



Lecico

Annual Report
2004



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Lecico 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 industry knowledge and decades of experience as an exporter to developed markets.

Highlights

Net sales

LE700m

2003 – LE559m

Net profit

LE148m

2003 – LE87m

Total assets excluding cash

LE851m

2003 – LE657m

Lecico benefits from significant advantages in labour, energy and investment costs resulting from its economies of scale and location in Egypt and Lebanon. Lecico's marketing strategy is to use its cost advantages and international experience 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 European markets, with fully-owned trading subsidiaries in the United Kingdom and France. In 2004, over 45% of the company's revenues came from sanitary ware exports. Most of the company's exports are sold under the Lecico brand name, but the company also produces for some of its export customers under their own brands. Lecico has a strategic relationship with Sanitec, a leading producer of sanitary ware in Europe, and benefits from information sharing, extensive knowledge transfer programs and significant outsourcing contracts.

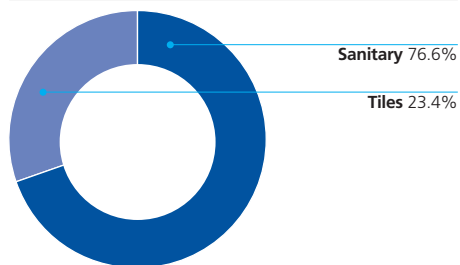
Lecico at a glance



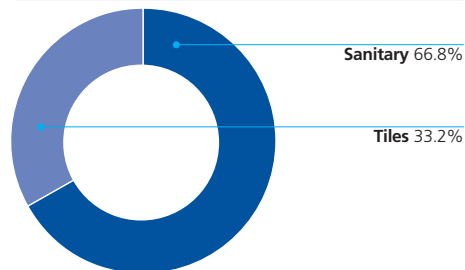
Lecico exports to over 55 countries around the world. Lecico's principal export customers are its subsidiaries in the UK and France and its largest OEM customer, Sanitec.

Split

Business split – Sales from sanitary ware and tiles



Business split – GP from sanitary ware and tiles



Sanitary ware sales volumes

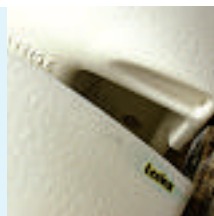
Year	Millions of pieces
00	2.40
01	2.72
02	3.38
03	3.98
04	4.35

Sanitary ware export volumes

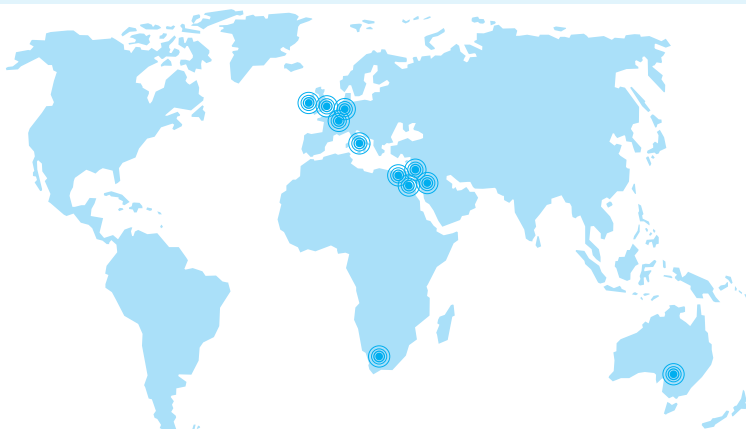
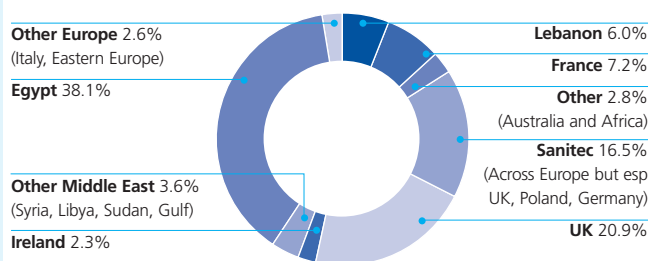
Year	Millions of pieces
00	1.23
01	1.24
02	1.43
03	1.98
04	2.44

Tile sales volumes

Year	Millions of square meters
00	4.76
01	9.21
02	10.84
03	14.59
04	16.09



Business split – Sales from sanitary ware and tiles



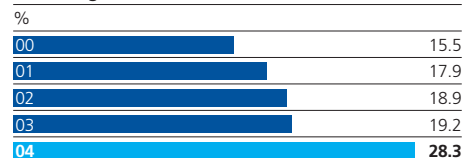
5 year summary

	2000	2001	2002	2003	2004	CAGR
Net sales	201.70	265.47	382.00	559.30	700.46	36.5%
Gross profit	68.81	100.66	149.34	222.11	310.20	45.7%
EBIT	31.17	47.40	72.10	107.59	197.91	58.7%
Net profit	15.97	28.42	44.15	87.47	148.18	74.5%
EPS	0.95	1.69	2.63	5.21	7.41	67.1%

Cash & Equivalents	48.57	92.99	85.26	140.58	473.70	76.7%
Total Assets	456.11	620.12	633.69	798.02	1,324.54	30.5%
Total Debt	197.30	251.53	270.58	334.73	420.84	20.8%
Total Liabilities	275.29	405.85	390.19	469.34	571.91	20.1%
Minority Interest	15.69	23.94	19.73	24.80	25.25	12.6%
Shareholders' Equity	165.13	190.32	223.77	303.88	727.38	44.9%

Egyptian Pounds (LE) in millions except per share data

EBIT margin



Chairman's statement

It is a unique privilege to present Lecico's first annual report – after over 45 years of company history as a regional innovator and leader in sanitary ware production and tile manufacturing.

This has been a remarkable year for Lecico, making the transition from a closely held company to a public one via our dual offering on the London and Egyptian stock exchanges in November 2004, and at the same time delivering record financial performance.

A year of record performance

Lecico's revenue was up 25% over last year to a record LE 696.8 million and net income grew by 63% to a record LE 142.8 million. A big driver of this growth in revenues and profitability came from our exports of sanitary ware although ceramic tiles continued to play an important part.

Globally competitive exports

Lecico has been focused on delivering products of the quality required for sophisticated and demanding international markets for well over a decade and, through our outsourcing and direct export sales across Europe, our sanitary ware has been accredited in the United Kingdom, France, Holland and Germany. We are extremely proud of these quality achievements and believe there are few producers in the world

who have met as broad a range of quality standards. By continuing to focus on delivering world-class products at competitive prices to both our domestic markets and our major European markets in 2004, our managers and employees were able to deliver strong and sustainable growth.

Of course, our returns from this strategy were enhanced by the depreciation of the Egyptian pound over the last two years. This significantly enhanced our competitiveness and we believe we are now one of the world's lowest cost producers of quality sanitary ware. Our planned expansions in the coming years will give us a great opportunity to exploit our high quality, low cost competitive advantage by fully serving the demand of our existing clients and targeting new markets and customers.



Gilbert Gargour
Chairman

Gilbert Gargour
Chairman and CEO



1959 Lecico founded in Kfarchima in Lebanon as a tile producer.



1967 Sanitary ware production started in Lecico Lebanon.

1978 Lecico begins Egyptian operations as a sanitary ware producer in Khorshid, Alexandria.

Managing Director's statement



Elie Baroudi
Managing Director

Last years performance was largely due to a continued focus on growing capacity and exports.

As a result of strong demand during most of the year, Lecico operated at close to full capacity, with sanitary ware and tile production at over 90% of capacity – not withstanding the capacity expansions we had embarked on.

Domestic and export sales

Management took a decision to limit sanitary ware sales into the Egyptian market in 2004, in order to better meet export demand and increase our domestic pricing power. As a result, total domestic revenues were up 12.3% at LE 351 million, despite limited volume growth and the proportion of domestic revenues falling 5.5 percentage points to 50.4% of total sales in 2004.

Exports remained the main driver in 2004, with export revenue up 40.2% over last year to a record LE 345.8 million. This growth was due to both strong volume increases and the positive impact of weakness in Egyptian pound exchange rates. The proportion of exports to total sales grew to 49.6% of sales, helping improve our overall profitability.

Financial position

Lecico's position was strengthened by the proceeds from our offering, which moved us to a net cash position with the ability to access substantial funds for future growth. Lecico's net working capital increased 18% year-on-year to reach LE 266.3 million, but fell proportionally to 38% of sales compared to 40% in 2003.

Business strategy

Over the coming few years, Lecico will continue to focus on expanding capacity in Egypt, supplying more to our existing domestic and export clients and targeting new markets. In 2005, our plans include adding casting capacity in both plants, expanding kiln capacity in Khorshid, and beginning to produce frit – the major imported raw material for tiles – internally.

Lecico is also expanding our fine fire clay sanitary ware capacity to produce more of the larger pieces – kitchen sinks, consoles and shower trays – for which we are seeing strong demand. This expansion began in 2005 with increased casting activity and will continue into 2006 with more investment in fixed assets to boost capacity to up to 200,000 pieces in our Khorshid facility

We are excited about our prospects in the coming years with growth coming from our ongoing investment in a significant expansion in sanitary ware capacity in Borg El-Arab. This program is expected to boost our overall annual sanitary ware capacity from 4.5 million pieces to 7.1 million pieces over 2006 and 2007. A challenging target that we hope will allow us to continue satisfying our existing clients while developing new customers and expanding into new markets.

Elie Baroudi
Managing Director

1997 Sanitec, Europe's leading sanitary ware manufacturer, acquires 37.5% stake in Lecico Egypt.



1999 New state of the art sanitary ware factory opened in Borg El-Arab, Alexandria.



2000 Lecico Egypt acquires controlling interest in Lecico Lebanon.

2004 Lecico raises capital through a dual offering on London and Cairo stock exchanges.



Key strength

Experience

Strong management with years of experience

The first sanitary ware producer in Egypt and Lebanon with over 45 years of experience



Lecico was founded over 45 years ago as one of the first sanitary ware producers in the Middle East. Decades of experience allowed Lecico to develop the strong brand and industrial expertise that give it the largest market share at home and the quality to export significant quantities to Europe and elsewhere.



Lecico's long history in Egypt and Lebanon have given it outstanding brand recognition, a bedrock of long-serving and experienced management and staff from all over the industry and with them an industrial expertise and production knowledge that we think is second to none in the region and beyond.

The "Lecico" brand

Lecico's position as the first and largest sanitary ware producer in Egypt and Lebanon along with decades of history as a regional exporter has made the Lecico brand name instantly recognisable throughout most of the Middle East. Our strategy of competitive pricing and international quality has resulted in strong demand for Lecico's products in these markets.



