Company's nominal shares are traded in the Egyptian Stock Exchange market.

Company duration:

The Company's duration is Fifty years starting from 2/6/2019 till 1/6/2069 as from the date of registration in the commercial registration.

Date of issuing the financial statements:

The financial statements have been approved by the board of directors on 13/11/2019.

Company's financial year:

- From 1/7/2019 till 30/9/2019.
- Shares Percentage of the Holding Company for Chemical Industries have been decreased from 55% to be 50.5%, after offering a percentage of 4.5% (maximum number of 101 250 000 shares for Public & Private Offering **IPO**).
- Private Placement percentage was 95% from the total offered shares with number of 96 187 500 shares, the share price was 17 EGP per share with total amount of EGP 1 635 187 500.
- Public Placement percentage was 5% from the total offered shares with number of (5 062 500 shares), the share price was 17 EGP per share with total amount of EGP 86 062 500.
- Public & Private Offering has been covered by total amount of EGP 1 721 250 000.
- According to the Extra-ordinary General Assembly meeting held on 2 June 2019 the shareholders approved to transfer the company and its legal statue from the Public Business Sector Companies (Law no. 203 for the year of 1991) to be under the Corporate company Law no. 159 for the year of 1981, and its executive regulation.

This is a result of decreasing the shareholder participation of the Holding company for Chemical Industries percentage of shares to less than 51% of the share capital of Eastern Company.

The new article of association was approved and commercial register was amended accordingly as of 22 July 2019 And approving the new Articles of association which prepared in accordance with the Corporate Law no. 159 for the year of 1981 and its executive regulation as it was presented to the Extra-ordinary General Assembly.

- The Extra-ordinary General Assembly held on 2 June 2019 approved the company's New Articles of Association.

2- BASIS OF PREPARING FINANCIAL STATEMENT:

2/1 Accounting Standards:

- The Financial Statements have been prepared in accordance with the Egyptian Accounting Standards (EAS) and according to the relevant laws and regulations.
- The Minister of Investment and International Cooperation issued Decree No. 69 for the year of 2019 to modify some provisions of the Egyptian Accounting Standards which issued by the Minister of Investment Decree No. 110 for the year of 2015.
- The company applied the accounting treatment regarding financial leasing according to the Egyptian Accounting Standard No. (49) instead of the Egyptian Accounting Standard No. (20) which was replaced according to the latest Egyptian Accounting Standards Modifications, which in compliance with Law no. 176 for the year of 2018 concerning "Financial Leasing and Factoring Activities".

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

2/2 Basis of Measurement:

- The financial statements have been prepared in accordance with the historical cost methods and based on the company continuity.
- The financial statements have been prepared according to the accrual basis except the cash flows which is prepared according to the cash basis.
- The cash flows statements have been prepared according to direct method.

2/3 Functional and presentation currency:

- The company's financial statements presented in Thousand Egyptian Pound, while the transaction currency is the Egyptian Pound.

2/4 Use of Estimates and Judgment:

- In the application of the company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
- The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are main items that the company applied estimation and judgments:

- Useful life of fixed assets
- Provisions
- Deferred tax assets
- Deferred tax liabilities

3- SIGNIFICANT ACCOUNTING POLICIES:

The Significant Accounting Policies applied in a consistent base throughout the presented financial periods in these financial statements.

3/1 Foreign Currencies translation:

- The company's functional and reporting currency is the Egyptian pound.
- Transactions denominated in foreign currencies during the year are translated to Egyptian pounds at the prevailing rates as at the transaction date. At year-end, monetary assets and liabilities denominated in foreign currencies are translated to Egyptian pounds using the prevailing rates as at that date. Translation differences are included in the income statements.

3/2 Fixed Assets and Depreciation:

- Items of property plant and equipment are stated at cost and presented in the statement of financial position net of accumulated depreciation and accumulated impairment losses, if any. Cost includes all direct costs that are directly attributable to the acquisition of the asset.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

3/2/1 Replacement cost:

- The replacement cost incurred for any component of the items of property recognized as part of the asset cost after disposing the carrying amount of that component, and it is probable that future economic benefits associated with the component will flow to the entity; and the cost of the component can be measured reliably. Other costs are charged to the income statement as incurred.

<u>Estimated useful live</u>	<u>Estimated useful lives (year)</u>
Buildings	25-50
Machines	10
Vehicles	5-8
Tools	5
Furniture	4-10

3/3 Projects under construction:

- Projects under construction are recognized initially at cost. Cost includes all expenditures directly attributable to bringing the asset to the working condition for its intended use. Projects under construction are transferred to the fixed assets at cost when they are completed and are available for the purpose for which they were acquired.

3/4 Investments:

- Investments property are recorded at cost however, when there is impairment, the book value should be adjusted with the impairment value and charge impairment to the income statement.
- Government bonds are recorded at cost and income from bond charged to the income statements.

3/5 Other assets:

- The other assets are represented in the licenses cost which expected to generate future economic benefits for the company and the company contribute in establishment of non-owned assets to serve its purposes.
- The other assets are recognized initially at cost after deduction amortization. Cost includes all expenditures directly attributable to bringing the asset to the working condition for its intended use.
- The amortization percentage for the non-owned assets 10%, J.D program amortization 25%, H.R program amortization 25%, and the Microsoft program amortization 25%.

