First Quarter 2006 Results

Alexandria, 15 May 2006 – Lecico Egypt (Stock symbols: LECIq.L; LECI LI; LCSW.CA; LECI EY) announces its consolidated results for the first quarter of 2006.

Highlights

- Lecico revenues up 3% to LE 157.7 million (60.1% from sanitary ware)
- Sanitary ware revenue down 3% to LE 94.8 million, while volumes went up by 5% to 995 thousand pieces (57.8% exports in 1Q2006 versus 63.2% in 1Q2005)
- Tile revenues up 15% to LE 62.9 million, solely driven by a 15% growth in volumes to 4.32 million square meters
- EBIT down 21% to LE 28.8 million, margin down 5.8 percentage points to 18.3%
- Net profit grows by 15% year-on-year to LE 17.1 million, boosting bottom line margin by 1.1 percentage points to10.9%

Lecico Egypt Chairman and CEO, Gilbert Gargour, commented: “The return of, albiet modest, volume growth is most heartening after two gruelling quarters. Margins have started to recover from their low levels in the last quarter of 2005 though they are well below those of the first half of last year. Currency comparisons are a factor as the euro and sterling have weakened against the Egyptian pound over that period. Another important factor has been production costs reflecting the different mix of products. As the year unfolds these comparisons should get better and there is ground for cautious optimism.

It was encouraging to see demand in Egypt picking up. The UK market remains slow and early indications suggest that it might stay quiet until the second half of the year. We continue to increase our market share and generate new business. In the UK, Lecico began selling into the DIY market and into the unbranded segment of the builders’ merchants. Additionally, the roll out of our Middle East operation continues with first inventory shipment to our Algerian subsidiary made in April. Our tile segment continues to show strong momentum. With the continued roll out of frit capacity and the tile line upgrade, operational benefits for this segment should remain strong in the second quarter.”

Elie Baroudi, Lecico Egypt MD, added, “The impact of softness in demand was visible in sanitary ware exports, but more than offset at the revenue line by strong growth in our local sanitary ware markets, and our tile segment. We were able to enhance quarter-on-quarter sales growth with improvement in margins primarily by cutting the tile segment’s raw material costs. We will accelerate our marketing efforts and continue to optimize costs.”

Lecico Revenue and Profitability

Profit and loss statement highlights	1Q		%
(LE m)	2006	2005	06/05
Sanitary ware	94.8	98.1	97%
Tiles	62.9	54.5	115%
Net sales	**157.7**	**152.7**	**103%**
Sanitary ware/net sales (%)	60.1%	64.3%	(4.2%)
Cost of sales	(101.6)	(89.4)	114%
Cost of sales/net sales (%)	(64.4%)	(58.6%)	5.9%
Gross profit	**56.1**	**63.3**	**89%**
Gross profit margin (%)	35.6%	41.4%	(5.9%)
Distribution and administration (D&A)	(28.4)	(27.0)	105%
D&A/net sales (%)	(18.0%)	(17.7%)	0.3%
Net other operating income	1.1	0.5	238%
Net other operating income/net sales (%)	0.7%	0.3%	0.4%
EBIT	**28.8**	**36.7**	**79%**
EBIT margin (%)	18.3%	24.0%	(5.8%)
Net profit	**17.1**	**15.0**	**115%**
Net profit margin (%)	10.9%	9.8%	1.1%

1Q 2006: Sales mix softens margins and absence of FX loss restores bottom line growth

Revenue grew 3% year-on-year in the first quarter to reach LE 157.7 million primarily on the back of strong overall Egyptian demand and tile exports.

Gross profit for the quarter fell by 11% year-on-year to reach LE 56.1 million, as a result of a 5.9 percentage points decline in gross margin to 35.6%. This drop is attributed to a shift in sales mix toward lower-margin tiles (39.9% of 1Q 2006 net sales versus 35.7% in 1Q 2005) coupled with a contraction of sanitary ware margins (down from 50.7% in 1Q 2005 to 38.4% in 1Q 2006). The year-on-year Egyptian pound appreciation continued to affect average selling prices and margins in exports. The 1Q 2006 average exchange rate of the Egyptian pound has appreciated by roughly 12% year-on-year against the euro and the sterling.