Management experience

Lecico's history and size have allowed it to build a unique mix of life-long employees, and in many cases several generations from the same families, from its home markets and some of the best talents in the industry globally. This blend of expatriate and domestic management and employees combines extensive sanitary ware and ceramics experience with a deep understanding of Lecico's particular facilities, markets and customers. Lecico is able to attract, motivate and retain knowledgeable and experienced employees due to our reputation, market position and high growth, which offers our staff significant opportunities for advancement and development. Each member of Lecico's senior management team has, on average, worked for 15 years as a Lecico employee and has an average of 22 years experience in the sanitary ware and/or tile industry.



"I feel Lecico is my company having spent over 35 years of my life as a major player in this industry with Lecico. We are building one of the largest, most efficient sanitary ware producers in the world – something I am immensely proud of."

Georges Ghorayeb Technical Director



Our management

Georges Ghorayeb is Lecico's Technical Director, planning all expansions and upgrades, and the MD for Lecico's Lebanese subsidiary. Georges has been with Lecico for 35 years, and it is the level of commitment and industry knowledge of workers and managers like Georges that has allowed Lecico to achieve the quality standards and international profile it enjoys today.



Key strength

International

Major export profile founded on internationally certified product quality

Sanitary ware exports to over 55 countries account for over half of Lecico's revenues



Lecico has been exporting for decades, building a significant presence in the UK, France, Ireland and across Europe under our own brand, while manufacturing under other brands for Sanitec and others. Quality is the foundation of our export success and we are certified under a range of thorough European standards.



Lecico's exports accounted for 49.6% of sales volume, with 84% of exports going to Europe in 2004. We estimate we have market shares of 8% and 17% in the United Kingdom and Ireland under the "Lecico" brand and a significant presence in France, our second largest export market.

Internationally certified quality

As Lecico built its export ability, the biggest challenge faced was the rigorous production quality standards of developed markets. Over the past two decades, through extensive quality improvement and control programs, we achieved a range of quality certifications including BSI (United Kingdom, 1994), NF (France, 1999), Kiwa (The Netherlands, 2001), the TSUS (Slovak Republic, 2002) and Lecico also earned ISO 9001 in 2000.

Manufacturing for others

The other "school" for quality has been manufacturing as an outsourcer for other producers and retail brands. Some of our earliest experiences of struggling with European quality were producing for other sanitary ware brands. Because of their industry knowledge and the reputational risk involved, these customers tend to be more exacting in quality control than national certifiers. Lecico's most significant OEM relationships is with Sanitec, a major shareholder in Lecico and Europe's largest sanitary ware producer. In 2003, we signed a purchase agreement with Sanitec that gives both parties a four-year soft landing should either decide to terminate. In 2004, around 29% of total export revenues came from OEM work for European sanitary ware and retail brands.

"We have built up Lecico UK to its current level by giving our customers the highest levels of service and quality products designed specifically for the UK market. We aim to continue growing by further improving service, quality and design."

Thomas Mankert MD of Lecico UK



Our management

Thomas Mankert (seated in centre) joined as MD of Lecico UK in 1999, and since joining has helped Lecico UK almost double its sales volume to reach 823,000 pieces in 2004. Prior to joining, Thomas had spent over 25 years setting up and managing marketing subsidiaries in Europe and the US. Thomas is an example of how Lecico's size and growth record allows it to attract quality international management.



Key strength

Cost

One of the lowest cost sanitary ware producers in the world

Lecico's sanitary ware investment and production costs estimated at lower than 50% of developed market peers



Lecico believes it has a very competitive cost structure for sanitary ware and tiles production as a result of Egypt's low labour costs, low energy costs, low freight costs to Europe and the company's years of experience and economies of scale.



Lecico is very proud of its products' quality, which distinguishes us from the majority of producers in low cost markets. However, it is our ability to produce quality pieces at a fraction of European costs and at a significant discount to regional competitors that allows us to grow exports so rapidly.

Low production costs

Lecico has a very competitive cost structure for sanitary ware and tiles as a result of Egypt's low labour costs, low energy costs, low transport costs and our years of experience and economies of scale. Our competitive advantage is particularly strong in sanitary ware, where casting and finishing require a significant reliance on skilled labour. These advantages have been enhanced by the depreciation of the Egyptian pound over the past three years. As a result of these advantages, Lecico can produce sanitary

ware at an average ceramics cost of US\$ 6-7 per piece compared to an average of over US\$ 20 in Europe.

Low investment costs

Lecico constructs plants at costs well below industry norms. Our plants are relatively compact since we design our production lines around the flow of material and use on-site casting area drying. We benefit from economies of scale, as our plant's capacities are more than twice the industry average. Most importantly, Lecico produces or locally sources much of its casting, preparation and processing equipment. As a result, we can build sanitary ware facilities at a cost of US\$ 12-15 per piece compared to over US\$ 30 in Europe.

"I've managed plants from South Africa to Staffordshire and none could produce quality ware at Lecico's cost. Our combination of size, expertise and Egypt's low cost environment allow us to compete on price globally without sacrificing product quality."

Brian Dalgarno Production Director



Our management

Brian Dalgarno, Lecico Egypt's Sanitary ware Production Director, previously managed our Khorshid plant for over eleven years. Born and raised in the heartland of England's ceramics industry, Brian has over 34 years sanitary ware experience and has held senior positions in Betta Sanitary ware (South Africa), Spring Ram (UK), Twyford's (UK) and Porcelainware Ceramics (Nigeria).



Key strength

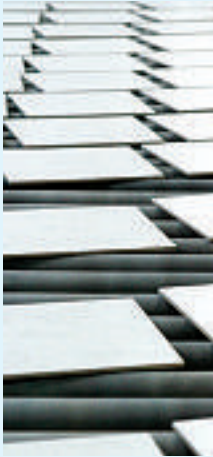
Size

One of the regions largest ceramics industry producers

Despite our large current capacity, Lecico is expanding rapidly to meet anticipated demand



Our large production capacity size has a significant role in keeping our costs low and maintaining our broad range of clients and markets. Lecico is in the middle of an expansion to bring our capacity to over 7 million sanitary ware pieces and 18 million square meters of tile.



Over the past three years, strong demand has kept Lecico operating around full capacity despite several expansions. In 2004, Lecico was unable to meet demand from existing clients, let alone tap the larger potential market we feel exists for our products. To meet this challenge, we are significantly expanding capacity.

Expanding capacity

We currently have three minor sanitary ware expansion projects underway for 2005 and a major expansion planned for 2006. We are expanding our casting shops at both plants for greater flexibility in varying the proportions of types of sanitary ware produced; we are also expanding our kiln capacity in our Khorshid plant to add 0.5 million pieces boosting the plant's annual capacity to 2.5 million pieces. Our next major expansion is due to occur over 2006 with the

addition of two new lines at Lecico's Borg El-Arab plant, doubling its capacity to 4.0 million pieces. Once these projects are completed, the company should have an overall sanitary ware capacity of 7.1 million pieces annually, which management estimates will make us the sixth largest sanitary ware producer in the world.

Eye to the future

With an eye to further expansions in coming years, Lecico purchased an additional 150,000 square meter plot of land adjacent to its sanitary ware plant in Borg El-Arab for further expansions. The Company may use the land to add further sanitary ware, tile capacity, to invest in other complementary or substitute products in its core industry. and/or to increase the size of its warehousing facilities.

"I have helped Lecico evolve from a small plant into probably the largest in the region and I have grown with it: in knowledge; responsibility; and experience. I can't imagine having had the same opportunities and impact somewhere else."

Ahmed Sharaf General Manager of Finance, Legal and Administration



Our management

Ahmed Sharaf joined Lecico when the company began operations in Egypt in 1978 as an accountant and has developed with us to become our General Manager for Finance, Legal and General Administration. Ahmed's career is a good example of Lecico's ability to attract and nurture quality local staff.

Sanitary ware

Decades of experience producing European-quality sanitary ware at local costs is the heart of Lecico's success and generates more demand than we can service. Lecico aims to continue growing our business by rapidly expanding capacity and continuing to improve quality.



Lecico has been producing sanitary ware in Lebanon and Egypt for over forty-five years and it is the core of our business, accounting for over 65% of revenues in 2004. Our depth of experience is particularly important because sanitary ware is an artisanal product in which consistent quality requires years of skill and practice at all levels of the production process. For Lecico quality is a constant effort, after decades of exporting and years of partnership and knowledge exchange with a number of top European brands and producers, quality improvement remains a key focus of our plant managers and our entire company.

A variety of products

Lecico's sanitary ware products are sold both in sets and as individual pieces. Sets include either four or five pieces (toilet base, toilet tank, wash basin, basin stand, and occasionally a bidet). Under the "Lecico" brand name, the company produces more than 13 different designs of sanitary ware sets, and the best-selling Atlas and Soraya ranges account for approximately 27% and 23% of production respectively. Additionally, Lecico produces over 30 individual sanitary ware pieces for sales to distributors and for sale under other brands for Sanitec, Ikea and others. Individual pieces include other types of sanitary ware products such as shower trays, urinals and squatting pans, and account for approximately 35% of total sanitary ware production.



High quality at low costs

The quality of Lecico's sanitary ware has been the driver of much of the growth in the business in past years. Lecico enjoys several benefits from its location in Egypt, chief among them an abundance of extremely competitive labour and low cost energy.



A closer look

Exports

Sanitary ware exports are the largest and fastest growing source of revenues for Lecico Egypt.

Lecico exports sanitary ware to over 55 countries in Europe, the Middle East and Africa. Sanitary ware exports are Lecico's largest revenue source, accounting for over 45% of revenues in 2004. Exports are also the fastest growing part of the business, with sales volumes doubling from 1.2 million pieces in 2001 to 2.4 million pieces in 2004.

Exports to Europe accounted for 83.7% of total exports. In Europe, Lecico sells products under its own brand name in the United Kingdom, France and other markets. Lecico also produces under other brands for European retailers and manufacturers – primarily for Lecico's partner Sanitec – in 2004, over 28% of total exports were sold as OEM products for someone else's brand.

Lecico sells through distributors in most markets, but has its own trading subsidiaries in the UK and France. The UK subsidiary, Lecico plc, has an approximately 8% market share, distinguishing itself through customer service and after-sales service. Lecico plc's sales accounted for over 34% of total exports and the UK represents Lecico's largest market outside of Egypt. Lecico France operates under a different model and sells primarily to large, price-sensitive DIY chains of stores such as Castorama. Exports to France accounted for 11.6% of export volumes in 2004.