3/6 Inventories:

- Inventories of raw materials and inputs materials are stated at cost, and the raw materials consumptions are evaluated based on weighted average cost.
- Inventories of finished goods are stated at lower of cost or net realizable value.
- The company follow the continuing count method.
- The inventories of Tobacco materials are sufficient for around 16 months.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

- The inventories balance of finished goods is sufficient to meet the market needs 1.3 day.
- The raw materials inventory includes Tobacco in customs warehouses amounted to 4197 million Egyptian pounds and the due customs duties must be paid upon receipt from warehouses.

3/7 Cash and cash equivalents:

- Cash and cash equivalents are comprised of cash on hands, at banks and time deposits with maturity of three months or less.

3/8 Provisions:

- Provisions are recognized when the company has a present or constructive obligation as a result of past events, and it is expected that the company will require to settle the obligation, and a reliable estimated be made for the amount of the obligation.
- The provisions balance are revised at financial statements date and adjusted according to the best estimates (if necessary)

3/9 Capital:

- Paid up and issued capital represent the nominal value per share multiplied by the number of shares as of financial statements date.

3/10 Reserves:

- The company's reserves are formed by law or the company's article of association to support the company's financial position. These reserves are used based on approval from the general assembly upon the board of directors request to be used in the benefit of the company.

3/11 Borrowing Cost:

- Borrowing cost are initially recognized upon receipt the loans or credit facilities, current portion are classified in the current liabilities unless that the company has the right to reschedule the payment of loans for more than one year after the date of the financial position which will be classified as long-term loan in the long-term liabilities.

3/12 Revenue:

a. Revenue of Sales

- The revenue of sales is recognized according to the sales process and delivering the goods to the customers when the conditions in the Egyptian Accounting Standard no. (11) accomplished as follows:
 - The entity must transfer the risks and basic returns of ownership of the goods to the buyer.
 - The entity shall not retain the right of continuous administrative intervention to the degree normally associated with ownership or effective control over the goods sold.
 - The revenue can be accurately measured.
 - Must have the forecasting for the flow of economic benefits for the transaction to the entity.
 - The possibility of determining the value of the costs incurred or to be borne by the entity in relation to the transaction accurately.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

- The bonds revenue are recognized when the following conditions are occurred:
 - The flow of economic benefits from the transaction is highly expected.
 - The revenue can be reliably measured.
 - The Minister of Investment and International Cooperation issued Decree No. 69 for the year of 2019 to modify some standards of the Egyptian Accounting Standards issued by the Minister of Investment Decree No. 110 for the year of 2015, The new Egyptian Accounting Standard no (48) revenues from contracts with customers replace the standards No. (8 & 11) for the financial period starts on or after January 1st , 2020.

b. Revenues from Operating for other parties:

- The operating services for others are recognized according to the conditions in the Egyptian Accounting standard no. (11) as follows:
 - The revenue can be accurately measured.
 - Must have high expectations of economic benefits flow to the entity.
 - The degree of completion of the transaction can be accurately measured at the financial statements date.
 - The costs incurred in the production and the costs needed to accomplish could be accurately measured.

c. Credit Interest Revenue:

- The Credit Interests revenue are recognized using the effective interest rate, the revenue of credit interest is recorded in the income statement.

3/13 Income tax:

- The income tax on the profit for the period comprises income tax for the period and deferred tax, and it should be recognized in the income statement, the income tax on the net profit is recognized by using the current tax price rate as of the financial statements date.
- Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

3/14 Accounting for grants and subsidies:

- The company recognized revenue from the export subsidy (grants and subsidies) in income statements and the donated assets recorded as grants in the fixed assets item and charge the depreciation related to income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

3/15 Financial leasing:

- The profit results from sales with lease back for machinery with financial lease are recognized over the term of the lease contract.
- The rental value and the maintenance expenses are recognized as an expense in the income statement till the year 2017/2018, and the accounting treatment was changed to comply with the Amended Egyptian Accounting Standards for 2019 and the Law no. 176 for the year of 2018 for financial leasing and factoring activities.

3/16 Dividends:

- Dividends are recognized when shareholders have the right to receive the amounts of these dividends.

3/17 Employees' profits share:

- Employees' profits share should be paid without exceeding their total annual basic salaries in accordance with the law.

3/18 Contingent liabilities:

- The company's contingent liabilities amounted to 1 256 Million Egyptian Pounds including letters of guarantee amounted to 254 Million Egyptian Pounds relevant to Cairo, Alexandria and Damietta Customs, 527 Million Egyptian Pounds as a due customs to be paid by the company when tobacco raw materials received from custom' warehouses, and credit letters amounted to 475 Million Egyptian Pounds.

4- FINANCIAL INSTRUMENTS

4/1 Credit Risk:

- The financial instruments risk represents the inability to pay due to liquidity issues of debtors with credit term and cash and deposit at banks except for cash at safe.
- The company management to control credit risk deals with reputable financial institution with high credit and stable rating.

4/2 Liquidity Risk:

- The liquidity risk is the risk that when the company cannot settle its liabilities or financial commitments on due dates, the Company's approach regarding managing liquidity is to ensure that it has a sufficient liquidity to meet its liabilities on its due dates in both normal and critical circumstances without incurring unacceptable losses or damaging the Company's reputation, the company also ensures the cash is available on request to meet the expected operating expenses for an appropriate period of time including the financial obligations and disposal the potential impact of acute and unpredictable conditions such as natural disasters.

