Lecico

Annual Report 2005

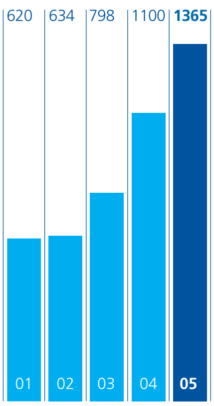
Lecico is a leading producer of export-quality sanitary ware in the Middle East and one of the largest tile producers in Egypt and Lebanon, with over 45 years of experience in the industry and decades of experience as an exporter to developed markets.

Highlights

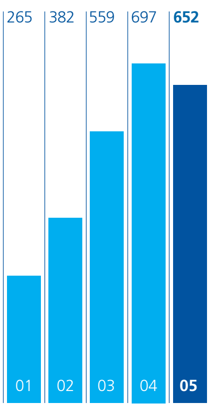
Lecico benefits from significant advantages in labor, energy and investment costs resulting from its economies of scale and location in Egypt and Lebanon. Lecico's marketing strategy is to use its cost advantages and international experience to target the mass market with high quality pieces at competitive 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 2005, over 40% 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 outsourcing contracts for Sanitec's brands.

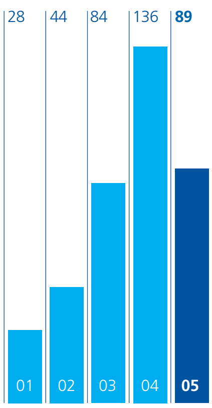
Total assets
LE million



Net sales
LE million



Net profit
LE million

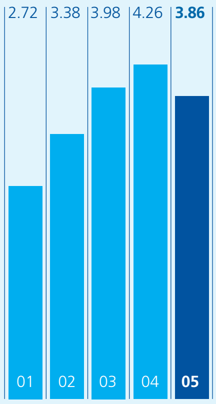


Lecico at a glance

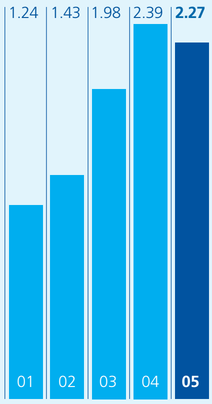
In 2005, Lecico produced and sold over 3.8 million pieces of sanitary ware and over 17.6 million square meters of tiles.

Sanitary ware is Lecico's main revenue and profit driver, while the tile segment is a fast growing and complementary business for the group. In 2005, over 58% of sanitary ware volumes were exported, with over 80% going to Western Europe.

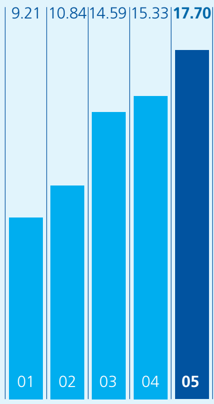
Sanitary ware sales volumes
Millions of pieces



Sanitary ware export volumes
Millions of pieces



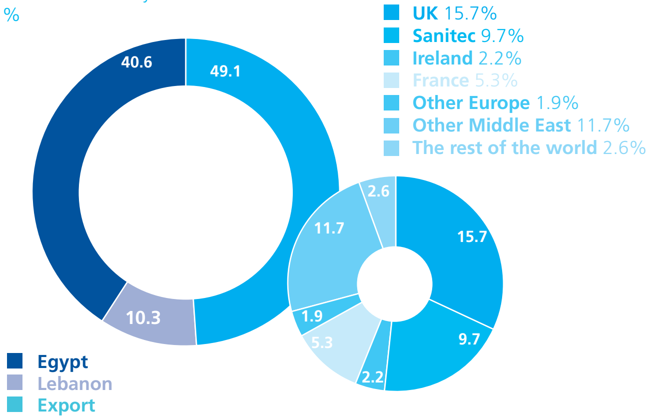
Tile sales volumes
Millions of sqm

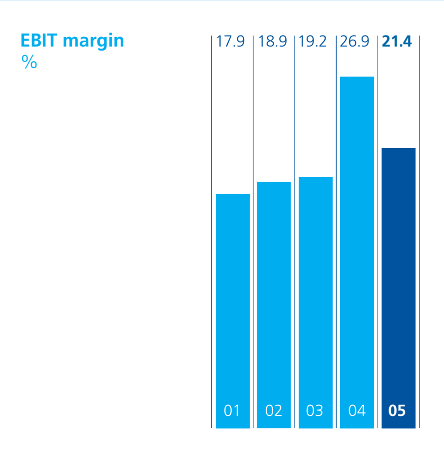


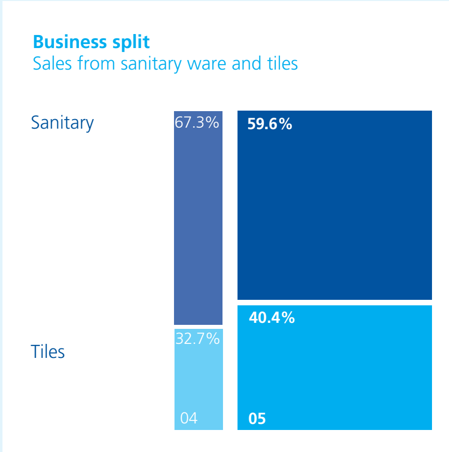
Our customers

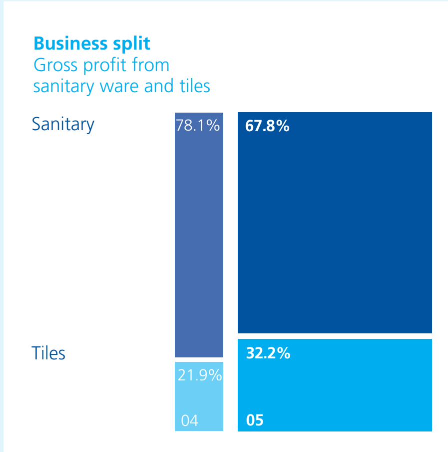
Lecico exports to over 55 countries around the world. Lecico's principal export customers are its subsidiaries in the UK and France and its largest OEM customer, Sanitec.