Distribution and administration (D&A) expenses increased by LE 1.4 million to LE28.4 million, and proportionally by 0.3 percentage points to 18.0% of net sales for the quarter. Distribution expenses fell with lower sanitary ware sales volume in the UK, but restoration of management fee rate at 2% of gross sales drove administrative expenses up.

Net other operating income more than doubled year-on-year to LE 1.1 million in 1Q 2006, largely because tariff draw-backs on imported raw materials were collected in March this year versus April last year.

Operating (EBIT) profit for the quarter dropped by 21% year-on-year to reach LE 28.8 million, with the EBIT margin contracting by 5.8 percentage points to 18.3%.

Net financing expenses nearly doubled to LE 6.8 million in 1Q 2006, with growing interest expense outpacing the increase in interest income. Rising interest expense stemmed from build up of debt to fund working capital and fixed investments.

A fairly stable exchange rate for the Egyptian pound versus the US dollar throughout 1Q 2006 was responsible for virtually nullifying foreign currencies exchange loss. In 1Q 2005, the proceeds from the stock offering were responsible for the one off LE 13.3 million loss as a result of restating the Egyptian pound equivalent of those dollar proceeds following the appreciation of the pound.

Lecico’s effective tax rate (including deferred tax charge) dropped from 16.3% in 1Q 2005 to 13.7% in 1Q 2006.

Net profit for both periods is reported after the deduction of LE 1.8 million in respect of the accrual of employee profit participation as required under IFRS. Most Egyptian companies treat this expense as a component of profit distribution, which is deducted directly from reserves (shareholders' equity) as permitted by Egyptian Accounting Standards. Net profit for the quarter was up by 15% year-on-year to reach LE 17.1 million with net profit margin reaching 10.9% in 1Q 2006 versus 9.8% in 1Q 2005.

Segmental analysis

Sanitary ware

Sanitary ware segmental analysis			
	1Q		%
(LE m)	2006	2005	06/05
Sanitary ware volumes (000 pcs)			
Egypt (000 pcs)	370	322	115%
Lebanon (000 pcs)	50	24	205%
Export (000 pcs)	575	596	96%
Total sanitary ware volumes (000 pcs)	**995**	**943**	**105%**
Exports/total sales volume (%)	57.8%	63.2%	(5.4%)
Sanitary ware revenue	**94.8**	**98.1**	**97%**
Average selling price (LE/pc)	95.3	104.0	92%
Average cost per piece (LE/pc)	58.7	51.3	114%
Sanitary ware cost of sales	(58.4)	(48.4)	121%
Sanitary ware gross profit	36.4	49.7	73%
Sanitary ware gross profit margin (%)	38.4%	50.7%	(12.3%)

Sanitary ware sales volumes rose by 52,000 pieces or 5% year-on-year in the first quarter helped by strong demand in Egypt and a special promotion in Lebanon. Local sales have offset the decline in exports. Nonetheless, sales into France and the Middle East were quite strong. These volume figures compare very well with previous quarter.

Average sanitary ware price dropped 8% year-on-year to LE 95.3 per piece due to lower proportionate exports, appreciation of the Egyptian pound versus the euro and the sterling and shift in sales from the UK to lower-priced markets. Nonetheless, average local prices in Egypt held fairly well.

Average sanitary ware gross margin dropped by 12.3 percentage points year-on-year to reach 38.4%, in line with last year's second half. The drop in margins is explained by softer average prices, higher packing costs and lower production volume all driving average cost per piece up 14%.