Also the company invests the available excess cash from daily cash receipts in the best aspects of short-term investment

4/3 Market Risk:

- Market risk represents in the changes in the market prices such as foreign exchange currencies and interest rate.
- The purpose of managing market risk is managing and controlling the market risk exposure within the acceptable parameters with maximizing revenue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

(a) **Foreign currencies risk:** The foreign currency risk is represented in changes in foreign currency exchange rates, which affect the payments and receivables in foreign currencies, as well as evaluating assets and liabilities in foreign currencies which the company management facing it through setting policies such as the value of what the company gets from the spare parts local manufacturing and capital equipment, purchasing from suppliers agents, etc.

(b) **Interest rate risk:** The Company is dealing with various banks with interest rates that enable it to reduce the risk of changes in interest rates, whether debit interest or credit interest through competition among banks in order to get the best rates based on the large business size.

- Interest-bearing bank deposits during the financial time period referred to which are the total deposits in local and foreign currencies.
- The fair values for the financial instruments are not materially different from their carrying values at the end of the financial period.

4/4 Capital Management:

- The board of directors strategy is to maintain strong capital in order to keep the trust of investors, creditors and the market, as well as to meet future developments of activity. The Company's Board of Directors is monitoring the return on capital and the level of dividends. There were no changes in the company's capital management strategy during the year; also the company is not subject to any external requirements imposed on its capital.

5- RELATED PARTIES DISCLOSURE:

- The Holding Company for Chemical Industries hold 50.5% from company's shares as of 30/9/2019.
- Related parties are treated on the same basis as others.
- The General Company for Paper Industry (Rakta) with amount of 48 384 Thousand Egyptian pounds and Moharram Industrial Printing Co. with amount of 4 210 Thousand Egyptian pounds.
- The Holding Company for Chemical Industries did provide a set of banks guarantees and non-bank guarantees to some governmental agencies (Customs Authority - Customs Taxes - Egyptian Tax Authority "Value Added Tax") for the favor of company amounted to 1 470 Billion Egyptian pounds.

6- IMPAIRMENT OF FINANCIAL ASSETS:

- Periodically the company management at financial statement date assess if there is an objective evidence that a financial asset or a group of assets is impaired or not. Financial assets or a group of assets can be considered as an impairment asset. If there is any objective evidence referring to such impairment which results from one or more events occurring after the initial recognition of the asset and have an impact on the estimated cash flows of a financial asset or group of financial assets that can be estimated reliably.

7- TAX POSITION

7/1 Corporate Tax:

- The financial year 2015/2016 is under inspection.

7/2 Stamp Tax:

- The financial year 2016/2017 has not been inspected yet.

7/3 Salary Tax:

- The company has received Form no. (38) amounted to 209 237 939 Egyptian Pounds and it has been objected upon the estimated inspection of the tax office on 3/8/2017 and the company required to re-inspecting the file.

7/4 Value Added Tax:

- The company is paying the monthly value added tax amount (VAT) according to the Law no. 67 for the year of 2016,
- The company was inspected till the financial year of 2013/2014.
- The years of 2014/2015 and 2015/2016 are under inspection.

7/5 Real State Tax:

- The company paid the accrued real state tax according to claims received from real state tax authorities for the year of 2019.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

8- PROPERTY, PLANT AND EQUIPMENT

(Amounts expressed in Thousands of Egyptian Pounds)

	<u>Lands</u>	<u>Buildings</u>	<u>Machines and equipment</u>	<u>Vehicles</u>	<u>Tools</u>	<u>Furniture and office equipment</u>	<u>Total</u>
Fixed assets movement statement:							
Cost as of 1/7/2018	218 103	3 498 629	4 455 517	329 215	161 842	771 833	9 435 139
Additions during the year	--	39 204	563 873	20 365	5 337	16 844	645 623
Disposals during the year	--	1 984	19 697	168	4 305	322	26 476
Total Cost as of 30/6/2019	218 103	3 535 849	4 999 693	349 412	162 874	788 355	10 054 286
Cost as of 1/7/2019	218 103	3 535 849	4 999 693	349 412	162 874	788 355	10 054 286
Additions during the period	--	--	207 240	--	773	733	208 746
Disposals during the period	--	--	--	--	--	--	--
Total Cost as of 30/9/2019	218 103	3 535 849	5 206 933	349 412	163 647	789 088	10 263 032
Accumulated depreciation and impairments movement:							
Accumulated depreciation as of 1/7/2018	--	704 902	2 977 550	252 764	138 589	539 074	4 612 879
Additions during the year	--	90 496	341 855	27 912	12 232	58 959	531 454
Disposals during the year	--	1 218	13 320	98	4 305	321	19 262
Impairment of fixed assets	--	(21 934)	--	--	--	--	(21 934)
Accumulated depreciation as of 30/6/2019	--	772 246	3 306 085	280 578	146 516	597 712	5 103 137
Accumulated depreciation as of 1/7/2019	--	772 246	3 306 085	280 578	146 516	597 712	5 103 137
Additions during the period	--	23 088	88 491	6 600	2 836	14 696	135 711
Disposals of the period	--	--	--	--	--	--	--
Impairment of fixed assets	--	--	--	--	--	--	--
Accumulated depreciation and impairment as of 30/9/2019	--	795 334	3 394 576	287 178	149 352	612 408	5 238 848
Net fixed assets of 30/6/2019	218 103	2 763 603	1 693 608	68 834	16 358	190 643	4 951 149
Net fixed assets of 30/9/2019	218 103	2 740 515	1 812 357	62 234	14 295	176 680	5 024 184