Business split
Sales from sanitary ware and tiles
%









5 year summary

	2001	2002	2003	2004	**2005**	CAGR
Net sales	265.47	382.00	559.30	696.80	**652.38**	25%
Gross profit	100.66	149.34	222.11	300.12	**242.37**	25%
EBIT	47.40	72.10	107.59	187.63	**139.62**	31%
Net profit	28.42	44.15	83.97	136.13	**88.84**	33%
EPS	1.69	2.63	5.21	7.92	**4.44**	27%
Cash & Equivalents	93.04	85.31	140.65	264.22	**319.40**	36%
Total Assets	620.12	633.69	798.02	1,099.58	**1,364.67**	22%
Total Debt	251.53	270.58	334.73	225.92	**494.07**	18%
Total Liabilities	405.85	390.19	469.34	403.10	**643.47**	12%
Minority Interest	23.94	19.73	24.80	5.21	**5.17**	(32)%
Shareholders' Equity	190.32	223.77	303.88	691.26	**716.03**	39%

Egyptian Pounds (LE) in millions except per share data

Chairman's statement

Gilbert Gargour

"Investing in the future" has been our main focus at Lecico over the past year. The global market for sanitary ware is changing rapidly, with a growing proportion of global production coming from emerging markets as production of sanitary ware in developed markets is becoming increasingly economically unfeasible. In this environment, a well-positioned low cost producer like Lecico has a unique chance to gain significant global market share and build itself into a global brand in the coming years.

Global industry shift presents opportunity

We think we can achieve this in Lecico by replicating our success in markets like the UK and Ireland across Europe and the Middle East. In the past, Lecico's ability to expand was constrained by a lack of products, but our upcoming expansion – a new two million piece plant is scheduled to come on line this year – should give us ample capacity for the coming years. However, we need more than added capacity to realize Lecico's full potential, that's why we have also been investing in developing our human capital, corporate depth, market coverage and product offering throughout 2005 and into 2006.

Difficult year highlights need to diversify

Our focus on investing in Lecico's future was crystallized by the difficult year we had in 2005. Demand slumps in our main markets and the impact of a strengthening Egyptian pound and Dollar negatively impacted our financial performance and highlighted the risk of our over-exposure to a limited number of markets. Given our aggressive upcoming capacity expansions, the slow down in 2005 added a healthy degree of urgency to our focus on developing new markets and customers for our sanitary ware products.

Investing in the future

This annual report should go a long way to explaining our strategy, plans and first steps in preparing Lecico to face the exciting challenges and opportunities currently presenting themselves. In essence, 2005 was about laying the ground-work for our development by hiring the right people to deepen management, putting the structures and resources in place to expand in existing markets and enter new markets, and continuing plans to add capacity. I am confident we will see the first rewards of these investments in 2006 and the development of this strategy will be a key driver of strong financial performance in coming years.

Gilbert Gargour
Chairman and CEO

Managing Director's statement

Elie Baroudi

2005 was a difficult year – as a confluence of external shocks negatively impacted our performance – but it was far from a total disaster. It was our second most profitable year in over 45 years of trading and was also one of our busiest years, with a strong push to expand our footprint in Europe and the Middle East and significant investment in new hires, capacity and technology.

A difficult year

In 2005, Lecico's sanitary ware business suffered from simultaneous slumps in demand in all our main markets and a sharp appreciation of the Egyptian pound against our principal trading currencies. This drove down prices and volumes while increasing fixed costs per piece. As a result, revenue fell 6% to LE 652.4 million and operating profits fell 26% to LE 139.6 million. This was compounded by large FX losses, particularly on our Dollar-denominated IPO proceeds, and net profit fell 35% to LE 88.8 million.

Charting a course for the future

We have not been idle in this difficult period. We increased our sales forces and introduced new products for the UK, France, Egypt and Lebanon. We encouraged existing distributors (in over 55 countries) to take more product – with a record number of them visiting our factories in Egypt. We began setting up several key distribution hubs in the Middle East to begin increasing our market share in the region and we are exploring new European markets. All of this should start to lay a foundation for growth in coming years.

We are contuining with our expansion of sanitary ware capacity and announced new plans for increasing capacity in both fire clay and tiles. We inaugurated our frit plant in the second half of 2005 – reducing our tile costs. We also began deepening our corporate structure, hiring a number of new executives including a new head of product development, a fire clay production manager, a new sanitary ware plant manager, a quality department manager and a new Group Chief Financial Officer.

Elie Baroudi
Managing Director

Investing in **People**

Investment in human capital never depreciates.

Lecico believes that continuous investment in human capital is necessary to develop a strong competitive advantage and deliver sustainable growth. In a complex and skill-based industry like sanitary ware, it is the abilities of staff and management that differentiates a company from the competition.

As Lecico grows, it becomes more important for the Company to develop its management to handle an increasingly complex and diverse business. This will require continued improvement in production quality, logistics abilities and control functions. Accordingly, Lecico has made significant investments in training and hiring staff and senior managers, particularly in the production and finance departments. Lecico offers its staff a uniquely vibrant and multicultural work environment, a visible career path and a remunerative payment scheme. Recent key hires have included:

Colin Sykes
Group Chief Financial Officer
Colin is returning to Lecico after spending 5 years with Tellermate, a global provider of technology products. Prior to that, Colin spent 8 years in Lecico. Colin began his career as an accountant, followed by a five year stint in the City before embarking on a fifteen year international business career that has spanned the globe. Colin is a Chartered Accountant with an MBA from Duke University.

Dave Gater
Divisional Quality Manager
Dave is joining Lecico after spending 2005 on secondment from Sanitec as a part time consultant implementing a Total Quality Management system. David has 22 years industry experience working in many countries and functions. David has an MBA and a degree in ceramics from Staffordshire University in the UK.

Khaled El-Mahdy
Investor Relations Executive
Khaled spent 17 years in investment banking, of which 9 years as an equity research analyst and regional portfolio manager. Khaled has a MSc. in Economics from the University of Wales in the UK.

