# 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.

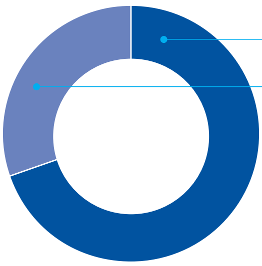
Lecico exports over half its sanitary ware production and has a significant presence in European markets, with fully-owned trading subsidiaries in the United Kingdom and France. In 2004, over 45% of the company's revenues came from sanitary ware exports. Most of the company's exports are sold under the 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

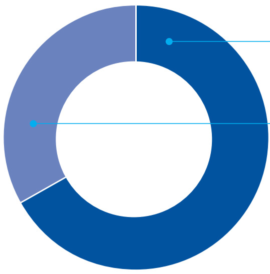
**Lecico exports to over 55 countries around the world. Lecico's principal export customers are its subsidiaries in the UK and France and its largest OEM customer, Sanitec.**

## Split

**Business split –** Sales from sanitary ware and tiles




**Business split –** GP from sanitary ware and tiles




**Sanitary ware sales volumes**

Millions of pieces

| | |
|---|---|
| 00 | 2.40 |
| 01 | 2.72 |
| 02 | 3.38 |
| 03 | 3.98 |
| **04** | **4.35** |

**Sanitary ware export volumes**

Millions of pieces

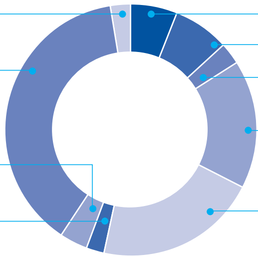
| | |
|---|---|
| 00 | 1.23 |
| 01 | 1.24 |
| 02 | 1.43 |
| 03 | 1.98 |
| **04** | **2.44** |

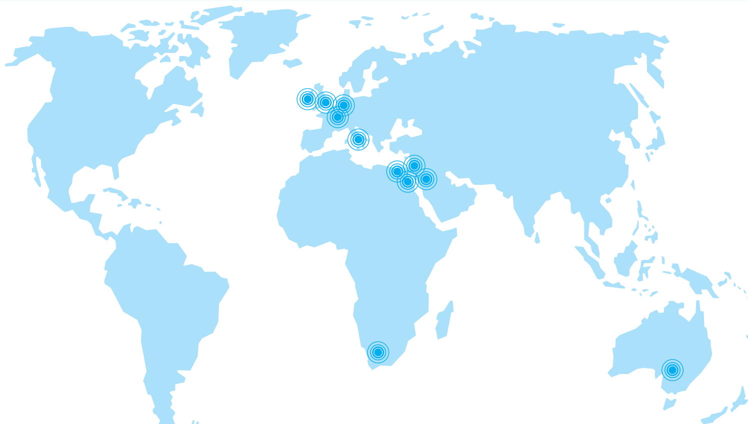
**Tile sales volumes**

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



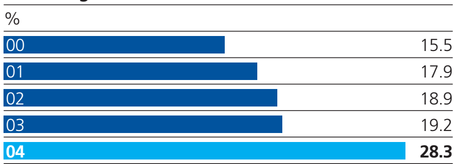
## 5 year summary

| | 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

**Gilbert Gargour**
Chairman

**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.

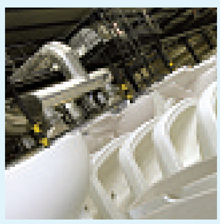
## Globally competitive exports

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 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.

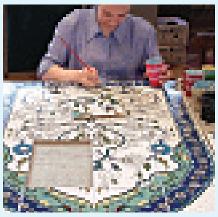
Lecico's long history in Egypt and Lebanon have given it outstanding brand recognition, a bedrock of long-serving and experienced management and staff from all over the industry and with them an industrial expertise and production knowledge that we think is second to none in the region and beyond.