* The fully depreciated fixed assets as of September 30, 2019 is 2006 Million Egyptian Pounds included fully depreciated fixed assets still in use amounted to 1387 Million Egyptian Pounds (including machines and equipment amounted to 300 Million Egyptian Pounds), and fully carried depreciated fixed assets amounted to 300 Million Egyptian Pounds and others under scrap process amounted to 319 Million Egyptian Pounds.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

* The fixed assets are including approximately 94 Million Egyptian Pounds representing net gifted assets as 70 Million Egyptian Pounds as Production's machinery, 4 Million Egyptian Pounds as Production Utilities, equipment of Services, 2 Million Egyptian Pounds as Furniture, 18 Million Egyptian Pounds as a tobacco equipment

Financial Leasing:

- The Decree of Minister of Investment and International Cooperation No. 69 of 2019 was issued to modify some provisions of the Egyptian Accounting Standards which issued by the Minister of Investment Decree No. 110 of 2015 by replacing the Financial Leasing Standard no. 20 (old one) by a new one numbered (49) covering the Financial Leasing Contracts.
- The financial leasing contracts were treated by the Egyptian Accounting Standard no. (49) according to the Amended Accounting Standards for the year of 2019, This amended standard applied for the leasing contracts which were under the finance leasing law no. 95 for the year of 1995 and its amendments, these contracts were treated by the Egyptian Accounting Standard no. (20) which was stating that "the accounting rules and standards related to process of the finance leasing" and the finance leasing contracts which established under the law of organizing the finance leasing and the factoring activities no. 176 for the year of 2018 starting from the beginning of the annual report time period which in the law no. 95 for 1995 was canceled and instead of the law no. 176 for 2018 was issued.
- A contract was signed with QNB Company for Financial Leasing to sell and rent some machines with total cost of (398 324 153 Egyptian Pounds) by changing interest rate (average price of corridor + 1.2%) on 28/6/2012 for 6 years in addition to two years as an extra years, after that time period the total rental amount should be paid for 72 months amounting to almost 8 498 million Egyptian Pounds.
- The ownership of these machines will devolve to the company at the end of contract with a memorial amount of one Egyptian Pound.
 - The accrued liabilities from July 2019 till the financial year 2019/2020 are amounted as following:

	<u>Thousand Egyptian Pounds</u>	
	<u>Finance Lease Installments</u>	<u>Total</u>
2019/2020	101 985	101 985
Total	101 985	101 985

9- PROJECTS UNDER CONSTRUCTION

	<u>30/9/2019</u>	<u>30/6/2019</u>
Projects	992 261	916 612
Advance payments an LCs	219 440	332 928
Total	1 211 701	1 249 540

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
 (Amounts expressed in Thousands of Egyptian Pounds)

▪ **Projects investment Formation include:**

	<u>30/9/2019</u>	<u>30/6/2019</u>
Buildings	1 395	1 359
Machinery	815 032	746 917
Tools	626	--
External transportation	1 474	1 474
Internal transportation	8 660	8 660
Installations	159 980	153 108
Office equipment	5 094	5 094
Total	<u>992 261</u>	<u>916 612</u>

- The value of machines including amount of 45 Million Egyptian Pounds is relevant to gifted assets.

▪ **Advance payments an LCs Investment Formation include:**

	<u>30/9/2019</u>	<u>30/6/2019</u>
Advance payments fixed assets	104 528	79 215
Goods in transit - fixed assets	105 136	49 671
LCs of fixed assets	9 776	204 042
Total	<u>219 440</u>	<u>332 928</u>

10- INVESTMENTS PROPERTY

	<u>30/9/2019</u>	<u>30/6/2019</u>
Land of Gizert Eldahb in Elbahr Elaazam - Giza	8 894	8 894
Land of Alsalom factory - Alexandria	404	404
Land of Jan Marchena	5	5
Total	<u>9 303</u>	<u>9 303</u>

11- INTANGIBLE ASSETS

	<u>30/9/2019</u>	<u>30/6/2019</u>
Computes' program and H.R software modernization	33 755	33 755
Amortization	(30 746)	(30 417)
Refunded Sales tax	(349)	(349)
Net	<u>2 660</u>	<u>2 989</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
 (Amounts expressed in Thousands of Egyptian Pounds)

12- INVESTMENTS LONG-TERM

	<u>30/9/2019</u>	<u>30/6/2019</u>
Deposit in the Central Bank of Egypt invested in government bonds*	20 663	120 663
Investments in other companies shares	5	5
Investments in foreign securities**	23	23
Total	20 691	120 691
Less impairment in securities	23	23
Net	20 668	120 668

* Cash deposit in the Central Bank of Egypt to be invested in Governmental bonds and National Investment Bank against 5% of the surplus from the prior years of issuing the law no. 203 for the year of 1991, the cash deposit yields a return of 3% annually.

* Represent a new Sues Canal investment certificates by returns of 15.5% annually, and the Sues Canal certificates which amounted 100 Million Egyptian Pounds were retrieved on September 2019.

** Investments in foreign securities

13- RIGHT OF USE LEASED ASSETS

- The assets represented as a finance leasing amount equals to 98 949 Thousand Egyptian Pounds consists of net assets of residual value from the finance leasing assets.