Ian McLaren
Sanitary Ware Plant Manager
Ian has 37 years of industry experience including 24 years with Ideal Standard in the UK and several managerial positions with Heritage Bathrooms and Imperial Bathrooms. Ian has studied ceramics and management at North Staffs Polytechnic in the UK.

Maxwell Barr
Director of Product Development
Max has over 30 years experience in the industry including 8 years as a manager with Twyfords and 4 years as a Total Quality Coordinator for 4 plants. Max studied metallurgy, ceramic and management at North Staffs Polytechnic.

Sergio Mancini
Fire Clay Division Manager
Sergio spent the last 15 years as a Production Director in fire clay sanitary ware plants in Italy and Tunisia. Sergio has 35 years industry experience, of which 20 years were spent as a caster in Italy.


lecico
The Art of Ceramics
Type
Colour

Investing in Processes

Lecico is launching a host of initiatives to enhance efficiency and control costs.

Investment in strengthening business processes is a necessary step in increasing staff empowerment and accountability. These are the primary drivers of greater efficiency and ultimately, improving profitability. Management, aware of such facts, has endorsed several initiatives to improve some key business processes.

Lecico has begun improving processes in areas ranging from product quality and business intelligence to logistics systems. The Company hopes that investing in these processes will not only improve response times and service levels, but also highlight opportunities for extra cost efficiencies. These investments, while still in their early stages, are already delivering preliminary results.

Total Quality Management

The introduction of Total Quality Management (TQM) philosophy within Lecico has begun with an invigorated focus on customer satisfaction. This philosophy will take time and effort to fully implement but will deliver long term benefits. Lecico's production staff is involved in training to focus on process mapping and process audit, with a constant target of improving "right first time" delivery from every area of the factory. Increased awareness of standardized measurement, clearly defined manufacturing processes and unified product specifications are the first areas which have benefited from the new focus. Improvement teams have already begun to measure benefits in terms of productivity, performance, and customer satisfaction.

IT investments

Lecico is embarking on a universal project to improve the quality, timeliness and ease of access for all business performance information. The project entails rolling-out business intelligence software that becomes the central data warehouse to integrate all the diversified data sources within the Company. A group of in-house developers are currently spearheading the project. The software will provide production management, business control and the finance department with instant access to consolidated and comprehensive data for oversight on all relevant areas of the business. The software will also improve efficiency and allow the quick application of new business analysis metrics. Upon full completion, which is targeted by end of 2007, Lecico will enjoy a fully automated, highly integrated information database.

Improved logistics system

Lecico is also applying an improved logistics management system at its export warehouse in Borg El-Arab. Lecico inaugurated a new covered warehouse for exports in late 2005. The warehouse is now fully computerized and pallets are sorted in lanes by their country of destination on a first in first out basis. The focus of this new logistics system is to improve control, ease of access and stock rotation efficiency. The system now should reduce loading time for a container to a few hours from up to a full working day previously. The whole project is expected to be concluded before end of 2006.


TCM

Investing in
Capacity

Expansions to drive growth in 2006 and 2007.

As part of its plan to deliver strong and steady growth, Lecico has consistently added new production capacity. Lecico's next big growth in sanitary ware capacity is scheduled to come on-line in late 2006. The Company is also rolling out new tile capacity and investing in new products like fine fire clay sanitary ware and frit for tiles in order to expand its product offering and reduce costs.

Lecico's investments in production assets began to bear fruit at the end of 2005. The Company began to see the benefits of internal frit production and was able to use its new kiln in Khorshid to maintain production levels while carrying out extensive maintenance work. Lecico expects to see a continued positive impact from the completion of the frit project in 2006 and the roll out of extra fire clay and vitreous china sanitary ware capacity over 2006 and 2007.

Lecico to increase fire clay capacity

Fire clay is a specialized form of sanitary ware used to make larger pieces such as shower trays and kitchen sinks without distortion. These pieces typically cost more to produce than vitreous china sanitary ware with correspondingly higher selling prices. Lecico currently has an annual capacity of around 60,000 fire clay pieces and is undertaking an expansion to take this capacity to as high as 200,000-225,000 pieces. The additional capacity is scheduled to come on stream gradually from early 2007 onwards. Lecico believes this investment will make it one of the largest low cost producers of fire clay.

New sanitary ware plant

Lecico is in the final stages of construction at European Ceramics, its new sanitary ware plant. The plant will boost Lecico's total capacity to 7.0 million pieces per annum. The plant is adjacent to the Group's existing plant in Borg El-Arab and will benefit from shared resources in energy, raw material preparation, storage, modeling and administration which should improve overall efficiency and limit investment costs. The first one million piece line is expected to begin operations late in 2006 with the second line rolled out in 2007.

Adding 4.4 million square meters of tile

Lecico's tile segment has been operating at near to full capacity over the past five years despite several expansions. In 2005, capacity limitations inhibited Lecico from meeting demand from existing clients, let alone new orders. Accordingly, management plans to add approximately 4.4 million square meters of tile capacity by June 2007. The new tile line will be designed to produce the high-margin 40x40 floor tiles with flexibility to shift toward other dimensions.

In-house frit production slashes tile costs

Lecico began operation of its first frit kiln late in 2005; its second and third one came on stream by April and June 2006, respectively. Lecico plans to build a further two frit kilns to take total capacity to 60 tons per day by mid-2007. The five kiln frit plant will – at full capacity – cover all the Group needs for frit. Frit is a key ingredient for tile glaze which was previously imported and accounted for 19% of the tile segment's costs.

Operational review
Sanitary ware

Decorated Sanitary ware
Decorated sanitary ware is increasingly popular in Middle Eastern markets. Lecico currently has a decoration department of 12 employees with a capacity of 120,000 pieces per annum.

The heart of Lecico's global competitive advantage is its ability to produce certified, European-quality sanitary ware at one of the lowest production costs in the world. Lecico aims to continue growing this business by expanding capacity, growing market share and entering new markets.

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 experience in the industry and decades of experience as an exporter to developed markets.