Tiles

Tile segmental analysis			
	1Q		%
(LE m)	2006	2005	06/05
Tile volumes (000 sqm)			
Egypt (000 sqm)	3,261	3,161	103%
Lebanon (000 sqm)	146	181	81%
Export (000 sqm)	913	428	213%
Total tile volumes (000 sqm)	**4,320**	**3,770**	**115%**
Exports/total sales volume (%)	21.1%	11.4%	9.8%
Tile revenue	**62.9**	**54.5**	**115%**
Average selling price (LE/sqm)	14.6	14.5	101%
Average cost per sqm (LE/sqm)	10.0	10.9	92%
Tile cost of sales	(43.2)	(41.0)	105%
Tile gross profit	19.7	13.5	145%
Tile gross profit margin (%)	31.3%	24.8%	6.4%

Tile sales volumes grew by 15% year-on-year in the first quarter to reach 4.32 million square meters thanks to a 113% year-on-year export growth. Average net prices were slightly up at LE 14.6 per square meter, as higher proportionate exports were partially offset by lower average prices in Egypt.

In the first quarter, the gross margin for Lecico's tile segment surged by 6.4 percentage points year-on-year to reach 31.3%. The improvement in margins reflects the cost benefits of in-house production of frit late last year. Management believes that tile margins should remain strong over the course of the year, as more frit capacity comes on stream.

Financial position

The value of Lecico's assets increased by 7% over the quarter to reach LE 1,463.6 million driven primarily by continued investment in capacity growth (projects in progress), working capital and transitionary financing of current investments.

Total liabilities grew 13% to LE 725.6 million on the back of increasing debt over the period, net debt to equity reached 0.27x in 1Q 2006. Subseqent to the quarter end, Lecico has begun utilizing excess cash to reduce gross debt balance.

Recent developments and outlook

Outlook for 2006: The rest of the year is likely to be shaped by the evolving of demand picture in Lecico's main markets, which should be the principal drivers of growth in revenue and profitability for the company, particularly in the second half of the year. Demand and sales volumes in most markets should recover, although the UK remains slow.

First quarter sales were still negatively impacted by the softness in demand in the UK and Europe. This demand weakness, which commenced in the fourth quarter of 2004, is likely to continue to the second quarter of this year with improvement expected toward the second half of the year. Nonetheless, we continued to capture market share through existing products and by starting unbranded sanitary ware sales to builders' merchants in the UK. In Europe, including the UK, we are beginning to benefit from important contracts with the DIY sector and that too will strengthen our market shares. Preliminary sales figures for April and May suggest that demand is still weak.

Lecico UK continued to supplement its sales force to ensure national coverage and alignment with contractors' specifications, whereby 2 specification managers were appointed. Lecico France is also seeking registration of complete packs with French Standards "*Norm Française*". Certification by the national standardization agency should provide Lecico's products more inroads into the French sanitary ware market.

In Egypt, we saw demand picking up in the first quarter and hope this momentum will continue for the rest of the year, as the newly elected government is focused and committed to accelerate economic growth. Preliminary sales indicators of April suggest that demand is still robust. However, the announcement made during the first quarter of a planned price increase might delay this trend.

The fragile political environment in Lebanon continued to blur demand during the first quarter. Lecico Lebanon is, however, aggressively pursuing new export markets to offset any domestic sales loss. The year-on-year growth in sanitary ware volumes experienced in 1Q 2006 is continuing as suggested by the preliminary sales figures of April and May.

Capacity expansion and capital investment: Production capacity in both sanitary ware and tiles is expected to grow year-on-year over the rest of 2006. The upgrading of an existing tile line at Khorshid has already been completed in February with a total cost of USD 1.2 million, to bring on stream additional 0.3 million square meters of tile capacity per annum. The upgrade entitles Lecico to expand its product range of tiles and address various market segments.