Breakdown of sanitary ware sales

By volume	000's Pieces		Value	
Egypt	1,600	37.5%	96.4	20.6%
Lebanon	276	6.5%	56.6	12.1%
Export	2,389	56.0%	316.0	67.4%
	4,265		469.0	

These cost advantages make Egypt an extremely competitive country to manufacture sanitary ware in, especially following the significant depreciation of the Egyptian pound against the euro, the British pound and the U.S. dollar over the past three years. As a result of these advantages, Lecico can produce sanitary ware at an average ceramics cost per piece of US\$6-7, compared to US\$20-30 in Europe and over US\$12 in other low cost countries.

The quality of Lecico's products allows it to use its cost advantage to compete internationally, making sanitary ware exports the largest and fastest growing part of Lecico's business. All of the Company's sanitary ware products meet international quality standards and are produced to different standards applicable in the United Kingdom (BSI), France (NF), the Netherlands (Kiwa), Denmark (ETA) and Slovakia (TSUS), depending on their export location.



Operational review

Sanitary ware



Rapid capacity expansion

Due to its quality commitment and ability to price competitively, Lecico is experiencing increasing customer demand for its products, Lecico has been operating at an average of over 95% of capacity for the past three years. During this period, Lecico has been constrained in its ability to service its existing clients, let alone enter new markets and establish new customer relationships. In order to meet this increasing demand, the Company intends to take steps significantly to increase its production.

Lecico is currently expanding capacity in both of its Alexandria plants. In its older, space-constrained Khorshid plant, the company is expanding its shuttle kilns capacity and adding a new kiln and casting area, which is expected to add an additional 0.5 million pieces to increase the plant's annual capacity to 2.5 million pieces by the end of 2005. At its newer Borg El-Arab plant, Lecico is building a new 2.0 million pieces per annum plant, expected completion around the end of 2006. Lecico will have a sanitary ware capacity of 7.1 million pieces per annum once these projects are completed, making us around the sixth largest sanitary ware producer in the world.



Looking beyond 2007, Lecico has purchased a further 150,000 square meter plot of land adjacent to its sanitary ware plant in Borg El-Arab for future cost-effective expansion. The Company may use the land, which is strategically located next to the Borg El-Arab plant, to add further sanitary ware and/or tile capacity, and/or to increase the size of its warehousing facilities, or to invest in other complementary or substitute products in its core industry.



A closer look

Domestic

Lecico is the largest sanitary ware presence in its domestic markets of Lebanon and Egypt

The Lecico brand, which is over 40 years old, is known around the Middle East for competitive pricing and quality, which has enabled us to maintain leading market shares in our home markets of Egypt and Lebanon. In both, Lecico sells its products through distributors, many of whom are exclusive to Lecico and/or have long-standing relationships with us. Lecico offers both sanitary ware and tile products, ensuring its products are given prominence by local wholesalers and get greater end-users recognition.

Lecico's Egyptian sanitary ware market share is around 38%, around three times that of nearest competitors Cleopatra and Gravena. Lecico is the only Lebanese sanitary ware producer, but faces import competition and has a market share of approximately 55%.

In Egypt, Lecico targets the large low to middle price segments of the market where Lecico is both a quality and price leader. Egyptian sales are conducted through 32 domestic distributors, half of whom are exclusive. In Lebanon, Lecico targets the more affluent middle to upper-middle price segments as well and sales are conducted through 20 distributors. Lecico gives all its distributors bonuses and special discounts for large volumes, as well as offering them tiles at low prices with exclusive designs, allowing them to realise better overall returns.

Sanitary ware exports by volume

000's pieces	2001	2002	2003	2004	CAGR
UK	506.5	640.9	767.6	823.0	17.6%
Sanitec	20.0	11.1	348.3	683.0	224.4%
France	289.7	299.9	317.9	278.1	(1.4%)
Ireland	81.9	81.1	110.0	114.3	11.8%
Other Europe	110.8	99.9	77.7	99.8	(3.4%)
Middle East	174.2	114.4	155.3	229.4	9.6%
Other	216.6	183.7	204.8	161.1	(9.4%)
Total exports	1,399.7	1,431.0	1,981.6	2,388.7	19.5%
Exports as a percent of total sales	44.4%	42.3%	49.8%	56.0%	

Ongoing commitment to quality

Lecico believes a continued commitment to improving quality is the best guarantee the company can have for maintaining and growing demand for its products to absorb both the planned capacity increases and future expansion plans. However, even after decades of effort, the quality commitment required to compete in international markets still requires from us sacrifices in productivity and production costs. In order to continue reducing the costs associated with maintaining quality, Lecico is working closely with its equity partner Sanitec on two ongoing quality programs – production quality and quality assurance – with Sanitec experts in both areas seconded to Lecico for

three weeks per month. These are deep reaching programs looking to improve our yields in the face of an ever-widening product range and improve our production management processes to ensure the permanence and sustainability of these improvements into the future.



Tiles

Tiles are a key part of our product suite for domestic and neighbouring Middle Eastern markets. Our tiles business has high turnover, low working capital, acts as a tool to incentivise distributors and enhances our brand-image through artistic specialty products.



Lecico produces approximately 300 types of wall and floor tiles. Tiles are almost exclusively produced for sale in its domestic markets of Egypt and Lebanon, with exports accounting for less than 7% of total tile sales in 2004. A significant portion of tile sales, approximately 42%, is produced to customer-specified designs, which allows our distributors to achieve higher margins. As a policy, Lecico also tries to ensure its tiles are priced competitively, ensuring loyalty and exclusivity from our distributors.

While tile is a lower margin business than sanitary ware, it is crucial for Lecico's domestic and Middle Eastern operations. In these markets tile and sanitary ware are sold through the same channels with most distributors selling about three times the value of tile that they do sanitary ware. To have a large presence in these markets with exclusive distributors requires tiles.

Tile is also strong cash generator for Lecico with an averaged tiles finished goods inventory of less than two weeks, compared to closer to three month inventories for sanitary ware. Indeed, demand for our tiles is so strong that Lecico has increased tile capacity by 8.0 million square meters in the past two years, bringing total capacity to 18.1 million square meters per annum. Despite this rapid expansion, Lecico's

Tile capacity and sales by volume

000's sqm	2000	2001	2002	2003	2004	CAGR
Tile capacity	10,200	10,200	10,841	14,500	16,500	12.8%
Tile sales volume	5,727	10,272	10,840	14,592	15,334	27.9%
Percentage of capacity utilisation	56.1%	100.7%	100.0%	100.6%	92.9%	

Local sales volume	5,543	9,920	10,251	13,579	13,750	25.5%
Export sales volume	183	351	589	1,013	1,584	71.4%
Local sales as a percent of total sales	96.8%	96.6%	94.6%	93.1%	89.7%	





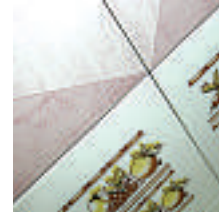
A closer look

Artisanal ceramics

Lecico range of artisanal ceramics stretches from hand-painted custom orders to competitively priced diffusion ranges.

In addition to the standard sanitary ware and tile lines that make up the majority of Lecico's business, the company also produces a range of more artisanal products that capture some of the rich history and beauty of ceramics. Lecico's range of artisanal products is focused on Islamic tiles and on tile tableaux and ceramic tables custom-painted with an astonishing range of decorative themes and motifs: geometric; floral; mosaic patterns; Arabic calligraphy and recreations of a range of famous paintings and pieces of art.

Lecico's artisanal ceramics range from affordable, diffusion lines of these products to more expensive, bespoke hand-painted designs, giving our customers a range of options to suit their budgets and needs. All these products, but particularly Lecico's hand-painted tables and tableaux, benefit from the low cost of skilled labour in Egypt – making us even more competitive in artisanal ceramics than in our regular product



Our management:

Alessandro Raimondi, Khorshid Tile Plant Manager

Unique

Alessandro Raimondi brings over 35 years of international tile industry experience to Lecico

Mr. Alessandro Raimondi, an Italian with over 35 years experience in the industry, is the plant manager for all our tile production in Egypt. Mr. Raimondi joined Lecico in 1999 and, since his joining, our tile capacity has grown from 10 million square meters per annum to 18 million square meters currently. Mr. Raimondi is also overseeing the installation of a frit plant in 2005, which will produce one of our most expensive imported raw materials domestically. Mr. Raimondi has also been instrumental in developing our artisanal ceramics ranges and adding technology that has allowed us to reduce our production costs for these products.

competitive pricing and exclusive designs for distributors have allowed its tile operations to be maintained at an average of over 98% capacity utilisation for the last three years.

Tile is also an image-enhancing product for the Lecico brand with our more artisanal tile lines – Islamic tiles, tableaux and tables – offering unique, high-end products that help underline Lecico's commitment to quality and innovation (see A closer look).

In Egypt the tile market is both more competitive and more cyclical than the sanitary ware market, by combining sanitary ware and tile sales, Lecico has enjoyed greater protection from these cyclical changes. Lecico estimates its tile sales represent approximately 16% of the total Egyptian market. Our main domestic competitors include Cleopatra, Pharaohs and Gemma, all of whom have larger market shares than Lecico.

In Lebanon, Lecico is one of only two domestic tile producers, the other being Uniceramic. As with sanitary ware, a feature of the Lebanese tile market is the extent of import penetration. Management estimates that tile imports account for around 55% of domestic tile sales and believes its market share is around 15% of total tile sales.

Board of Directors



Directors

The Board of Directors currently consists of 11 Directors. Pursuant to the statutes of the Company, the term of a Director is three years and may be renewed for additional terms.

From left to right:

Farid Saad, Georges Ghorayeb, Elie Baroudi, Rainer Simon, Gilbert Gargour, Aref Hakki, Pertti Lehti, Juergen Lorenz, Toufick Gargour, Alain Gargour, Mohamed Younes.

Name	Age		Representing	Year initially appointed to Board
Mr. Gilbert Gargour	61	Chairman	Intage	1981
Mr. Elie Baroudi	58	Managing Director	Management	2003
Mr. Alain Gargour	52	Director	Intage	1997
Mr. Toufick Gargour	63	Director	Intage	1974
Mr. Georges Ghorayeb	54	Director	Management	2003
Eng. Aref Hakki	70	Director	Independent	1998
Mr. Pertti Lehti	46	Director	Sanitec	2002
Mr. Juergen Lorenz	62	Director	Independent	2003
Dr. Farid Saad	65	Director	Independent	1989
Dr. Rainer Simon	54	Director	Sanitec	2002
Mr. Mohamed Younes	66	Director	Independent	2004

Gilbert Gargour
Chairman and CEO

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

Mr. Elie Baroudi
Managing Director

He was appointed Managing Director in September 2002. 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 Expresses' Egyptian joint venture bank, Egyptian American Bank (1986 to 1990).