### 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.

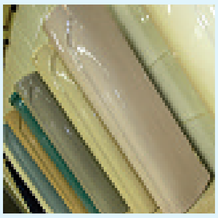

Key strength

# 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.

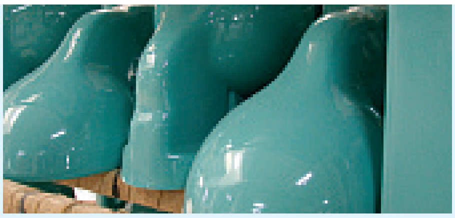
Key strength

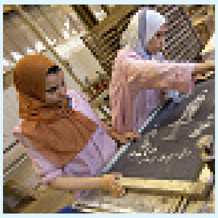
# Cost

## 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**

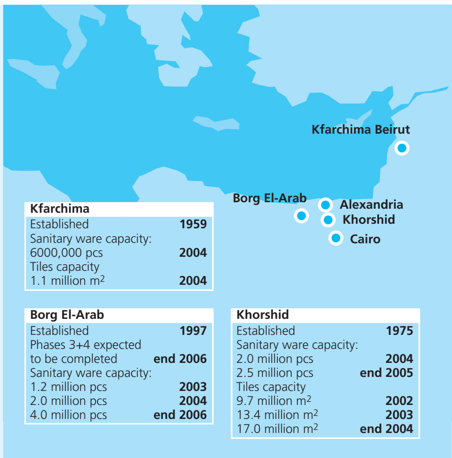
Brian Dalgarno, Lecico Egypt's Sanitary ware Production Director, previously managed our Khorshid plant for over eleven years. Born and raised in the heartland of England's ceramics industry, Brian has over 34 years sanitary ware experience and has held senior positions in Betta Sanitary ware (South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

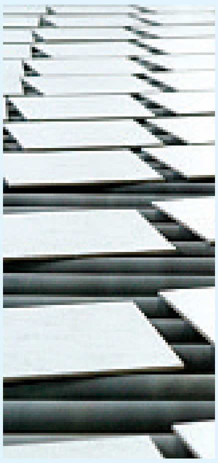
Key strength
# Size

## 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

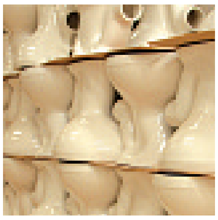
**Our management**

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.

Operational review

# 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%** | |

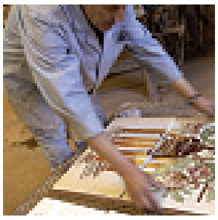
### Ongoing commitment to quality

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.

Operational review

# 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.



**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%** | |

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

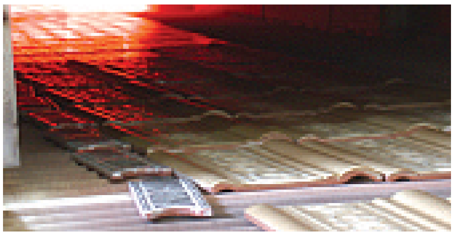
A closer look

# 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

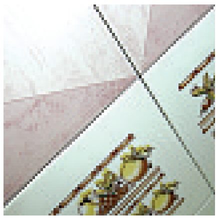


competitive pricing and exclusive designs for distributors have allowed its tile operations to be maintained at an average of over 98% capacity utilisation for the last three years.

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.



**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.

# 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 and 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 2004 | FY 2003 | % 04/03 | FY 2002 | FY 2001 | FY 2000 | 2000-04 CAGR% |
|---|---|---|---|---|---|---|---|
| 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 2004 | FY 2003 | % 04/03 | FY 2002 | FY 2001 | FY 2000 | 2000-04 CAGR% |
|---|---|---|---|---|---|---|---|
| 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.

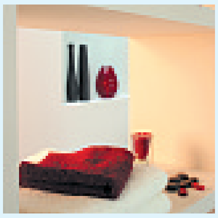
Overall, given our shortage of capacity, in 2004 this softness in demand is almost welcome, as it will allow us to provide better service to existing clients. However, we may see some impact on our financial performance in 2005 as we stock inventory and reconfigure our sales plans and volume allocations. 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

| | FY | | % | | FY | | 2000-04 |
|---|---|---|---|---|---|---|---|
| (LE m) | 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<br>LE | 2003<br>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 | Ownership Interest 31/12/2004 % | 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.

### 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 L.E 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 |

### 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 | Sales | 45,424,300 | **6,473,891** | 3,793,067 |
| Trading S.A.L | 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.

## 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**<br>The Loan has a US$ tranche and a Euro tranche. The US$ portion was prepaid during 2004. 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. | **51,814,697** | 91,052,145 |
| **15.2. Loan from Cairo Barclays Bank**<br>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.**<br>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.**<br>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 |

## 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.

### 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 |
| **Tile Segment** | | |
| **Sales Volumes (000 $m^2$)** | | |
| 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) | **227.8** | 190.6 |
| 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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