Lecico began operation of its first frit kiln late in 2005 and its second frit kiln at the end of April 2006. Lecico plans to build a further three frit kilns to take total capacity to 60 tons per day. The third kiln should be operational sometime in the third quarter of 2006 with the remaining two kilns expected to be operational by mid-2007. The five kiln frit plant will – at full capacity – cover all the group needs for frit. The total project is expected to cost around USD 5 million, with USD 3.3 million already spent on the first three kilns. Frit is a key ingredient for tile glaze which was previously imported by Lecico and accounted for approximately 19% of the company's cost of sales for tiles. By producing frits in-house, Lecico not only reduces its foreign currency exposure, but expects to realize considerable cost savings. We have already seen cost-saving benefits of producing frit in-house with raw material production costs per unit in tile falling 13% year-on-year in 1Q 2006 results.

In sanitary ware, Lecico plans to take its fired clay capacity from its current level of 60 thousand pieces per annum to as high as 200 thousand pieces depending on demand prospects. Capacity addition is scheduled to come on stream by early 2007. If fully realized, this expansion would cost around USD 5 million and would necessitate a 300 thousand piece-reduction of vitreous china sanitary ware capacity.

The company is also extremely busy preparing for the launch of the two new sanitary ware lines (3 & 4) in Borg El Arab. These expansions will increase annual capacity to 7.1 million pieces, which should satisfy the demand of existing clients and allow Lecico to target new clients and markets. Trial runs for line 3 are scheduled by late 2006.

About Lecico

Lecico (Stock symbols: LECIq.L; LECI LI; LCSW.CA; LECI EY) is a leading producer of export-quality sanitary ware in the Middle East and one of the largest tile producers in Egypt and Lebanon, with over 45 years of experience in the industry and decades of experience as an exporter to developed markets.

Lecico benefits from significant cost advantages in labour, energy, investment costs and tax rates resulting from its economies of scale and location in Egypt and Lebanon. Lecico's marketing strategy is to use its cost advantages to target the mass market with high quality pieces at competitive prices.

Lecico exports over half its sanitary ware production and has a significant presence in the United Kingdom and other European markets. Most of the Company's exports are done under the Lecico brand, although it also produces for other European brands. Lecico has a strategic relationship with Sanitec, a leading producer of sanitary ware in Europe, and benefits from this relationship through information sharing, extensive knowledge transfer programs and significant outsourcing contracts for Sanitec's brands.

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Forward-looking statements

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Lecico Egypt consolidated income statement

Income statement (LE m)	1Q 2006	1Q 2005	% 06/05
Net sales	**157.7**	**152.7**	**103%**
Cost of sales	(101.6)	(89.4)	114%
Gross profit	**56.1**	**63.3**	**89%**
Gross margin (%)	35.6%	41.4%	(5.9%)
Distribution expenses	(11.5)	(12.3)	94%
Administrative expenses	(16.9)	(14.7)	115%
Other Operating income	1.4	0.6	238%
Other Operating expenses	(0.2)	(0.1)	234%
Operating profit (EBIT)	**28.8**	**36.7**	**79%**
Operating (EBIT) margin (%)	18.3%	24.0%	(5.8%)
Investment revenues	0.1	0.0	-
Gains on sale of investment	0.0	0.0	-
Interest revenues	5.2	1.5	342%
Financing expenses	(11.9)	(5.0)	240%
Foreign currencies exchange differences	(0.3)	(13.3)	2%
Profits before tax and minority (PBTM)	**21.9**	**19.9**	**110%**
PBTM margin (%)	13.9%	13.0%	0.9%
Income tax	(1.2)	(3.3)	37%
Deferred tax	(1.8)	0.0	-
Net Profit after tax (NPAT)	**18.9**	**16.7**	**114%**
NPAT margin (%)	12.0%	10.9%	1.1%
Employee profit participation	(1.8)	(1.8)	99%
Net profit before minority interest	**17.1**	**14.9**	**115%**
Minority interest	(0.0)	0.1	-
Net Profit	**17.1**	**15.0**	**115%**
Net profit margin (%)	10.9%	9.8%	1.1%