Mr. Alain Gargour
Non-executive Director

He has been involved with Lecico since 1978 and has been a Director of the Company since 1997. He is also a Director of Lecico Lebanon, Lecico UK and Chairman of Lecico Egypt's Finance Committee. He is a Director and co-owner of Intage. He is a citizen of both Lebanon and the United Kingdom and holds an MBA from the University of Chicago.

Mr. Toufick Gargour
Non-executive Director

He has been a Director of the Company since 1974. He is a citizen of both Canada and Lebanon and holds an IEP from INSEAD. In addition to being a Director at Lecico Egypt, He has been a Director of Lecico Lebanon since 1969 and is Chairman of Gargour Holdings S.A. and a Director and co-owner of Intage. He served as the General Manager and as a Director of T. Gargour & Fils SAL (1968 to 1996) and Uniceramic Lebanon (1973 to 2000).

Mr. Georges Ghorayeb
Executive Director

He has been a Director since 2003. A Lebanese citizen. He joined Lecico Lebanon in 1970 and has served as Group Technical Director since 1993 and Managing Director of Lecico Lebanon since 1997.

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 U.S. and Switzerland (1970 to 1978).

Mr. Pertti Lehti
Non-executive Director

He has been a Director since 2002. He is a citizen of Finland and has been a Senior Vice-President for Ceramics Production at Sanitec since October 2001. 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). He is one of the two Directors of the Company representing Sanitec, a key customer and principal shareholder in Lecico Egypt.

Mr. Juergen Lorenz
Non-executive Director

He has been a Director since 2003. He is a citizen of Germany. He has been the Chairman of Grome Cyprus since January 2002 and has worked for Grome since 1982, acting as a Director and General Manager in Cyprus (1985 to 2002) and as Chairman and General Manager in Cairo (1982 to 1985). Prior to working for Grome, he worked for Friedrich Grohe in the Middle East from 1970 to 1982.

Dr. Farid Saad
Non-executive Director

He has been a Director since 1989. He is a citizen of Egypt and the United States of America and holds a PhD in Finance and a B.Sc in Mechanical Engineering from the Massachusetts Institute of Technology. In addition to serving as a Director of Lecico, he founded and has served as Chairman and Chief Executive Officer of EFC since 1985 in addition to sitting on the board of directors for a number of companies. Prior to founding EFC, Dr. Saad served as the Managing Director and Vice-Chairman of Egyptian American Bank (1975 to 1985).

Dr. Rainer Simon
Non-executive Director

He has been a Director since 2002. He is a German citizen and holds a doctorate of Economics from Saint Gallen (Switzerland). He has been the President, Chief Executive Officer and Chairman of Sanitec Corporation since 2002 and is one of the two Directors representing Sanitec, a key customer and principal shareholder in Lecico. Prior to joining Sanitec he was a member of the Executive Board of Friedrich Grohe and its successors and held senior management positions at Continental AG and Keiper-Recaro GmbH.

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. Among his other directorships, Mr. Younes sits on the board of the Central Bank of Egypt and is a member of the Cairo and Alexandria Stock Exchange's International Advisory Board. He is a Founder and a Member of the Board of Directors of the Egyptian Investment Management Association.

Financial review

Operational review

2004 was a record year for Lecico Egypt, with the company achieving new highs in export volumes, revenues and profitability. Annual revenue for 2004 was up 25% year-on-year at LE 696.8 million. Revenue growth was primarily price-driven and reflects both an increase in the proportion of higher-priced exports, the positive impact of year-average Egyptian pound exchange rate weakness and domestic price increases.

Gross profit for the year grew 35% to LE 300.1 million, with the margin increasing by 3.4 percentage points to reach 43.1%. This profitability growth was largely driven by the increased proportion of sanitary ware revenues, particularly exports. The weight of sanitary ware revenues rose 1.4 percentage points to 67.3% of total sales for the year. EBIT increased by 74% year-on-year to reach LE 187.6 million, with the EBIT margin improving by 7.7 percentage points to reach 26.9%. This improvement was the result of proportionally lower spending on distribution and administration (D&A) expenses as well as a move from a net other operating expense in 2003 to a net other operating income in 2004, as a result of the completion of provisioning for doubtful receivables incurred in 2000-2001.

Net profit increased by 63% year-on-year to reach LE 142.8 million, with margins for year up 4.9 percentage points to reach 20.5%. Lecico's net profit result was impacted by a significantly lower foreign exchange gain – due to the relative stability of the pound between the end of 2003 and the end of 2004 – and a higher tax charge squeezed profitability. However, this was partially offset by a significant reduction in minority interest charges following Lecico's acquisition of the minority stake in its Borg El-Arab subsidiary.

Sanitary ware

Sanitary ware sales volumes grew by 7% in 2004, led by exports despite a slowdown at the year-end. Export volumes grew 21% to account for 56% of total volumes sold over the year, compared with 49.8% last year. Average sanitary ware prices rose 19% to LE 110 per piece, compared to LE 93 per piece in 2003. This was due primarily to the greater volume of exports sold and increases in both domestic and export sanitary ware prices as a result of exchange rate movements and specific price increases.

Sanitary ware gross profit margin improved by 4.5 percentage points year-on-year to reach 50%.

Sanitary ware exports: Lecico's growing role as an OEM supplier to Sanitec was the largest contributor to growth in export volumes over the year, followed by increased sales to the Middle East and the UK respectively. Exports to Europe grew 23% year-on-year to account for 83.7% of total exports.

Tiles

Tile sales volumes grew by 5% year-on-year as a result of the additional production line installed in Khorshid at the end of the second quarter. Volume growth was driven by exports, which rose 56% year-on-year. Most tile exports are to neighbouring, quasi-domestic markets like Libya, Sudan and Syria. Average prices rose 14% year-on-year to reach LE 15 per square meter as a result of domestic price increases and the greater proportion of exports. Segmental margins improved slightly over the previous year – as a result of higher prices and despite the inflationary impact of weakness in the Egyptian pound – rising 0.4 percentage points year-on-year to average 28.9% for 2004.

Financial position

The value of Lecico's assets increased by 38% over the year to reach LE 1,102.5 million, mainly as a result of increases in cash and equity following our public offering in November. Excluding the increase in cash resulting from the offering and operations, asset growth was a more modest 22% year-on-year. Real asset growth remained slower than revenue growth and significantly below the growth in the company's profits.

Total liabilities fell by 16% to LE 395.0 million at the end of December following Lecico's decision to use some of the proceeds from its offering to reduce its gross debt balance by LE 108.8 million or 33%. Payables continued to rise improving the company's working capital position.

Net working capital increased 18% to LE 266.3 million from LE 225.8 million at the end of 2003, largely as a result of an increase in inventory due to some build up of inventory partially as the company typically stocks inventory in its slow months and partially because of slowness in the UK market. Inventory grew 28% year-on-year but inventory days only grew by 9%.

Recent developments and outlook Lecico's continuing partnership with Sanitec

During the first quarter of 2005, our partner Sanitec was acquired by new owners. Sanitec, the largest producers of sanitary ware in the world, is a major shareholder in Lecico as well as being its largest single customer and leading numerous benchmarking, training and technical improvement programs for the company.

In 2003 Sanitec's net sales amounted to EUR 951.1 million and today the group employs approximately 7,100 people. The company is the largest or second largest supplier in all its

Profit and loss statement highlights

(LE m)	FY		% 04/03	FY			2000-04 CAGR%
	2004	2003		2002	2001	2000	
Sanitary ware	469.0	368.7	127%	248.9	178.2	149.4	33%
Tiles	227.8	190.6	120%	133.1	87.2	52.2	45%
Net sales	696.8	559.3	125%	382.0	265.5	201.7	36%
Sanitary ware/net sales (%)	67.3%	65.9%	1.4%	65.2%	67.1%	74.1%	
Cost of sales	(396.7)	(337.2)	118%	(232.7)	(164.8)	(132.9)	31%
Cost of sales/net sales (%)	(56.9%)	(60.3%)	94%	(60.9%)	(62.1%)	(65.9%)	
Gross profit	300.1	222.1	135%	149.3	100.7	68.8	45%
Gross profit margin (%)	43.1%	39.7%	3.4%	39.1%	37.9%	34.1%	
Distribution and administration (D&A)	(113.8)	(103.1)	110%	(65.1)	(43.0)	(37.8)	32%
D&A/net sales (%)	(16.3%)	(18.4%)	2.1%	(17.0%)	(16.2%)	(18.7%)	
Net other operating income	1.3	(11.4)	-	(12.1)	(10.3)	0.1	72%
Net other operating income/net sales (%)	0.2%	(2.0%)	-	(3.2%)	(3.9%)	0.1%	
EBIT	187.6	107.6	174%	72.1	47.4	31.2	57%
EBIT margin (%)	26.9%	19.2%	7.7%	18.9%	17.9%	15.5%	
Net profit	142.8	87.5	163%	44.2	28.4	16.0	73%
Net profit margin (%)	20.5%	15.6%	4.9%	11.6%	10.7%	7.9%	

Sanitary ware segmental analysis

(LE m)	FY		% 04/03	FY			2000-04 CAGR%
	2004	2003		2002	2001	2000	
Sanitary ware volumes (000 pcs)							
Egypt	1,600	1,710	94%	1,668	1,482	1,172	8%
Lebanon	276	286	96%	280	n/a	n/a	n/a
Export	2,389	1,982	121%	1,431	1,240	1,229	18%
Total sanitary ware volumes (000 pcs)	4,265	3,977	107%	3,380	2,722	2,401	15%
Exports/total sales volume (%)	56.0%	49.8%	6.2%	42.3%	45.5%	51.2%	
Sanitary ware revenue	469.0	368.7	127%	248.9	178.2	149.4	33%
Average selling price (LE/pc)	110	93	119%	74	65	62	15%
Average cost per piece (LE/pc)	55.0	50.5	109%	41.1	35.1	36.1	11%
Sanitary ware cost of sales	(234.6)	(200.9)	117%	(138.9)	(95.5)	(86.6)	28%
Sanitary ware gross profit	234.4	167.9	140%	110.0	82.8	62.9	39%
Sanitary ware gross profit margin (%)	50.0%	45.5%	4.5%	44.2%	46.4%	42.1%	

Financial review

main markets. Most of Sanitec's 28 production plants are in Europe whereas its sales and marketing network operates world-wide.

Lecico received in early 2005, the announcement that the EQT IV fund had reached an agreement with funds advised by BC Partners to acquire the Sanitec Corporation, Lecico's strategic partner, shareholder and largest single client (the acquisition is subject to the customary regulatory approvals).

EQT is a leading private equity group in Northern Europe with an industrial strategy and a strong track record. Managing almost EUR 6 billion in capital, and with experience from more than 30 investments, EQT offers its portfolio companies financial support, strategic guidance and a significant network of contacts.