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

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

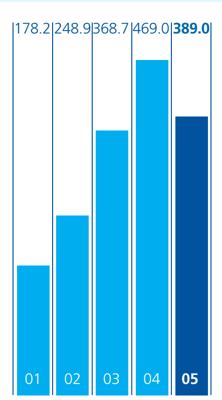
A difficult year for sanitary ware
A confluence of negative factors impacted the performance of Lecico's sanitary ware segment in 2005. Sanitary ware sales volumes for 2005 were down 9.5% or 0.40 million pieces year-on-year at 3.86 million pieces. Lecico's sanitary ware average prices, sales volumes and profitability were impacted by a sharp appreciation in the Egyptian pound against Lecico's major trading currencies, a simultaneous weakening of demand in all major markets and a subsequent reduction in production volumes.

Egyptian pound appreciation
The financial performance of the sanitary ware segment was negatively impacted by the strengthening of the Egyptian pound. The Egyptian pound appreciated by around 7% against both the Euro and the Sterling in 2005 and these two currencies account for around 40% of Lecico's total revenues. In most markets, Lecico is unable to pass on the impact of Egyptian pound currency appreciation, so this translates into lower average selling prices and a drop in both

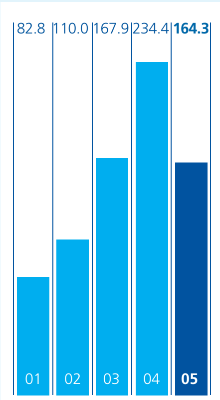
Sanitary ware non-European exports

000s pieces	2005	% of total	2004	% of total	Changes (%)
South Africa	**105.5**	2.7%	78.1	1.8%	35.1%
Libya	**92.1**	2.4%	39.6	0.9%	132.5%
Syria	**74.7**	1.9%	56.1	1.3%	33.0%
Saudi Arabia	**39.2**	1.0%	37.9	0.9%	3.6%
Kuwait	**19.8**	0.5%	14.7	0.3%	35.5%
Other Middle East	**28.8**	0.7%	18.7	0.4%	54.0%
Rest of Africa and Other	**87.1**	2.3%	92.8	2.2%	(6.1)%
Total non-European exports	**447.3**	11.6%	338.0	7.9%	32.3%
Total Sanitary ware sales	**3,861.2**	100.0%	4,264.6	100.0%	(9.5)%

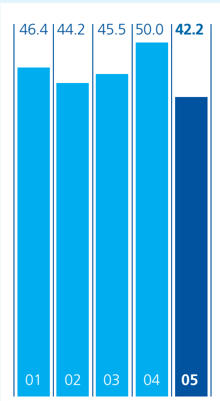
Sanitary ware
A challenging year



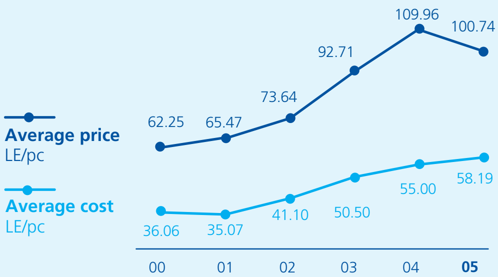
Revenues / LEm



Gross profit / LEm



Gross margin / %



margins and profit per piece. The currency appreciated sharply in the second half of the year, so the effect of weaker prices and lower profitability is likely to continue in the early part of 2006.

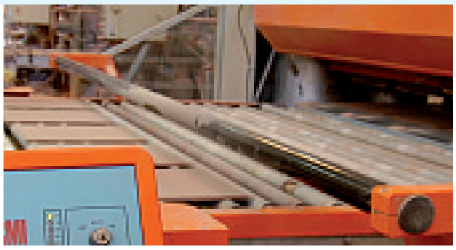
Weak demand in core markets

The UK market for sanitary ware began to slow down in the fourth quarter of 2004 and and slowed further over 2005. The slow down was part of an overall drop in spending that was particularly noticeable in the DIY market, consumer durables and the housing market. This impacted both direct sales to the UK and OEM sales to Sanitec, as the majority are for the UK market. Lecico also experienced significant drops in demand in Egypt and Lebanon, as a result of economic and political uncertainty, which severely curtailed spending resulting in a drop in Lecico's sales volumes in both markets.

Lecico was able to generate significant sales outside its core markets where export volumes rose by over 32% year-on-year. Most of this growth came from market share gains in the Middle East and Africa. However, these gains were not sufficient to offset the drop in sales to the Company's main markets.

Lower production levels push up costs

The drop in demand for sanitary ware in 2005 led Lecico to cut its production levels to avoid excessive inventory build-up. Production volumes were around 10% lower year-on-year and capacity utilization fell below 90% for the first time in three years resulting in an increase in fixed costs per piece. The drop in production put further pressure on the profitability of Lecico's sanitary ware business with fixed costs per piece rising. Management estimates that over 60% of sanitary ware production costs are fixed.



Operational review
Tiles

Tiles are a key part of Lecico's product range for domestic and Middle Eastern markets. The segment had another record year with continued capacity growth, strong demand, and the beginning of in-house frit production all contributing to continued improvement in sales and profitability.

A crucial and profitable support business

Lecico produces approximately 300 types of wall and floor tiles. Tile is a crucial support business for Lecico's domestic and Middle Eastern sanitary ware 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.

Furthermore, tile is a strong cash generator for Lecico with an average tile finished goods inventory of less than one month, compared to closer to three months inventory for sanitary ware. Indeed, demand for tiles is so strong that despite increasing capacity by over 9.0 million square meters to a total of 18.1 million square meters per annum, Lecico's tile plants have kept operating at an average 98% capacity utilization for the last six years.

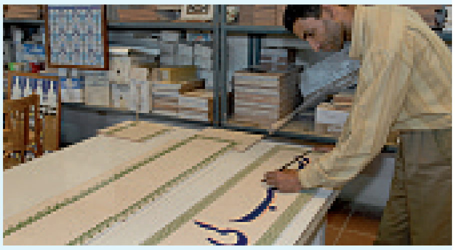
Strong export demand

In 2005 Lecico witnessed strong regional demand for its tiles as a consequence of its push to export more sanitary ware to the Middle East. Tile export sales volumes rose 99% to 3.16 million square meters and the proportion of exports rose from 10% of sales in 2004 to 18% in 2005. Over 99% of these exports went to Middle Eastern markets.