Lecico Egypt consolidated balance sheet

Balance Sheet (LE m)	31-Mar-06	31-Dec-05	1Q 06/FY05 (%)
Cash and short-term investments	367.6	319.4	115%
Inventory	274.8	271.4	101%
Receivables	209.4	197.3	106%
Related parties -debit balances	34.0	30.2	113%
Total current assets	**885.8**	**818.3**	**108%**
Net fixed assets	402.0	409.2	98%
Intangible assets	16.1	16.1	100%
Prepaid long-term rent	0.7	0.7	96%
Projects in progress	145.9	112.7	129%
Available for sale investments	5.5	5.5	100%
Long-term notes receivable	7.6	2.1	359%
Total non-current assets	**577.8**	**546.3**	**106%**
Total assets	**1,463.6**	**1,364.7**	**107%**
Banks overdraft	456.5	416.8	110%
Current portion of long-term liabilities	30.9	28.1	110%
Trade and notes payable	51.2	55.6	92%
Other current payable	67.8	56.1	121%
Related parties -credit balances	11.7	9.1	130%
Provisions	7.4	7.4	100%
Total current liabilities	**625.5**	**573.0**	**109%**
Long-term loans	77.8	49.1	158%
Other long-term liabilities	10.8	11.6	93%
Provisions	6.2	6.3	100%
Deferred tax	5.3	3.5	151%
Total non-current liabilities	**100.1**	**70.5**	**142%**
Total liabilities	**725.6**	**643.5**	**113%**
Minority interest	**5.3**	**5.2**	**102%**
Issued capital	100.0	100.0	100%
Treasury stock	(3.7)	(3.7)	100%
Reserves	368.0	368.1	100%
Retained earnings	251.3	162.7	154%
Net profit for the year	17.1	88.8	19%
Total equity	**732.7**	**716.0**	**102%**
Total equity, minorities and liabilities	**1,463.6**	**1,364.7**	**107%**

Lecico Egypt consolidated cash flow statement

Cash flow statement	1Q		%
(LE m)	2006	2005	06/05
Cash Flow from operating activities			
Net profit for the period	17.1	16.5	104%
Depreciation and translation differences	10.1	9.5	107%
Intangible assets amortisation	0.0	0.1	38%
Income tax expenses	1.2	3.3	37%
Deferred tax	1.8	0.0	-
Prepaid rent expenses	0.0	0.0	100%
Capital losses (gains)	(0.0)	0.0	-
Provisions and translation differences	0.1	0.1	178%
Increase in minority interest	0.1	0.2	52%
Decrease (increase) in translation reserve	(0.4)	(3.1)	13%
Adjusted operating profit	**30.1**	**26.5**	**114%**
Increase in Inventory	(3.4)	(16.0)	21%
Increase in Receivables	(15.9)	1.6	-
Increase in short-term investments	(18.3)	0.0	-
Increase in Payables	8.8	(25.1)	-
Utilised Provisions	(0.2)	(2.1)	10%
Net cash from operating activities	**1.2**	**(15.0)**	**-**
Cash flow from investing activities			
Additions to fixed assets and projects	(36.0)	(45.7)	79%
Increase in intangible assets	(0.1)	0.0	-
Net change in available for sale investments	0.0	0.2	4%
Proceeds from sales of fixed assets	0.0	0.1	28%
Decrease in long-term notes receivable	(5.5)	0.3	-
Net cash used in investing activities	**(41.6)**	**(45.1)**	**92%**
Cash flow from financing activities			
Decrease in bank overdraft	0.0	2.2	0%
Increase in long-term loans	28.7	(10.0)	-
Increase in current portion of long term loan	2.7	0.0	-
Decrease in other long-term liabilities	(0.8)	(0.1)	1387%
Increase in treasury stock	0.0	(3.7)	0%
Net cash used in financing activities	**30.6**	**(11.5)**	**-**
Net change in cash during the period	**(9.8)**	**(71.6)**	**14%**
Net cash at beginning of the period	(157.1)	264.2	-
Cash at the end of the period	**(147.4)**	**192.6**	**-**