Lecico's experience with BC Partners as a financial owner has demonstrated that such partnerships can create substantial synergies for all parties, and Lecico's management have been reassured that they can look forward to EQT's support of the continuance of an ongoing relationship with Sanitec. Consequently Lecico expects the volume of exports to Sanitec to continue growing.

Capacity expansion and capital investment:

Production capacity in both sanitary ware and tiles is expected grow year-on-year in 2005. Lecico is adding a new kiln for sanitary ware; this should be operational by the end of June and boost overall capacity by 0.5 million pieces per annum to 5.1 million pieces.

The company should also continue to benefit from last years tile expansion at Khorshid, which raised capacity 3.6 million square meters to 18.1 million square meters per annum and only began production in early

July of 2004. Lecico is also planning to begin producing frit, the major imported raw material for tiles, by mid 2005. Once the plant fully operational, it should generate significant cost reductions in the tile division.

The company will also be extremely busy preparing for the launch of two new sanitary ware lines in Borg El Arab in 2006. 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.

Recent strengthening of the Egyptian pound:

The Egyptian pound strengthened against the dollar at the end of December 2004 and in early 2005 before appearing to stabilise. The effects of the currency revaluation on Lecico's operating business remain insignificant, however the company's sizeable dollar balances from its offering proceeds should cause some exchange losses in the first quarter, this exchange loss will have a negative effect on full year profitability for the company.

Further strengthening of the Egyptian pound would generate more exchange losses and may begin to impact revenues and margins for Lecico's sizeable export activities.

Slow demand in main markets:

Preliminary indications in 2005 suggest we are seeing softness in demand in our three major markets: the UK; Egypt and Lebanon. In the UK we saw a weakness in demand in the fourth quarter of 2004 and to date in 2005. This may be the beginning of a cyclical slowdown, which would free up more of our capacity to service other clients but may also require us to try and tap new clients in the UK and grow market share more aggressively.

In Egypt, we believe the sluggish demand we have seen to date this year will not be long lasting as the government is focused and committed to delivering to faster economic growth. We hope that the dividends of the government's reform program will begin to emerge over this year in the form of both increased consumer spending power and a more relaxed monetary environment.

The slowdown in Lebanon has been the direct result of political upheavals which have severely curtailed spending, particularly on durable items like tiles and sanitary ware. We are increasing exports from Lebanon to partially offset this and expect that events will not dampen consumer demand in Lebanon for an extended period of time.

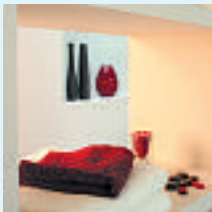
Overall, given our shortage of capacity, in 2004 this softness in demand is almost welcome, as it will allow us to provide better service to existing clients. However, we may see some impact on our financial performance in 2005 as we stock inventory and reconfigure our sales plans and volume allocations. With the advantages of Egypt as a market and an export platform, and given our commitment to European quality standards, we intend to deliver strong revenue growth and healthy margins to our shareholders in coming years.

Sanitary ware exports by destination

(000s pieces)	31 Dec 04	% of total	31 Dec 03	% of total	% 04/03 (%)
UK	823.0	34%	767.6	39%	7%
Sanitec	683.0	29%	348.3	18%	96%
France	278.1	12%	317.9	16%	-13%
Ireland	114.3	5%	110.0	6%	4%
Europe	99.8	4%	77.7	4%	28%
Middle East	229.4	10%	155.3	8%	48%
Other	161.1	7%	204.8	10%	-21%
Total exports	2,388.7	100%	1,981.6	100%	21%

Tile segmental analysis

(LE m)	FY		%	FY			2000-04
	2004	2003	04/03	2002	2001	2000	CAGR%
Tile volumes (000 sqm)							
Egypt	12,788	12,301	104%	9,150	8,875	4,592	29%
Lebanon	962	1,278	75%	1,101	n/a	n/a	n/a
Export	1,584	1,013	156%	583	335	172	74%
Total tile volumes (000 sqm)	15,334	14,592	105%	10,840	9,208	4,764	34%
Exports/total sales volume (%)	10.3%	6.9%	3.4%	5.4%	3.6%	3.6%	
Tile revenue	227.8	190.6	120%	133.1	190.6	52.2	45%
Average selling price (LE/sqm)	15	13	114%	12	21	11	8%
Average cost per piece (LE/sqm)	11	9	113%	9	8	10	2%
Tile cost of sales	(162.1)	(136.3)	119%	(93.7)	(69.4)	(46.3)	37%
Tile gross profit	65.7	54.3	121%	39.4	121.2	5.6	83%
Tile gross profit margin (%)	28.9%	28.5%	0.4%	29.6%	63.6%	11.3%	



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

We have audited the accompanying consolidated balance sheet of Lecico Egypt (S.A.E.) and its subsidiaries as at December 31 2004 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the parent company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by company's management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lecico Egypt (S.A.E.) and its subsidiaries as at December 31 2004 and the results of their operations, its cash flows and the changes in shareholders' equity for the year then ended, in conformity with International Financial Reporting Standards as published by the International Accounting Standards Board.

Without qualifying our opinion, we like to draw attention to Note 13 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 rate upon distribution, depending on subsidiaries' country of incorporation.

KPMG Hazem Hassan
Alexandria, March 9 2005

Consolidated balance sheet

As at December 31 2004

	Note no.	2004 LE	2003 LE
Assets			
Fixed Assets	2-4, 2-5, 2-6, 3	338,762,450	291,222,223
Projects In Progress	2-7, 4	53,259,840	9,106,862
Intangible Assets	2-8, 5	16,003,827	56,763
Available for Sale Investments	2-9, 6	4,670,078	5,244,296
Long-Term Notes Receivable		3,230,484	4,470,000
Long-Term Pre-paid Rent		808,241	–
Total Non-Current Assets		416,734,920	310,100,144
Inventory	2-10, 7	226,843,266	177,027,659
Receivables	8	151,900,000	147,249,197
Trading Investments	2-11	–	66,588
Related Parties – Debit Balances	9	42,779,467	22,993,549
Cash in Banks and on Hand	10	264,218,296	140,581,074
Total Current Assets		685,741,029	487,918,067
Total Assets		1,102,475,949	798,018,211
Equity			
Issued and Paid-up Capital	11	100,000,000	84,000,000
Reserves	12	372,327,045	94,775,837
Retained Earnings	13	85,581,482	42,541,937
Net Profit for the Year		142,809,209	87,467,242
Treasury Stock	2-14, 14	–	(4 903,864)
Total Equity		700,717,736	303,881,152
Minority Interest		6,715,637	24,800,317
Carried Forward		707,433,373	328,681,469
Liabilities			
Long-Term Loans	15	83,272,516	83,807,780
Other Long-Term Liabilities	16	13,937,544	13,151,064
Total Non-Current Liabilities		97,210,060	96,958,844
Bank Overdraft		113,408,263	232,077,907
Current Portion of Long-Term Loans and Liabilities	17	29,244,132	18,842,925
Related Parties – Credit Balances	9	11,456,105	12,027,438
Trade and Notes Payable	18	62,356,322	40,537,249
Other Current Payable	19	66,925,183	54,524,261
Provisions	20	14,442,511	14,368,118
Total Current Liabilities		297,832,516	372,377,898
Total Equity, Minority Interest and Liabilities		1,102,475,949	798,018,211

• The accompanying notes are an integral part of the consolidated financial statements and to be read therewith.

General Manager For Financial, Administrative and Legal Affairs
Ahmed Sharaf

Managing Director
Elie J. Baroudi

KPMG Hazem Hassan

* Auditor's report attached

Consolidated income statement

For the year ended December 31 2004

	Note no.	2004 LE	2003 LE
Net Sales	2-1	696,800,931	559,300,415
Cost of Sales		(396,680,698)	(337,185,432)
Gross Profit		300,120,233	222,114,983
Other Operating Income	21	10,700,055	4,322,728
Distribution Expenses		(50,179,074)	(48,211,013)
Administrative Expenses		(63,616,260)	(54,923,144)
Other Operating Expenses	22	(9,390,130)	(15,708,952)
Profit from Operations		187,634,824	107,594,602
Investment Revenues	2-11	580,323	260,585
Interest Revenues		4,014,071	3,858,552
Financing Expenses	2-13	(39,208,759)	(35,424,002)
Foreign Currencies Exchange Differences	2-3-1	1,735,261	21,899,329
Net Profit for the Year Before Income Tax		154,755,720	98,189,066
Income Tax		(10,865,222)	(3,336,101)
Net Profit for the Year After Income Tax		143,890,498	94,852,965
Minority Interest		(1,081,289)	(7,385,723)
Net Profit for the Year		142,809,209	87,467,242
Earnings Per Share (LE/Share)	23	8.04	5.00

- The accompanying notes are an integral part of the consolidated financial statements and to be read therewith.

Consolidated cash flow statement

For the year ended December 31 2004

	2004 LE	2003 LE
Cash Flow From Operating Activities		
Net Profit for the Year	142,809,209	87,467,242
Adjustments to Reconcile Net Profit To Net Cash Provided by Operating Activities		
Fixed Assets Depreciation and Translation Adjustment	26,084,150	15,599,679
Intangible Assets Amortisation	77,651	147,217
Prepaid Rent Expense	112,778	–
Gain on Sale of Investments	(283,088)	–
Net Capital Losses (Gains)	2,759,778	(182,724)
Provided Provisions and Translation Adjustment	7,441,647	25,648,123
Reversal of Provisions	(5,954,582)	–
(Decrease) Increase in Minority Interest	(18,084,680)	5,070,783
Increase in Translation Reserve	755,120	12,286,835
Operating Profit before Changes in Working Capital	155,717,983	146,037,155
Changes in Working Capital		
Increase in Inventory	(56,261,518)	(43,461,444)
Increase in Receivables	(5,033,329)	(44,168,190)
Increase in Payables	23,561,634	2,216,392
Utilised Provisions	(20,354,920)	(7,203,538)
Decrease (Increase) in Trading Investment	185,339	(16,492)
Net Cash Provided by Operating Activities	97,815,189	53,403,883
Cash Flows from Investing Activities		
Fixed Assets Additions and Changes in Projects in Progress	(116,570,956)	(46,451,685)
Increase in Intangible Assets	(550,136)	–
Net Changes in Available for Sale Investments	738,556	(4,968,024)
Proceeds from Sales of Fixed Assets	240,222	368,513
Decrease(Increase) in Long-Term Notes Receivable	1,239,516	(3,270,000)
Net Cash Used in Investing Activities	(114,902,798)	(54,321,196)
Cash Flow from Financing Activities		
Net Proceeds from Capital Issuance	290,683,333	–
(Decrease) Increase in Bank Overdraft	(118,669,644)	41,425,994
Increase in Long-Term Loans	9,865,942	22,725,391
Increase in Other Long-Term Liabilities	786,480	1,301,324
Decrease (Increase) in Treasury Stock	4,903,864	(442,672)
Dividends Paid	(46,845,145)	(8,770,593)
Net Cash Provided by Financing Activities	140,724,830	56,239,444
Net Change in Cash during the Year	123,637,221	55,322,131
Cash at Beginning of the Year	140,581,074	85,258,943
Cash at the End of the Year	264,218,295	140,581,074

• The accompanying notes are an integral part of the consolidated financial statements and to be read therewith.