14- OTHER ASSETS

	<u>30/9/2019</u>	<u>30/6/2019</u>
The company's contribution to the project of filling, improvement and coverage of the El Zomor Canal	10 537	10 537
Expense of providing Gas to the new industrial complex in 6th October city	16 016	16 016
Expense of providing Gas to Moharem Bek	348	348
Expense for to external roads	756	756
Retriever from some customers who benefit from gas delivery	(1 403)	(1 403)
Amortization to date	(25 406)	(25 379)
Net	848	875

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

15- INVENTORIES

	<u>30/9/2019</u>	<u>30/6/2019</u>
Raw materials, fuel and spare parts*	7 527 881	7 655 698
Goods in transit (packaging and spare parts)	8 750	11 165
Production work in process	66 856	94 696
Finished goods	73 625	63 828
LCs	105 397	133 142
Total	7 782 509	7 958 529
Less the impairment in inventory	1 876	1 876
Net	7 780 633	7 956 653

▪ **Inventory of raw materials includes:**

	<u>30/9/2019</u>
Items under inspection (tobacco raw materials)	137 983
Items under inspection (packaging and mixing materials)	21 015
Total	158 998

The inspection is carried out periodically for all received items

* The inventory includes about 4 197 Million Egyptian Pounds under customs Authority.

16- TRADE AND NOTES RECEIVABLE

	<u>30/9/2019</u>	<u>30/6/2019</u>
Trade receivables (foreign production)	52 686	135 346
Trade receivables (co-production*)	94 113	244 785
Foreign Trade receivables	4 963	1 844
Total	151 762	381 975

* The trade receivables (co-production) will be paid in the next month, although the company does not give credit in the domestic sales.

17- DEBTORS AND OTHER DEBIT BALANCES

	<u>30/9/2019</u>	<u>30/6/2019</u>
Holding company debit balance	--	567
Debtor Accounts to governmental Authorities	473 014	369 074
Accrued revenues	2 324	3 194
Prepaid expenses	3 201	11 545
Other debit balances	96 003	140 426
Total	574 542	524 806
Less impairment in debtors	13 411	13 411
Net	561 131	511 395

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

17/1 Debtor Accounts to governmental Authorities

	<u>30/9/2019</u>	<u>30/6/2019</u>
VAT tax authority	438 432	345 372
Custom authority	4 521	921
Debit balance for other governmental authorities	30 061	22 781
Total	473 014	369 074

17/2 Accrued revenues

	<u>30/9/2019</u>	<u>30/6/2019</u>
Accrued export incentives	818	1 045
Securities accrued income	745	1 474
Other	761	675
Total	2 324	3 194

17/3 Other debit balances:

	<u>30/9/2019</u>	<u>30/6/2019</u>
Guarantees for others	10 750	10 740
Employees loans	12 185	10 391
Other debit balances	73 068	119 295
Total	96 003	140 426

18- TRADE PAYABLES - ADVANCE PAYMENTS

	<u>30/9/2019</u>	<u>30/6/2019</u>
Public sector suppliers	35 944	6 807
Private sector suppliers	106 656	43 179
Public services sector suppliers	5 692	4 229
Other	--	1 260
Total	148 292	55 475

19- CASH AND CASH EQUIVALENT

	<u>30/9/2019</u>	<u>30/6/2019</u>
Banks time deposits	337 878	751
Banks current accounts	6 970 826	5 831 822
Cash on hand	11 918	196 432
Total	7 320 622	6 029 005

* The cash is including 5.9 Million Egyptian Pounds related to the social solidarity fund of the company's employees.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

20- CAPITAL

The Authorized Capital amounted to 3 000 Million Egyptian Pounds (Three Billion Egyptian Pounds) and the Paid and Issued Capital amount is 2 250 Million Egyptian Pounds (Two Billion and two hundred and fifty Million Egyptian Pounds) divided to 2 250 Million Shares with nominal amount of one Egyptian Pound.

The paid and issued capital, reserves, and the retained earnings balance as of 30/9/2019 amounted to 7 747 511 Thousand Egyptian Pounds, hereunder

The Share Capital Structure as of 30/9/2019:

<u>Company name</u>	<u>Shares number</u>	<u>Percentage</u>
The holding company for Chemical industries	1 136 250 000	50.5%
Employees associations	136 836 163	6.08%
Free trading	976 913 837	43.42%
Total	2 250 000 000	100.00%

- On 29/5/2018 the Extra-ordinary General Assembly increased the company's issued and paid capital from 1.5 Billion Egyptian Pounds to 2.25 Billion Egyptian Pounds (with total increasing amount of 750 Million Egyptian Pounds) divided to 450 million shares as nominal shares amounted to five Egyptian Pound per share financed from the legal reserves and other reserves appeared in financial statements for the financial year ended on 30/6/2017, and the securities committee issued a decision to approve this increase on 1/8/2018.
- The nominal share was divided by percentage of 1:5 to be one Egyptian Pound instead of five Egyptian Pounds with keeping the company's capital as it is amounted to 2.25 Billion Egyptian Pounds to be divided to 2.25 Billion Shares, and the necessary approval has been obtained from the concerned authorities according to the decision of the extra-ordinary general assembly for the Eastern company which held on 29/8/2018.
- The employee's union of the Eastern company has purchased number of 1 867 928 shares from the Eastern company shares, so, the company's shares will be (136 836 163) shares by contributions percentage up to 6.082%.