Lecico's increased activity in Libya accounted for over 75% of the increase in export market demand. Tiles volumes in Libya rose 111% year-on-year in 2005 to reach 2.29 million square meters. The growth in tile exports to Libya supported sanitary ware sales into the country also, which grew 133% to reach just over 92,000 pieces. Although far smaller in proportion of overall sales, tile exports to Palestine and Sudan were also key drivers of tile export growth, with sales volumes growing by 307% and 138% respectively.

Domestic demand growth

Domestic demand for Lecico tiles also remained strong in Egypt, despite the worsening picture for sanitary ware. Egyptian tile sales volume rose 6% or 0.81 million square meters year-on-year in 2005 and was constrained by limited supply given the strong growth in export demand. Sanitary ware sales



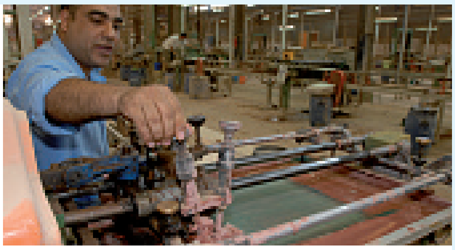
Bespoke tile orders

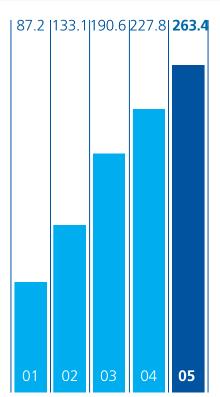
Lecico has a team of artists that offer customers a range of "made to order" design and decoration solutions for restaurants, clubs, hotels, mosques and private homes.

Tile capacity and sales by volume

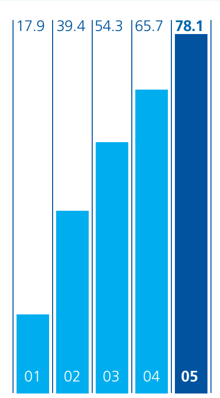
000's sqm	2001	2002	2003	2004	**2005**	CAGR
Tile capacity	9,100	10,840	14,500	16,500	**18,220**	19.0%
Tile sales volume	9,208	10,840	14,592	15,334	**17,698**	17.7%
Percentage of capacity utilisation	101%	100%	101%	93%	**97%**	
Egypt sales volume	8,873	9,150	12,301	12,788	**13,595**	11.3%
Lebanon sales volume	n/a	1,101	1,278	962	**948**	n/a
Export sales volume	335	589	1,013	1,584	**3,155**	75.1%
Export sales as a percent of total sales	3.6%	5.4%	6.9%	10.3%	**17.8%**	

Tiles
A record year

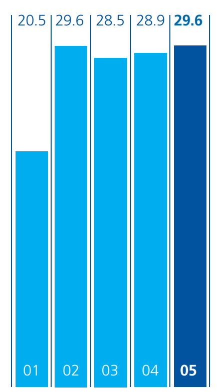




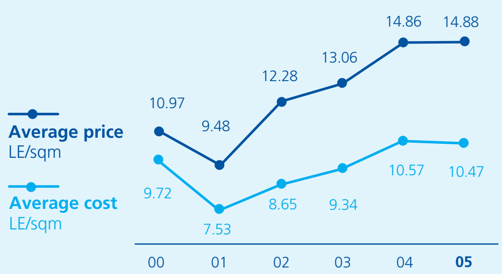
Revenues / LE m



Gross profit / LE m



Gross margin / %



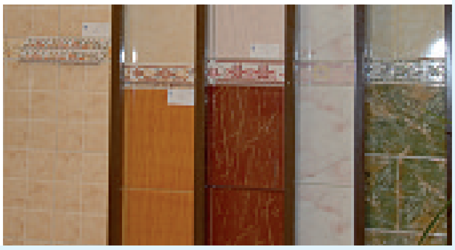
volumes for the year fell just under 14% or 0.22 million pieces in the same year. A similar trend of more resilient tile demand can be seen in Lecico's sales in Lebanon, where sanitary ware sales volumes fell 23% in 2005 while tile volumes only fell by 1% year-on-year. Management believes this disparity between tile and sanitary demand reflects a broader trend towards wider applications for tiles across the Middle East and other markets.

Frit plant helps reduce production costs

Lecico completed the first phase of its frit plant in 2005 and began to see some initial cost-saving benefits of producing frit in-house. Frit is a key ingredient for tile glaze which was previously imported by Lecico and accounted for approximately 19% of the Company's cost of sales for tiles. By producing frits in-house, Lecico not only reduces its foreign currency exposure, but expects to realize considerable cost savings. Lecico inaugurated the facility with its first kiln operating in 2005. The Company plans to roll-out a total of five frit kilns, which should all be operational by the middle of 2007. The full frit plant will have a capacity of around 15,000 tons per year and a total cost of around USD 5.0 million. This capacity will be sufficient to serve all the Lecico Group's currently forecasted demand for frit.

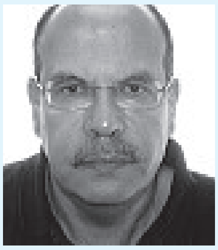
25% capacity increase planned

All of these factors contributed to another record year for Lecico's tile segment with sales volumes, revenues, and profitability continuing to grow and reach new highs. In light of the fact that Lecico's tile segment is working at full capacity and export demand for tiles is expected to grow as the Company continues to expand its presence in the Middle East, a further increase in capacity was announced at the end of 2005. Lecico plans to increase its tile capacity by 4.4 million square meters in two phases. The first 2.2 million square meter phase of the project should be operational around the beginning of 2007. The entire project should be completed by the end of the first half of 2007.