Consolidated statement of changes in shareholders equity

For the year ended December 31 2004

	Issued & Paid Up Capital LE	Legal Reserve LE	Other Reserves LE
Balance at January 1 2003	70,000,000	12,000,000	14,661,913
Capital Increase	14,000,000	–	–
Transfer to Retained Earnings	–	–	–
Transfer to Legal Reserve	–	1,788,957	–
Dividend Declared by the Parent Company	–	–	–
Treasury Stock	–	–	–
Translation Adjustment for the Financial Statements of Foreign Subsidiaries	–	–	–
Adjustments Due to Changes in Shareholding Percentage in The Lebanese Ceramic Industries Co.	–	–	27
Net Profit for the Year	–	–	–
Balance at December 31 2003	84,000,000	13,788,957	14,661,940
Prior Period Adjustments	–	–	–
Transfer to Retained Earnings	–	–	–
Transfer to Legal Reserve	–	1,248,663	–
Dividend Declared	–	–	–
Change Due to Increase in Shareholding Percentage of Lecico for Ceramic Industries	–	–	864,092
Adjustment due to Increase in Shareholding Percentage of Lecico for Ceramic Industries	–	–	–
Adjustment due to Increase in Shareholding Percentage of Lecico Lebanon	–	–	–
Increase from Capital Issuance	16,000,000	–	–
Capital Issuance Expenses	–	–	–
Transferred to Legal Reserve	–	4,962,380	–
Treasury Stock	–	–	–
Translation Adjustment for Foreign Subsidiaries	–	–	–
Net Profit for the Year	–	–	–
Balance at December 31 2004	100,000,000	20,000,000	15,526,032

Special Reserve Premium LE	Land Revaluation Surplus LE	Translation Reserve LE	Retained Earnings LE	Net Profit for the Year LE	Treasury Stock LE	Total LE
–	52,765,085	1,273,021	33,381,006	44,152,936	(4,461,192)	223,772,769
–	–	–	(14,000,000)	–	–	–
–	–	–	44,152,936	(44,152,936)	–	–
–	–	–	(1,788,957)	–	–	–
–	–	–	(20,371,664)	–	–	(20,371,664)
–	–	–	–	–	(442,672)	(442,672)
–	–	12,286,834	–	–	–	12,286,834
–	–	–	1,168,616	–	–	1,168,643
–	–	–	–	87,467,242	–	87,467,242
–	52,765,085	13,559,855	42,541,937	87,467,242	(4,903,864)	303,881,152
–	–	–	(37,846)	–	–	(37,846)
–	–	–	87,467,242	(87,467,242)	–	–
–	–	–	(1,248,663)	–	–	–
–	–	–	(36,725,878)	–	–	(36,725,878)
–	–	–	–	–	–	864,092
–	–	–	(9,479,624)	–	–	(9,479,624)
–	–	–	(1,538,654)	–	–	(1,538,654)
292,883,994	–	–	–	–	–	308,883,994
(18,200,661)	–	–	–	–	–	(18,200,661)
(4,962,380)	–	–	–	–	–	–
–	–	–	4,602,968	–	4,903,864	9,506,832
–	–	755,120	–	–	–	755,120
–	–	–	–	142,809,209	–	142,809,209
269,720,953	52,765,085	14,314,975	85,581,482	142,809,209	–	700,717,736

Notes to the consolidated financial statements

For the year ended December 31 2004

1. Preface on the parent company and its subsidiaries

1.1. Lecico Egypt (the Parent)

Lecico Egypt (S.A.E.) was established on November 1 1975 under license from the Egyptian government according to the legislation of Law No. 43 of 1974 for Investment of Foreign and Arab Capital and Free Zones amended by Law No. 230 of 1989 and Law No. 8 of 1997. The company is engaged in the production of all ceramic products including the production of sanitary ware and tiles.

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	31/12/2004 %	Ownership Interest 31/12/2003 %
Lecico for Ceramic Industries (S.A.E.)	Egypt	99.99	90.9
Lecico for Trading and Marketing (S.A.E.) (previously TGF for Consulting and Trading)	Egypt	99.83	96
Lecico for Financial Investments (S.A.E.)	Egypt	99.50	99.5
Lecico (UK) Limited	England	100	100
The Lebanese Ceramic Industries Co. (S.A.L.)	Lebanon	94.77	94.77

2. Significant accounting policies

2.1. Statement of Compliance

The consolidated financial statements have been prepared in accordance with historical cost basis and International Financial Reporting Standards, as published by the International Accounting Standards Board.

2.2. Basis of Consolidated Financial Statements Preparation

- The accounting policies have been consistently applied by the Parent and its subsidiaries.
- The Parent's investments in the subsidiaries are eliminated, and the subsidiaries' financial statements were included in the consolidated financial statements.
- Intercompany balances and transactions and any unrealized gains arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.
- 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.

2.3. Foreign Currency Translation and Financial Statements of Foreign Subsidiaries

2.3.1. The Parent maintains its accounts in Egyptian Pounds. Transactions in foreign currencies are translated into Egyptian Pounds at the official exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Egyptian Pounds using the official exchange rates prevailing at the balance sheet date. The foreign currency exchange differences arising from such transactions are recognised in the income statement.

2.3.2. For the subsidiaries outside Egypt, their financial statements were translated as follows:

- Assets and liabilities at the balance sheet date's exchange rates.
- Income statement at the average exchange rates for the fiscal year.

The translation reserve represents the differences resulting from the financial statements translation, and is disclosed in the shareholders' equity in the consolidated balance sheet.

2.4. Fixed Assets and Depreciation

Fixed assets are stated at historical cost except for the land owned by the Parent, which was revalued in 1997, and the revaluation surplus (not available for distribution or transfer to capital) was included in the Reserves account under Equity. Fixed assets are depreciated (except land) using the straight-line method according to the following rates:

Asset	Useful life in years
Buildings	20-40
Leasehold Improvements	2.5
Machines and Equipment	10
Machines Overhauls	3
Motor Vehicles	5-10
Tools	5
Furniture, Office Equipment and Computers	5-10

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 formalities.

2.5. Impairment Of Assets

Amounts of the Parent assets, other than inventory, are reviewed at each balance sheet date to determine whether there is any indication in respect of such assets of impairment. If any such indication exists, the recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2.6. Capital Leases

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

2.7. Projects In Progress

The amounts spent on the construction of fixed assets are recorded at cost under the projects in progress and depreciated on start up of operations of these projects.

2.8. Intangible Assets

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. 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 which include Trademark of Lecico U.K. are valued at cost, and amortised over ten years .

2.9. Available for Sale Investments

Available for sale investments are recorded at fair value with any resultant gain or loss being recorded in the income statement. The investment revenues are recognised upon declaration of the dividends by the investee's companies.

2.10. Inventory

Inventory is valued as follows:

- Raw materials and spare parts are valued at cost - using moving average method.
- Work in process is valued at the direct manufacturing cost plus its share of indirect manufacturing cost incurred until the last production phase reached.
- Finished products are valued using the lower of their manufacturing cost or net realisable value. Manufacturing cost includes direct cost and a part of indirect cost.

2.11. Trading Investments

Trading Investments are stated at their fair values, and any unrealised gains or losses are recorded in the income statement. The fair value represents the prevailing price at the balance sheet date. Over the counter shares are valued at cost less any impairment in their value.

2.12. Revenue Recognition

The sales revenue is recognised upon delivery of products or goods to the customer and when services are rendered to the customer.

Notes to the consolidated financial statements

For the year ended December 31 2004

2.13. Borrowing Cost

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

2.14. Treasury Stock

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs is recognised as a charge in equity. Repurchased shares are classified as treasury stock and presented as a deduction from total equity.

2.15. Taxation

The parent company provides for income tax on its profits in addition to other taxes in accordance with the applicable tax laws and after taking into consideration any claims received. Applying the principles of the deferred taxes will not usually result in material deferred tax liabilities. The parent will only recognise deferred tax assets in its financial statements whenever there is a strong probability that these assets will be realised in the foreseeable future.

2.16. Consolidated Cash Flows Statement

The consolidated statement of cash flows is prepared using the indirect method.

3. Fixed Assets

	Land LE	Buildings LE	Machinery & Equipment LE	Machines Overhauls LE	Motor Vehicles LE	Tools LE	Computers LE	Total LE
Cost								
As at 1/1/2004	116,605,061	91,732,686	277,966,254	2,526,888	20,144,751	5,171,828	9,585,135	523,732,603
Adjustments	–	(1,015,000)	–	–	–	–	–	(1,015,000)
Translation Differences	195,992	409,524	1,575,833	–	252,196	(46,861)	46,960	2,433,644
Additions for the Year	11,802,208	10,757,107	50,419,165	1,086,242	6,672,795	1,175,699	4,191,407	86,104,623
Disposals for the Year	(9,029,365)	(2,894,785)	(535,880)	–	(742,745)	–	–	(13,202,775)
As at 31/12/2004	119,573,896	98,989,532	329,425,372	3,613,130	26,326,997	6,300,666	13,823,502	598,053,095
Accumulated Depreciation								
As at 1/1/2004	–	30,068,777	176,269,676	523,265	15,330,167	4,369,627	5,948,868	232,510,380
Adjustments	–	(93,982)	–	–	–	–	–	(93,982)
Translation Differences	–	(21,860)	1,220,964	–	184,955	(4 685)	38,640	1,418,014
Depreciation for the Year	–	4,103,382	18,502,684	736,147	2,294,702	504,306	1,008,195	27,149,416
For Disposals	–	(642,700)	(535,880)	–	(514,603)	–	–	(1,693,183)
As at 31/12/2004	–	33,413,617	195,457,444	1,259,412	17,295,221	4,869,248	6,995,703	259,290,645
Net Book Value as at 31/12/2004	119,573,896	65,575,915	133,967,928	2,353,718	9,031,776	1,431,418	6,827,799	338,762,450
Net Book Value as at 31/12/2003	116,605,061	61,663,909	101,696,578	2,003,623	4,814,584	802,201	3,636,267	291,222,223

The Land and Buildings include properties at a cost of LE 1.8 and LE 6.5 million respectively which were purchased by the Parent Company with an unregistered deed.