21- RESERVES

	<u>30/9/2019</u>	<u>30/6/2019</u>
Legal reserve	801 783	801 783
Regular /Statutory reserve	1 673 498	1 673 498
Capital reserve	549 681	549 681
Reserve to be invested in governmental bonds	20 662	20 662
Reserve of profits estimated budget	940 170	940 170
Other reserves	25	25
Total	3 985 819	3 985 819

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

• **Movement of share capital, reserves and retained earnings**

	Thousand Egyptian Pounds			Balance as of 30/9/2019
	Balance as of 1/7/2019	Additions	Exclusions	
Paid and issued share capital	2 250 000	--	--	2 250 000
Legal reserve	801 783	--	--	801 783
Reserve to be invested in governmental bonds	20 662	--	--	20 662
Capital reserve	549 681	--	--	549 681
Reserve of profit estimated budget	940 170	--	--	940 170
Statutory reserve	1 673 498	--	--	1 673 498
Other reserves	25	--	--	25
Retained earnings	1 540 289	--	28 597	1 511 692
Total	7 776 108	--	28 597	7 747 511

The reserves: was conformed according to the company's basic article of regulation.

The legal reserves: was conforming by percentage of 5% from net profit and can used to cover the company's losses and in increase capital.

The Other reserves: according to the board of directors' suggestion the general assembly can decided to compose any other reserves.

22- RETAINED EARNINGS

The expenses accounts and revenues of previous years' and the deferred tax have been settled according to the Egyptian Accounting Standard no. (5) regarding the accounting policies, the changes in accounting estimates, mistakes and the residual amount of rewards of the board of directors' in retained earnings account according to the company's general assembly decision.

23- DEFERRED TAX

	<u>30/9/2019</u>	<u>30/6/2019</u>
Deferred tax liabilities	362 765	361 579
Deferred tax assets	(186 200)	(176 334)
Net tax liabilities	<u>176 565</u>	<u>185 245</u>

- The deferred tax which result from temporary time differences between book value for assets and liabilities according to the account basic and its value according to the tax basic are recognized, the amount of deferred tax was determined according to what expected to achieve or settle values of assets and liabilities by using current tax price on the financial statements date, the deferred tax assets will be recognized when having a strong probability to achieve profits that may be taxed in the future where the assets can be used and the value of deferred tax assets can be decreased by the value of the part which will not achieve any tax benefits through the future years.
- Clearing was performed between the deferred tax assets and deferred tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

24- LONG-TERM PROVISIONS - PENSION

- The provisions included in the intangible liabilities are representing an amount of 571 535 Thousand Egyptian Pounds which expressing the end of service grant for all company's' employees.

25- PROVISIONS:

- The provisions are composing according to the Egyptian Accounting Standard No. (28).

• **Movement of provisions:**

	Thousand Egyptian Pounds			Balance as of 30/9/2019
	Balance as of 1/7/2019	Additions	Exclusions	
Provision of disputed taxes	209 238	--	--	209 238
Provision of legal claims and salaries	183 899	--	867	183 032
Total	393 137	--	867	392 270

- The provision of disputed taxes: composed to meet the tax liabilities.
- The provision of legal claims, salaries, and other: the company's lawyer prepared lists from his point of view according to the prospect liabilities.

26- TRADE AND NOTES PAYABLES

	30/9/2019	30/6/2019
Trade payables (public sector)	35 871	37 133
Trade payables (private sector)	79 501	104 698
Foreign Trade payables	778 903	1 315 657
Total	894 275	1 457 488

27- CREDITORS AND OTHER CREDIT BALANCES

	30/9/2019	30/6/2019
Governmental authorities current account	6 970 215	6 832 929
Dividends creditors	2 687 071	2 687 250
Accrued expenses	705 228	624 020
Other credit balances	304 564	314 469
Total	10 667 078	10 458 668

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

27/1 Governmental authorities credit accounts

	<u>30/9/2019</u>	<u>30/6/2019</u>
VAT tax authority*	6 849 026	6 740 215
Health insurance contribution	44 475	34 999
Corporate tax authority	58 922	27 311
Real State tax authority	1 260	952
National organization for social insurance	16 532	29 452
Total	<u>6 970 215</u>	<u>6 832 929</u>

* The amount of value added tax includes two-months "August and September" because of the electronic payment system where tax payment will be first day of the next month instead of being at the previous month.

27/2 Accrued expenses

- 705 228 Thousand Egyptian Pounds representing accrued expenses for employees and other.

27/3 Other credit balances

	<u>30/9/2019</u>	<u>30/6/2019</u>
Deposits from others	54 869	52 982
Fixed assets supplies	65 381	71 606
Remaining accrued cost relevant to finance leased machines	5 522	7 363
Deferred revenue related to gifted fixed assets	139 863	142 544
Other	38 929	39 974
Total	<u>304 564</u>	<u>314 469</u>

28- TRADE RECEIVABLES - ADVANCE PAYMENTS

	<u>30/9/2019</u>	<u>30/6/2019</u>
Credit trade receivables	67 326	56 085
Other receivables - scrap	193	266
Total	<u>67 519</u>	<u>56 351</u>

29- Financial lease contract obligations

- The financial lease contract obligations of represent amount of 71 732 Thousand Egyptian Pounds include the remaining obligations for the company and which about Financial lease contract

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

• **The Income statement:**

- The cost of revenues of the activity includes an amount of 8 995 Thousand Egyptian Pounds related to the depreciation of finance leased assets (for the time period from 1/7/2019 till 30/9/2019), in addition to an amount of 3 706 Thousand Egyptian Pounds as maintenance expenses (spare parts) concerning to the rented assets.