Board of directors

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. 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 and a member of Lecico Egypt's Audit 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. Elie Baroudi
Managing Director
He was appointed Managing Director in September 2002 and has been a Director since 2003. He is a citizen of Lebanon and the United States of America. Prior to joining Lecico, he worked at American Express Bank for 22 years and served in various positions including Executive Director and Region Head for North and South East Asia (1991 to 1996), and Managing Director of American Expresses' Egyptian joint venture bank, Egyptian American Bank (1986 to 1990).

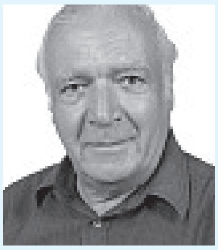
Mr. Toufick Gargour
Non-executive Director
He has been a Director of the Company since 1974. He is a citizen of both Canada and Lebanon and holds an IEP from INSEAD. In addition to being a Director at Lecico Egypt, He has been a Director of Lecico Lebanon since 1969 and is Chairman of Gargour Holdings 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).

Directors
The Board of Directors currently consists of 10 Directors. Pursuant to the statutes of the Company, the term of a Director is three years and may be renewed for additional terms.

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.

* Member of the Lecico Egypt Audit Committee

Name	Age		Representing	Year initially appointed to Board
Mr. Gilbert Gargour	62	Chairman	Intage	1981
Mr. Elie Baroudi	59	Managing Director	Management	2003
Mr. Alain Gargour	53	Director	Intage	1997
Mr. Toufick Gargour	64	Director	Intage	1974
Mr. Georges Ghorayeb	55	Director	Management	2003
Eng. Aref Hakki	71	Director	Independent	1998
Mr. Pertti Lehti	47	Director	Sanitec	2002
Mr. Juergen Lorenz	63	Director	Independent	2003
Mr. Lennart Sunden	54	Director	Sanitec	2005
Mr. Mohamed Younes	67	Director	Independent	2004



Eng. Aref Hakki *

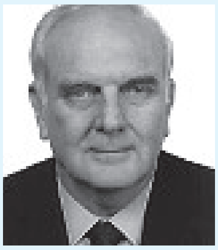
Non-executive Director

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.

Mr. Lennart Sunden

Non-executive Director

He was appointed to the board in 2005. He is a Swedish citizen and holds a Masters Degree in Engineering from the Royal Institute of Technology (Sweden). He has been the President and Chief Executive Officer of the Sanitec Corporation since 2005 and is one of the two Directors representing Sanitec, a key customer and principal shareholder in Lecico. Prior to joining Sanitec Mr. Sunden spent 21 years in a variety of management positions within Electrolux and most recently spent six years as President and Chief Executive Officer of Swedish Match.

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.
In addition to serving as a Lecico Director and the Chairman of its Audit Committee, he is a Founder and a Member of the Board of Directors of the Egyptian Investment Management Association.

Financial review

Operational review

2005 was a difficult year for the Company, with softness in sanitary ware demand in Lecico's main markets coupled with the impact of a stronger Egyptian pound on exports driving a drop in sales and profitability by impacting volumes, average prices and margins. The Sterling and the Euro - which account for over 90% of export revenues - both depreciated by approximately 7% against the pound during 2005, with the trend accelerating significantly in the fourth quarter.

As a result of these factors, revenue for 2005 was down 6% year-on-year at LE 652.4 million. Gross profit for the year fell 19% to LE 242.4 million, with the margin falling 5.9 percentage points to reach 37.2%. The drop in profitability was due to the drop in sanitary ware margins and the increased proportion of lower margin tile business in gross profits. Tiles accounted for 32% of gross profits in 2005 compared to 22% in 2004.

Proportional D&A expenses were flat year-on-year at 16.4% of net sales. Actual D&A expenses were down 6.0% year-on-year at LE 106.8 million. Net other operating income was LE 4.1 million, compared to LE 1.3 million for 2004. EBIT fell by 26% to reach LE 139.6 million, with the EBIT margin falling 5.5 percentage points to reach 21.4%.

Net financing expenses continued to benefit from an improved post-offering balance sheet, with higher interest income reducing net expense by 53% to LE 16.5 million.

Lecico incurred large one-off FX losses on revaluation of the Company's Dollar offering proceeds and continued to see smaller losses over the year as the Egyptian pound strengthened. Total FX losses for the year reached LE 20.1 million, compared to a gain of LE 1.7 million in 2004.

Lecico benefited from a lower effective tax rate and lower minority interest charges in 2005. This was despite the inclusion of deferred tax liabilities for the first time to comply with IFRS. The new Egyptian tax laws introduced during 2005 grant identifiable accelerated tax allowances upon which a deferred tax liability arises under IFRS. This deferred tax charge amounted to LE 3.5 million out of a total tax expense of LE 7.0 million. This compares with a tax expense of LE 10.9 million in 2004.

Net profit for 2005 and 2004 was adjusted by the inclusion of employee profit participation as an expense to bring Lecico accounts into accordance with IFRS. This treatment is not adopted by most Egyptian companies as Egyptian Accounting Standards include this expense as part of dividend distribution. This change in policy reduced net profit by LE 7.1 million in 2005 and LE 7.3 million in 2004.

Net profit fell by 35% to reach LE 88.8 million, with the net profit margin falling 5.9 percentage points to 13.6%, compared with 19.5% in 2004.

Sanitary ware

Sanitary ware sales volumes fell 403,487 pieces or 9% year-on-year to 3.86 million pieces sold in 2005. The drop in sales volume was due primarily to softening in demand in Egypt and the UK.

Demand, pricing and margins all suffered as a result of the sustained weakness in the UK, Egypt and Lebanon. This softness in demand combined with Egyptian currency strength, have driven a reduction in average prices with exports going to lower price and margin markets. The appreciation of Egyptian pound alone in 2005 reduced average prices by approximately 3% (in LE terms).

Average sanitary ware prices were down 8% at LE 101 per piece in 2005. Sanitary ware revenues were down 17% year-on-year at LE 389.0 million.

The slowdown in production volumes also put additional upward pressure on costs. Sanitary ware gross profit margin fell by 7.7 percentage points year-on-year in 2005 to reach 42.2% and gross profits fell 30% to LE 164.3 million for the year.