- The Parent Company provided certain banks a power of attorney to pledge some of the sanitary ware machinery whose cost amounted to LE 117.5 million and its net book value amounted to LE 5.5 million, as a collateral for facilities granted to the parent.
- The Machinery and Equipment includes an amount of LE 12,331,442 representing the acquisition cost of the tile production line no. 6 which has been leased by the Parent from Soglease Egypt Co. for Capital Lease (notes (2-6), (16-1)).
- 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.

4. Projects in progress

	2004 LE	2003 LE
Machinery Under Installation	24,364,050	2,815,807
Building Under Construction	2,956,530	870,060
Advance Payment	13,678,934	1,293,014
L/C For Purchase of Fixed Assets	12,260,326	4,127,981
	53,259,840	9,106,862

5. Intangible assets

	Goodwill LE	Trademarks LE	Development Costs LE	Total LE
Cost				
Balance as at 1/1/2004	3,488,786	88,437	–	3,577,223
Additions for the Year	–	7,899	488,846	496,745
Acquisitions through Business Combinations	15,474,579	–	–	15,474,579
Translation Differences	209,518	37,500	–	247,018
Balance as at 31/12/2004	19,172,883	133,836	488,846	19,795,565
Amortisation & Impairment Losses				
Balance as at 1/1/2004	3,476,511	43,949	–	3,520,460
Amortisation Expense for the Year	12,696	21,652	43,303	77,651
Translation Differences	209,098	(16,554)	1,083	193,627
Balance as at 31/12/2004	3,698,305	49,047	44,386	3,791,738
Carrying Amount as at 31/12/2004	15,474,578	84,789	444,460	16,003,827
Carrying Amount as at 31/12/2003	12,275	44,488	–	56,763

6. Available for sale investments

	2004 LE	2003 LE
Al-Gawhara Company	1,440	1,440
The Arab Company for Ceramics (Aracemco)	19,372	720,182
Murex Industries and Trading S.A.L.	4,525,484	4,403,924
Solidere	123,496	–
Moutahedoun for Trading and Marketing	–	118,750
Other Investments	286	–
	4,670,078	5,244,296

7. Inventory

	2004 LE	2003 LE
Finished Products	127,904,197	95,132,506
Raw Materials, Consumables and Spare Parts	91,252,342	80,624,396
Work In Process	9,843,675	7,315,128
L/Cs for Purchase of Goods	11,181,786	5,975,869
	240,182,000	189,047,899
Less:		
Provision for Slow Moving Inventory	(13,338,734)	(12,020,240)
	226,843,266	177,027,659

Notes to the consolidated financial statements

For the year ended December 31 2004

8. Receivables

	2004 LE	2003 LE
Accounts Receivable	118,309,846	123,381,891
Notes Receivable	54,915,746	46,901,439
Sundry Debtors	5,870,707	17,091,257
Suppliers – Debit Balances	1,066,268	506,714
Tax Administration – Corporate Tax	7,430,294	4,528,248
Tax Administration – Sales Tax	4,576	4,576
Other Debit Balances	343,339	8,096,178
Prepaid Expenses	4,543,508	3,550,579
Accrued Revenues	334,649	1,437,967
Dividends Payable – Debit Balances	3,021,015	2,560,738
Advance Payment For Purchase of Investment	–	3,390,300
	195,839,948	211,449,887
Less:		
Provision for Doubtful Debts	(43,939,948)	(64,200,690)
	151,900,000	147,249,197

9. Related parties

	Nature of Transaction	Transaction Amount LE	2004 LE	2003 LE
Sanitec Subsidiaries				
Keramag	Sales	6,050,573	1,229,172	699,639
	Notes Receivable	80,588	80,588	–
Pozzi Ginori	Sales	5,334,840	1,607,127	1,072,742
Twyford	Sales	45,148,802	1,824,203	6,163,138
	Notes Receivable	48,923,931	11,867,266	6,365,497
Kolo	Sales	15,470,266	3,372,004	–
			19,980,360	14,301,016
Murex Industries and Trading S.A.L	Sales	45,424,300	6,473,891	3,793,067
	Notes Receivable	3,907,465	7,532,428	3,624,963
			14,006,319	7,418,030
T. Gargour et Fils	Sales	5,717	212,709	206,992
Gargour Holding S.A	Current	281,056	281,056	–
Board of Directors of The Lebanese Ceramic Industries Co. (S.A.L.)	Current	–	3,126	172,116
Motahdoun for Trading and Marketing	Current	–	–	895,395
International Ceramics*	Current	7,910,806	7,910,806*	–
Ceramic Management Service CMS	Current	–	385,091	–
			42,779,467	22,993,549

*This amount includes cash at banks of LE 6 million representing capital of International Ceramics, a newly formed company owned by Lecico Egypt. It includes also LE 1.89 million down payment on a plot of land acquired by International Ceramics at Borg El Arab. As of December 31 2004 the incorporation formalities of International Ceramics were not fully completed. In 2005, International Ceramics will be consolidated in the Group accounts.

9. Related parties continued

	Nature of Transaction	Transaction Amount LE	2004 LE	2003 LE
Credit Balances				
Ceramic Holdings Middle East B.V. (CHME)	Current	204,604	8,423,774	8,219,170
Murex Industries and Trading S.A.L	Purchase	5,649,628	163,561	211,242
LIFCO	Rent	92,511	90,746	176,617
Board of Directors of The Lebanese Ceramic Industries Co. (S.A.L.)	Current	17,976	184,106	166,130
T. Gargour et Fils	Sales	–	8,812	82,615
Ceramic Management Services Ltd. Technical Assistance	Fees	14,849,789	2,585,106	3,171,664
Total Credit Balances			11,456,105	12,027,438

10. Cash in banks and on hand

	2004 LE	2003 LE
Banks – Time Deposits	153,241,341	104,940,018
Banks – Current Accounts	110,149,338	35,469,233
Cash On Hand	827,617	171,823
	264,218,296	140,581,074

* The bank deposits includes an amount of LE 6,345,847 Blocked for issuing L/Gs' to third parties.

11. Capital

11.1. Authorised capital

- The authorised capital was determined to be LE 250 million distributed over 50 million shares par value LE 5 per share.

11.2. Issued and paid up capital

- According to the extra-ordinary general assembly meeting held on the November 1 2004, the following was approved:

a. Increasing the issued and paid up capital from LE 84 million to LE 100 million with the total increase amounting LE 16 million, divided into 3.2 million shares, at the par value of LE 5 per share. Accordingly, the issued and paid up capital is LE 100 million fully paid distributed over 20 million shares of LE 5 par value per share.

b. Allocating the shares issued pursuant to the capital increase totalling 3.2 million shares, and having a total par value of LE 16 million to The Bank of New York, as Depository Bank, to issue Global Depository Receipts (GDRs) which are listed on the London Stock Exchange and offered to qualified investors in a domestic and global offering. The subscription price in those shares was determined to be LE 100 per share.

12. Reserves

	2004 LE	2003 LE
Legal Reserve	20,000,000	13,788,957
Other Reserves*	15,526,032	14,661,940
Land Revaluation Surplus**	52,765,085	52,765,085
Translation Reserve	14,314,975	13,559,855
Special Reserve – Premium	269,720,953	–
	372,327,045	94,775,837

* Other reserves include the Parent Company's share of the premium (LE 9.9 million) received by Lecico for Ceramic 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.

Notes to the consolidated financial statements

For the year ended December 31 2004

13. Retained earnings

As at December 31 2004 the retained earnings represent the retained earnings of the parent and its share of the retained earnings of its other subsidiaries, which management expects to be reinvested indefinitely in these subsidiaries.

14. Treasury stock

Treasury stock is represented in:

	2004 LE	2003 LE
Acquisition Cost of the Parent's Shares by Lecico for Ceramic Industries (S.A.E.)	–	5,357,152
Acquisition Cost of the Parent's Shares by the Lebanese Ceramic Industries Co. (S.A.L.)	–	36,101
	–	5,393,253
Less:		
Minority Interest in Treasury Stock	–	(489,389)
	–	4,903,864

15. Long-term loans

	2004 LE	2003 LE
15.1. European Investment Bank Loan		
The Loan has a US\$ tranche and a Euro tranche. The US\$ portion was prepaid during 2004.	51,814,697	91,052,145
The outstanding Balance represents the Euro portion amounting to Euro 6,295,832 (variable interest rate).		
The loan is repayable in 10 semi-annual installments in June and December of each year, starting from 15 June 2005 to 15 December 2009. The loan is guaranteed by letters of guarantee issued by CIB in favour of the EIB amounting to Euro 8,688,248.		
15.2. Loan from Cairo Barclays Bank		
The loan granted to the Parent by Cairo Barclays Bank repayable in eight quarterly installments starting from June 30 2005 till March 31 2007 after a grace period of 15 months at variable interest rate guaranteed by Lecico for Ceramic Industries Co. (subsidiary co.)	17,000,000	–
15.3.		
The Lebanese Ceramic Industries Co. S.A.L.(subsidiary) obtained a long-term loan amounting to US\$ 1,800,000 repayable over seven years in semi annual installments ending in 2008, with an interest rate of LIBOR 3 month plus 0.1% plus 7% (the 7% is to be recovered from the Lebanese Central Bank as an investment incentive).	7,341,570	9,049,523
15.4.		
The Lebanese Ceramic Industries Co. S.A.L (subsidiary) obtained a Long-Term Loan amounting to US\$ 5,500,000 repayable over five years and half in semi-annual installments ending in 2009 with an interest rate of LIBOR 3 months plus 2.25%.	33,428,906	–
	109,585,173	100,101,668
Less:		
Installments due within one year which are classified as current liabilities (note 17).	(26,312,657)	(16,293,888)
	83,272,516	83,807,780

According to the resolution of the Ordinary General Assembly Meeting of the parent's company dated February 10 2004 the parent company agreed to obtain a long term loan from the International Finance Corporation (IFC) and the Commercial International Bank in the aggregate amount of US\$ 13 million. The loan is to be repaid in 13 semi-annual installments with grace period for two years and will be used to finance future expansion. The commitment fees and other loan related expenses amounting to LE 2 million were paid and charged to the consolidated income statement. To date the parent company has not made any drawdown under this loan.