30- SALES REVENUE

	<u>30/9/2019</u>	<u>30/9/2018</u>
Net sales	3 103 267	2 843 650
Revenue of operation for other	579 108	548 504
Total	<u>3 682 375</u>	<u>3 392 154</u>

31- COST OF GOODS SOLD

	<u>30/9/2019</u>	<u>30/9/2018</u>
Raw Materials	1 617 161	1 584 997
Depreciation and amortization	125 854	103 370
Wages	420 501	404 233
Adjustments	63 317	12 043
Total	<u>2 226 833</u>	<u>2 104 643</u>

32- OTHER INCOME

	<u>30/9/2019</u>	<u>30/9/2018</u>
Gain from materials sales	62	137
Other miscellaneous income*	4 025	3 048
Gain from scrap sales	864	5 928
Rents income	550	231
Compensation from others	58	49
Capital profit**	1 893	1 840
Grants and subsidies ***	321	304
Foreign currency gain	--	3 677
Total	<u>7 773</u>	<u>15 214</u>

- The miscellaneous revenues include an amount of 2.7 Million Egyptian Pound relevant to gifted assets.

** The capital revenues relevant which is amounted to 1 893 Thousand Egyptian Pounds includes the amount of 1 841 Thousand Egyptian Pounds relevant to financing leasing.

*** The other revenues include grants and subsidies for the time period from 1/7/2018 till 30/9/2019. Also the comparative period which has been transferred from operating revenue to other revenue item.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
 (Amounts expressed in Thousands of Egyptian Pounds)

33- SALE AND DISTRIBUTION EXPENSES

	<u>30/9/2019</u>	<u>30/9/2018</u>
Salaries	89 473	86 064
Depreciation and amortization	1 171	692
Other	27 479	34 846
Total	<u>118 123</u>	<u>121 602</u>

34- GENERAL AND ADMINISTRATIVE EXPENSES

	<u>30/9/2019</u>	<u>30/9/2018</u>
Salaries	31 485	29 914
Depreciation and amortization	7 014	8 796
Other	12 058	2 945
Total	<u>50 557</u>	<u>41 655</u>

- The general and administrative expenses amount of 9.5 Million Egyptian Pound for takaful contribution or the period from 1/7/2019 till 30/9/2019.

35- OTHER EXPENSES

	<u>30/9/2019</u>	<u>30/9/2018</u>
Donations for other	8 020	1 135
From materials sales	233	--
Compensation and fines	4	--
Foreign currency exchange loss	23 037	--
Total	<u>31 294</u>	<u>1 135</u>

*** Foreign currency exchange loss:**

	<u>30/9/2019</u>
Foreign currency exchange profit	24 694
Foreign currency exchange losses	(47 731)
Total	<u>(23 037)</u>

36- FINANCING REVENUE

- The credit interests amounted 96 960 Thousand Egyptian Pounds relevant to return on company accounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2019
(Amounts expressed in Thousands of Egyptian Pounds)

37- FINANCING EXPENSES

	<u>Thousands Egyptian Pounds</u>
Related to Finance lease	3 724
Operating lease expenses	581
Total	4 305

38- OTHER FINANCIAL INVESTMENTS REVENUE

- The financial investments revenue include 3 111 Thousand Egyptian Pounds interest from investments in Suez Canal.

39- TAX EXPENSES

- The income tax in the income statement as of 30/9/2019 was amounted to 308 966 Thousand Egyptian Pounds.
- The deferred tax in income statement as of 30/9/2019 was amounted to 8 680 Thousand Egyptian Pounds according the following:

	<u>Thousand Egyptian Pounds</u>
Deferred tax assets	16 665
Deferred tax liabilities	(7 985)
Total	8 680

40- EARNINGS PER SHARE

	<u>Unit</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
Net profit of the period after deducting the dividends for employees, Youth and sport Authority, and rewards of Board of Directors Members.	Thousand Egyptian Pounds	995 584	930 911
Portion per share in net profit	Thousand shares	2 250 000	2 250 000
Total	Pounds	0.44	0.42

- Number of shares were divided to 2 250 Million shares according to the extra-ordinary general assembly held on 29/8/2018 and numbers of shares for the compared period as of 30/9/2019 was modified according to the Egyptian Accounting Standards.

The Cash Flows Statement:

41- CASH AND CASH EQUIVALENT

- The cash and cash equivalent balance amounted to 7 320 622 Egyptian Pounds as following:

	<u>Thousand Egyptian Pounds</u>
Time deposits in local currencies	337 878
Banks accounts	6 970 826
Cash on hand	11 918
Cash balance as of 30/9/2019	<u>7 320 622</u>

- The credit facilities which are available to be used in future are amounted to 10 590 Thousand Egyptian Pounds.
- These Include cash balance as of 30/9 amounted to 2.9 Billion Egyptian Pounds for the favor of the Financial Ministry regarding the declaration of May which paid in first day of October 2019 instead of the last day of September 2019 because the company applied the electronic payment system.

42- COMPARATIVE FIGURES

- The comparative figures in income and cash flows statements for the financial period ended September 30, 2019 have been audited by Central Auditing Organization because the company under the law no. 159 for 1981 according to the Extra-ordinary General Assembly meeting held on 2 June 2019 and we assigned as an auditor for the company for the financial year ended June 30, 2019.