Tiles

Tile sales volumes grew by 15% year-on-year in 2005 to reach 17.70 million square meters. Demand growth came primarily from Egypt and Lecico's export markets. Exports accounted for 17.8% of total sales volumes, compared with 10.3% in the same period last year.

Average tile prices were flat year-on-year at LE 15 per square meter. Tile revenues were up 16% year-on-year at LE 263.4 million.

The tile segment's gross margin grew 0.8 percentage points year-on-year on the back of the early output of the new frit plant, which reduced raw material costs. The tile segments gross margin averaged 29.6% for the year and gross profits rose 19% to LE 78.1 million.

Profit and loss statement highlights

(LE m)	2005	FY 2004	% 05/04	2003	FY 2002	2001	2001-05 CAGR%
Sanitary ware	389.0	469.0	83%	368.7	248.9	178.2	22%
Tiles	263.4	227.8	116%	190.6	133.1	87.2	32%
Net sales	**652.4**	**696.8**	**94%**	**559.3**	**382.0**	**265.5**	**25%**
Sanitary ware/net sales (%)	59.6%	67.3%	(7.7%)	65.9%	65.2%	67.1%	
Cost of sales	(410.0)	(396.7)	103%	(337.2)	(232.7)	(164.8)	26%
Cost of sales/net sales (%)	(62.8%)	(56.9%)	(5.9%)	(60.3%)	(60.9%)	(62.1%)	
Gross profit	**242.4**	**300.1**	**81%**	**222.1**	**149.3**	**100.7**	**25%**
Gross profit margin (%)	37.2%	43.1%	(5.9%)	39.7%	39.1%	37.9%	
Distribution and administration (D&A)	(106.8)	(113.8)	94%	(103.1)	(65.1)	(43.0)	26%
D&A/net sales (%)	(16.4%)	(16.3%)	(0.0%)	(18.4%)	(17.0%)	(16.2%)	
Net other operating income	4.1	1.3	310%	(11.4)	(12.1)	(10.3)	
Net other operating income/net sales (%)	0.6%	0.2%	0.4%	(2.0%)	(3.2%)	(3.9%)	
EBIT	**139.6**	**187.6**	**74%**	**107.6**	**72.1**	**47.4**	**31%**
EBIT margin (%)	21.4%	26.9%	(5.5%)	19.2%	18.9%	17.9%	
Net profit	**88.8**	**136.1**	**65%**	**84.0**	**44.2**	**28.4**	**33%**
Net profit margin (%)	13.6%	19.5%	(5.9%)	15.0%	11.6%	10.7%	

Sanitary ware segmental analysis

(LE m)	2005	FY 2004	% 05/04	2003	FY 2002	2001	2001-05 CAGR%
Sanitary ware volumes (000 pcs)							
Egypt	1,383	1,600	86%	1,710	1,668	1,482	(2%)
Lebanon	211	276	77%	286	280	n/a	n/a
Export	2,267	2,389	95%	1,982	1,431	1,240	16%
Total sanitary ware volumes (000 pcs)	**3,861**	**4,265**	**91%**	**3,977**	**3,380**	**2,722**	**9%**
Exports/total sales volume (%)	58.7%	56.0%	2.7%	49.8%	42.3%	45.5%	
Sanitary ware revenue	**389.0**	**469.0**	**83%**	**368.7**	**248.9**	**178.2**	**22%**
Average selling price (LE/pc)	101	110	92%	93	74	65	11%
Average cost per piece (LE/pc)	58	55	106%	51	41	35	13%
Sanitary ware cost of sales	(224.7)	(234.6)	96%	(200.9)	(138.9)	(95.5)	24%
Sanitary ware gross profit	**164.3**	**234.4**	**70%**	**167.9**	**110.0**	**82.8**	**19%**
Sanitary ware gross profit margin (%)	42.2%	50.0%	(7.7%)	45.5%	44.2%	46.4%	

Financial review continued

Financial position

The value of Lecico's assets rose by 24% or LE 265.1 million over the year to reach LE 1,364.7 million, primarily as a result of continued investments in capacity growth and new technology. Over the year, net fixed assets and projects in progress grew by 33% or LE 130 million. The growth in assets was partly due to an increase in receivables and inventories, which grew by 25% or LE 92.9 million in 2005, as a result of the drop in demand for sanitary ware products witnessed in 2005.

Total liabilities grew 60% to LE 643.5 million on the back of increasing debt over the period. Net debt grew by LE 214.1 million to reach LE 189.7 million at the end of 2005. Net debt to equity for the period reached 0.24x.

Recent developments and outlook

Outlook for 2006: Performance in 2006 is likely to be shaped by Lecico's ability to continue growing sales in new and existing markets, thus taking advantage of the ongoing roll-out of additional capacity, and to a lesser but significant extent by Lecico's ability to improve the values obtained from local sales. However, the Company remains exposed to the impact of demand trends in the UK and Egypt and exchange rate directions, which were the principal drivers of weaker performance in 2005. While the Company expects to return to year-on-year growth in 2006, this growth is expected to be skewed towards the second half of the year, as many of the initiatives undertaken to boost sales will take some time to gain momentum.

In the UK, there are still no signs of a recovery in the DIY market and housing sectors. Lecico plc has significantly expanded its sales team and is also targeting new, previously unadressed market segments. As a result, despite the likelihood of a lackluster market, Lecico expects to see a year-on-year growth in volumes to the UK. However, these may well be achieved at a lower than average prices and the majority of the improvement in volumes to come in the second half of the year.

In Egypt, early indicators suggest a return to growth is underway, led by a recovery in demand for sanitary ware products. Turmoil in Lebanon is likely to have a significant impact on the performance of the market and the Company's Lebanese subsidiary.

Lecico is working to penetrate new markets and expand activities in current markets, particularly in the Middle East and Europe. This includes setting up several trading companies to act as regional distribution hubs across the Middle East and adding resources to help target new European markets. Management hopes to see the beginning of the benefits of this sales push later in the year.

The Egyptian pound has continued to strengthen in early 2006, with the pound appreciating significantly against both the Euro and the Sterling year-on-year. Since over 40% of Lecico's revenues are priced in either Euros or Sterling, this has implications for the Company's performance in 2006.