16. Other long-term liabilities

	2004 LE	2003 LE
16.1. The Khorshid tile line capital lease agreement specifies that the line's equipment is to be leased for a period of five years with a profit margin of 15%, and that payments are to be made in 20 quarterly installments. The first installment was paid on November 25 2002 and the final installment is due on August 25 2007.	7,595,080	9,678,218
Less: Installments due within one year which are classified as current liabilities.	Note 17 (2,413,628)	(2,083,138)
	5,181,452	7,595,080
16.2. Lease obligation to finance certain vehicles of Lecico (UK) Limited.	1,002,995	639,541
Less: Installments due within one year which are classified as current liabilities.	Note 17 (379,044)	(465,899)
	623,951	173,642
16.3. Other Long-Term Liabilities		
Sales Tax Authority	6,158,916	2,741,543
Notes Payable	2,112,028	2,640,799
	8,270,944	5,382,342
Less: Due within one year which are classified as current liabilities	Note 17 (138,803)	–
	8,132,141	5,382,342
Total Other Long-Term Liabilities	13,937,544	13,151,064

17. Current portion of long-term loans and liabilities

	2004 LE	2003 LE
Installments of Long-Term Loans	Note 15 26,312,657	16,293,888
Current Portion of Other Long-Term Liabilities	Note 16 2,931,475	2,549,037
	29,244,132	18,842,925

18. Trade and notes payable

	2004 LE	2003 LE
Trade Payables	30,756,094	16,863,910
Notes Payable	31,600,228	23,673,339
	62,356,322	40,537,249

Notes to the consolidated financial statements

For the year ended December 31 2004

19. Other current payables

	2004 LE	2003 LE
Accounts Receivable – Credit Balances	2,667,746	2,106,379
Social Insurance Authority and Tax Authority	8,453,854	8,809,103
Income Tax Payable	12,632,100	5,903,643
Accrued Expenses	13,434,842	20,888,001
Deposits Due to Others	1,825,082	937,788
Sundry Creditors	25,527,114	3,780,325
Current Account for Sales Tax Department	1,776,743	1,425,358
Dividends Payable	607,702	10,673,664
	66,925,183	54,524,261

20. Provisions

Description	Balance as at 1/1/2004 LE	Translation Differences LE	Utilised Provisions LE	Reversed Provisions LE	Provided Provisions LE	Balance as at 31/12/2004 LE
Provisions Deducted from the Related Assets						
Provision for Slow Moving Inventory	12,020,240	141,743	–	–	1,176,751	13,338,734
Provision for Doubtful Debts	64,200,690	820,777	(18,633,759)	(3,034,582)	586,822	43,939,948
	76,220,930	962,520	(18,633,759)	(3,034,582)	1,763,573	57,278,682
Provisions Disclosed in the Current Liabilities						
Potential Losses and Claims Provision	8,587,988	–	(1,000,000)	(2,920,000)	2,700,000	7,367,988
End of Service						
Indemnity Provision	5,015,617	141,937	(532,028)	–	1,848,906	6,474,432
Restructuring Provision	764,513	24,711	(189,133)	–	–	600,091
	14,368,118	166,648	(1,721,161)	(2,920,000)	4,548,906	14,442,511
Total	90,589,048	1,129,168	(20,354,920)	(5,954,582)	6,312,479	71,721,193

21. Other operating income

	2004 LE	2003 LE
Reversed Provision	5,954,582	–
Other Revenue	3,844,456	2,189,296
Scrap Sales	759,195	391,328
Capital Gains	115,822	182,724
Fire Indemnity	26,000	1,559,380
	10,700,055	4,322,728

22. Other operating expenses

	2004 LE	2003 LE
Provided Provisions	6,312,479	15,529,786
Amortisation of Intangible Assets	77,651	179,166
Capital Loss	3,000,000	–
	9,390,130	15,708,952

23. Earnings per share

The earnings per share for the year ended December 31 2004 is as follows:

	2004	2003
Net Profit for the Year (LE)	142,809,209	87,467,243
Less:		
Employees' Dividends (LE)	(3,056,210)	(3,000,000)
Training Fund (1%) (LE)	(763,044)	(249,733)
Insurance Fund (1%) (LE)	(763,044)	(249,733)
	138,226,911	83,967,777
Number of Shares	17,200,000	16,800,000
Earnings Per Share (LE/Share)	8.04	5.00

24. Contingent liabilities

24.1. The letters of guarantee issued from banks in favour of others are as follow:

Currency

	2004	2003
LE	8,708,115	4,535,972
US\$	–	5,00,000
LBP 000	993,314	165,041

24.2. Letters of Credit

Euro	128,000	–
LBP 000	25,326	485,639

24.3. Guarantees

According to the resolution of the ordinary general assembly of certain of the group companies during 2004, the following was approved:

Certain companies will act as a guarantor for the repayment of loans to be granted from the International Finance Corporation "IFC" and Commercial International Bank to other subsidiaries of the group. The total of these loans amount to US\$ 13 million and will be used when received, to finance the future expansion of the group.

25. Litigation

The Electricity Utility Organism 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 year from March 1996 till August 2003. This Subsidiary has objected against 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.

26. Capital commitment

The capital commitment as at December 31 2004 amounting to LE 18,718,148 related to the purchase of fixed assets of the group.

Notes to the consolidated financial statements

For the year ended December 31 2004

27. Information about business segment

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

	2004	2003
Sanitary ware Segment		
Sales Volumes (000 pcs)		
Egypt	1,600.3	1,709.8
Lebanon	275.6	286.0
Export	2,388.7	1,981.6
Total Sales Volume	4,264.6	3,977.4
Sales Revenues (LE million)		
Average Selling Price (LE/pc)	109.97	92.64
Total Cost of Sales (LE million)	234.6	200.9
Gross Profit (LE million)	234.4	167.8
Tile Segment		
Sales Volumes (000 m²)		
Egypt	12,787.9	12,301.0
Lebanon	962.0	1,278.3
Export	1,583.7	1,012.7
Total Sales Volume	15,333.6	14,592.0
Sales Revenues (LE million)		
Average Selling Price (LE/m ²)	14.9	13.1
Total Cost of Sales (LE million)	162.1	136.3
Gross Profit (LE million)	65.7	54.3

28. Financial instruments

The financial instruments are represented in cash balances, banks overdraft, debtors and creditors. The book value of these instruments represent a reasonable estimate of its fair value.

29. Financial instruments risk management

29.1. 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.

29.2. 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 Parent or part of its debts. This is considered one of the risks that confront the Company. To address this risk the Parent Company established selling policies so that credit would only be granted to well known clients and where appropriate, obtaining adequate guarantees.

29.3. Foreign Currency Exchange Rates Fluctuations Risk

Foreign currency exchange rates fluctuations risk is represented in exchange rates 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 rates fluctuations risk is considered high.

30. Tax Position

a. Corporate and Movable Taxes

Years 1977/1985

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

Years 1986/1996

The Parent company has obtained a final settlement for these years except for the disputes that have not been settled yet which are represented in the tax exemption relating to the Parent company paid-up capital and additional depreciation. These disputes are still in court.

Years 1997/2002

The Parent company's records were examined for these years; the company was informed by the tax department forms and objected to these forms during the legal period. The Parent company has agreed with the tax department on some points in the internal committee and the other disputed points were transferred to the appeal committee. These disputed points relate to the exemption on the paid-up capital and the additional depreciation.

Year 2003

The Parent company's records were not examined for the year referred to.

b. Salaries tax

Years 1997/2000

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

Years 2001/2003

- The tax examination for the years 2001 and 2002 occurred, and the Parent company was informed by the tax forms and objected during the legal period, the dispute was transferred to the internal committee of the tax department.
- No tax examination for the year 2003 has taken place.

c. Sales tax

- The Parent company has obtained a final settlement and paid all the taxes obligations regarding the years till 1999.
- The Parent company's records of 2000 till 2003 were examined and the company was informed of the tax department forms. The dispute was transferred to the appeal committee.

d. Sales tax

- The tax examination until 2003 was finalised and led to unsettled differences due to amended sales tax forms, settlement of these differences is still in process.

31. Comparative figures

The comparative figures have been reclassified to comply with the presentation of the current year.

27. Information about business segment

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

	2004	2003
Sanitary Ware Segment		
Sales Volumes (000 pcs)		
Egypt	1,600.3	1,709.8
Lebanon	275.6	286.0
Export	2,388.7	1,981.6
Total Sales Volume	4,264.6	3,977.4
Sales Revenues (LE million)	469.0	368.7
Average Selling Price (LE/pc)	109.97	92.64
Total Cost of Sales (LE million)	234.6	200.9
Gross Profit (LE million)	234.4	167.8

In-depth 5 year profit and loss summary

	2000	2001	2002	2003	2004
Sanitary Ware Segment					
Sales Volume (000s of pieces)	2,400.5	2,722.0	3,379.8	3,977.4	4,264.6
Exports as a Percentage of Total	51.2%	45.5%	42.3%	49.8%	56.0%
Average Price (LE/piece)	62.3	65.5	73.6	92.7	110.0
Sanitary Ware Revenue	149.45	178.22	248.89	368.74	468.95
Sanitary Ware Gross Profit	62.89	82.77	109.98	167.86	234.38
Sanitary Ware Gross Margin	42.1%	46.4%	44.2%	45.5%	50.0%
Tile Segment					
Sales Volume (000s/sqm)	4,763.8	9,208.0	10,839.9	14,592.0	15,333.6
Exports as a Percentage of Total	3.7%	3.8%	6.4%	8.2%	12.4%
Average Price (LE/sqm)	11.0	9.5	12.3	13.1	14.9
Tile Revenue	52.25	52.25	52.25	52.25	52.25
Tile Gross Profit	5.92	17.89	39.36	54.25	65.74
Tile Gross Margin	11.3%	20.5%	29.6%	28.5%	28.9%
Consolidated Profit and Loss					
Net Sales	201.70	265.47	382.00	559.30	696.80
Sanitary Ware (% of Net Sales)	74.1%	67.1%	65.2%	65.9%	67.3%
Gross Profit	68.81	100.66	149.34	222.11	300.12
Gross Margin	34.1%	37.9%	39.1%	39.7%	43.1%
Sanitary Ware (% of Gross Profit)	91.4%	82.2%	73.6%	75.6%	78.1%
Distribution and Administrative Expense	37.79	42.96	65.11	103.13	113.80
D&A Expense/Sales	18.7%	16.2%	17.0%	18.4%	16.3%
EBIT	31.17	47.40	72.10	107.59	187.63
EBIT Margin	15.5%	17.9%	18.9%	19.2%	26.9%
Net Financing Expense	20.69	20.22	27.19	31.57	35.19
EBIT/Net Financing Expense (x)	1.5	2.3	2.7	3.4	5.3
Net Profit	15.97	28.42	44.15	87.47	142.81
Net Margin	7.9%	10.7%	11.6%	15.6%	20.5%
EPS (LE/Share)	0.95	1.70	2.64	5.22	7.14

Egyptian Pounds (LE) in millions except as otherwise stated

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