43- OTHER DATA

43/1 Fight smoking:

- On 21/6/2007 the law no. 154 for the year of 2007 issued a modification of some provisions of the law no. 52 for the year of 1981 about the protection from the damage of smoking which prevents smoking completely in all facilities as health, educational, governmental departments, sports and social clubs, youth centers and all other places that the ministry of health determine. This law state penalties on those responsible for these places and on the smoker.

In addition the company is obliged to print a warning of smoking risk on at least the half of the two sides of the package accompanied with adding other warnings or publishing photos confirm damage of smoking, The company to comply with this law and the decree of minister of health and population no. 443 for the year of 2007, the company endured by additional burden cost as a result of the continuous adjustment in printing cylinders which resulting losses in the publications material related to products.

In addition, the company is obliged to change the photo each six months according to the decision of ministry of health and population.

43/2 The industrial complex project in the City of 6th October:

- The industrial complex project in 6th October was finished on total area equals to 353 acres with a total project cost amounted to 5.8 Billion Egyptian Pounds. Most of company's activities were transferred to the industrial complex; the company will invest its current valuable locations the best investment to decrease the company's finance cost.

43/3 Insurance:

- The company have various insurance using insurance policies which covered all potential risks that company may face, such as:

a. Comprehensive Certificate/document:

- To cover risks of fire properties, risk of cash transfer, dishonesty, machinery malfunction, the common civil responsibility, loss revenues, and remove debris.

b. Cars Certificate/document:

- Cover all risks fleet of cars facing (comprehensive insurance - compulsory insurance).

c. Transportation Certificate/document:

- Cover risks of transportation, sea and air transportation for all production materials and finished goods.

d. Lifts Certificate/document:

- Cover the civil responsibility result from operation.

e. Political violence Certificate/document:

- Cover terrorism, vandalism, willful acts, riots, civil unrest, armed insurrection, revolution, rebellion, military coup, and costs of rubble elimination.

f. Personal accident violence Certificate/document:

- Cover the death, the full and partial disability result from accidents and the medical care expenses (10% from the insurance amount). Terrorism risk was added.

g. Certificate/document of Dishonesty:

- Cover the drivers who are working on contractual terms for transporting the company's' products.

44/4 Environmental responsibility:

- According to the Eastern company's continued efforts to achieve protecting environment and preserving the common health and as a commitment by the company to apply the environmental requirements of Environment Law No. 4 for the year of 94 and it's amendments and executive regulations through implementing and maintaining the internal environment in its factories and the external environment surrounding the company in the purpose of achieving sustainable compatibility of its environmental conditions, these points are representing in some projects as following:

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- The company has established and implemented the integrated industrial complex in the industrial zone at the City of 6th October to include all its locations. This procedure is an evidence of commitment towards the environmental laws and regulations.
- The company has used the Natural Gas as a clean source of energy in operating boilers, generation power as a clean source of energy, and to reduce environmental pollutants from combustion.
- The company established an environment friendly incinerator and the heat generated are used to generate ice water in a heat exchange to A/C factories.
- The company has controlled the emissions of fine tobacco using cyclones with non-permeable filters to prevent dust of tobacco powder in the airspace in order to protect the environment from pollution and reuse and recycling through manufacturing natural tobacco flakes.
- The company established a station of liquid waste treatment (industrial drainage) in the industrial complex of the company in the City of 6th October with total capacity of 610 m3/day and the company got the environmental approval for energy raising up to be 1220 m3/day. Installations and the station are currently in the testing phase to start operation.
- The company has also implemented a project of central air conditioning operating by natural gas to one of its factories to avoid the impact of thermal stress knowing that there is no raise in the temperature of the working environment as a result of various industrial processes more than allowed rates according to the executive decisions and regulations, through the monitoring carried out at the facility.
- The company established a central station for collecting the manufacturing process outputs resulting from the company's production activities. Some items are sold and others are recycled in industries. Compost production from unusable dust of tobacco is also been studied.
- The company already bought a group of the environmental measuring devices to monitor pollutants and emissions of the work environment to determine the permissible limits in accordance with the requirements of the environmental law (number 4 for the year of 1994) and its executive regulation. In addition, the experts of the National Research Center had done the required regularly measurements and approved it in the environmental records for the different locations of the company. It is worth mentioning that the company spares no effort in supplying all personal protection tools to employees according to the nature of each activity.
- Extensive environmental approval was obtained for the project of establishing and extending a factory of roots plant (ESS) as space of 13350 m3 in the industrial complex of the company in the City of 6th October, the company has also planted green areas and windbreaks and ornamental plants inside the industrial complex zone , and that with the implementation of the construction requirements and green spaces in the general plan for the industrial complex approved by the Urban Communities Authority as well as green areas around the eastern side of the industrial complex.
- Environmental approval was obtained for the construction of a 1 MW solar power station with an area of 14000 m2 in the industrial complex of the company in the City of 6th October, the station has already been completed and

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it is currently in the testing phase for its service entry in order to reduce the burden on the electricity network in the industrial complex of the company in the City of 6th October. The company also is in the process stage of establishing additional electricity generating station by (BOT) system and 2 MW power.

- The soiled thinner is recovered and reused by an organic solvent separator. The company has all the environmental approvals and has updated environmental records approved by the largest research and scientific bodies (National Research Center) and it has been reviewed by the Environmental Affairs Agency. Also, the company is committed to all environmental laws and regulations.

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General Manager / Final accounts
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(Accountant/ Osama Fouad Mohamed)
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