New and ongoing capital investment plans: Over the course of the coming two years, Lecico will continue to roll-out its announced expansions in tiles, fire clay and sanitary ware.

In tiles, Lecico is planning a two phase expansion of its current tile plant in Alexandria. The plan is to add approximately 4.4 million square meters of tile capacity. The first 2.2 million square meter phase of the expansion should be operational around the beginning of 2007. The entire project should be completed by the end of the second quarter of 2007.

Fire clay is a specialized form of sanitary ware used to make larger pieces without distortion. Typical fire clay pieces include shower trays and kitchen sinks. These pieces typically cost more than vitreous china sanitary ware to produce with correspondingly higher selling prices. Lecico currently has an annual capacity of around 60,000 fire clay pieces and is undertaking an expansion to take this capacity as high as 200,000 pieces per annum. The Company has also recently hired an expatriate expert in fire clay to run this division of the business. If fully realized, the investment would cost around USD 5 million and would necessitate a 300,000 piece reduction in vitreous china sanitary ware capacity. Lecico believes this investment will make it one of the largest low cost producers of fire clay and may open up opportunities for further future expansions.

Lecico is continuing to prepare for the launch of two new 1 million piece per annum sanitary ware lines in Borg El Arab in 2006. The first sanitary ware line is expected to begin operations in late 2006.

Sanitary ware exports by destination

(000s pieces)	31 Dec 05	% of total	31 Dec 04	% of total	% 05/04
UK	677.3	30%	825.2	35%	82%
Sanitec	636.1	28%	683.0	29%	93%
France	256.4	11%	304.2	13%	84%
Ireland	135.6	6%	114.3	5%	119%
Rest of Europe	114.0	5%	124.0	5%	92%
Middle East	254.6	11%	167.1	7%	152%
Other	192.6	8%	170.9	7%	113%
Total exports	**2,266.7**	**100%**	**2,388.7**	**100%**	**95%**

Tile segmental analysis

(LE m)	2005	FY 2004	% 04/03	2003	FY 2002	2001	2001-05 CAGR%
Tile volumes (000 sqm)							
Egypt	13,595	12,788	106%	12,301	9,150	8,875	11%
Lebanon	948	962	99%	1,278	1,101	n/a	n/a
Export	3,155	1,584	199%	1,013	589	335	75%
Total tile volumes (000 sqm)	**17,698**	**15,334**	**115%**	**14,592**	**10,840**	**9,208**	**18%**
Exports/total sales volume (%)	17.8%	10.3%	7.5%	6.9%	5.4%	3.6%	
Tile revenue	**263.4**	**227.8**	**116%**	**190.6**	**133.1**	**87.2**	**32%**
Average selling price (LE/sqm)	15	15	100%	13	12	9	12%
Average cost per piece (LE/sqm)	10	11	99%	9	9	8	9%
Tile cost of sales	(185.3)	(162.1)	114%	(136.3)	(93.7)	(69.4)	28%
Tile gross profit	**78.1**	**65.7**	**119%**	**54.3**	**39.4**	**17.9**	**45%**
Tile gross profit margin (%)	29.6%	28.9%	0.8%	28.5%	29.6%	20.5%	




Financial contents

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, 2005 and the related consolidated statements of income, cash flow 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, 2005 and the results of their operations, its cash flow 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 19 to the consolidated financial statements. The management intends to reinvest, indefinitely, the earnings of the foreign subsidiaries. These earnings might be subject to tax at different rates upon distribution, depending on the subsidiaries’ country of incorporation.

KPMG Hazem Hassan
Alexandria, March 8 2006

Consolidated balance sheet

As at December 31 2005

	Note no.	31/12/2005 LE	31/12/2004 (Restated) LE
Assets			
Fixed Assets	2.8, 2.9, 2.20, 6	**409,238,586**	338,762,450
Projects In Progress	2.10, 7	**112,737,169**	53,259,840
Intangible Assets	2.11, 8	**16,065,744**	16,003,827
Other Investments	2.12, 9	**5,474,295**	4,670,078
Long-Term Notes Receivable		**2,130,484**	3,230,484
Long-Term Pre-paid Rent		**695,462**	808,241
Total Non-Current Assets		**546,341,740**	416,734,920
Inventory	2.13, 10	**271,433,101**	226,843,266
Receivables	11	**197,292,214**	148,999,297
Related Parties – Debit Balances	12	**30,203,395**	42,779,467
Other Current Investment	13	**184,712,442**	5,000,000
Cash in Banks and on Hand	2.14, 14	**134,682,754**	259,218,296
Total Current Assets		**818,323,906**	682,840,326
Total Assets		**1,364,665,646**	1,099,575,246
Equity			
Issued and Paid-up Capital	16	**100,000,000**	100,000,000
Reserves	17	**368,125,262**	372,327,045
Retained Earnings	18, 19.1	**162,739,249**	82,800,623
Net Profit for the Year		**88,838,750**	136,132,988
Treasury Stock	2.15, 20	**(3,673,311)**	–
Total Equity attributable to equity holders		**716,029,950**	691,260,656
Minority Interest		**5,166,800**	5,212,313
Liabilities			
Long-Term Loans	21	**49,135,772**	83,272,516
Other Long-term Liabilities	22	**11,585,833**	13,937,544
Deferred Income Tax	2.16, 23	**3,484,227**	–
Provisions	2.16, 24	**6,257,114**	7,074,523
Total Non-Current Liabilities		**70,462,946**	104,284,583
Bank Overdrafts		**416,782,564**	113,408,263
Current Portion of Non Current Liabilities	25	**28,149,028**	29,244,132
Related Parties – Credit Balances	12	**9,054,850**	11,456,105
Trade and Notes Payable	26	**55,569,662**	62,356,322
Other Current Payable	27	**56,081,858**	74,984,884
Provision	2.16, 24	**7,367,988**	7,367,988
Total Current Liabilities		**573,005,950**	298,817,694
Total Equity, Minority Interest and Liabilities		**1,364,665,646**	1,099,575,246

• The accompanying notes from (1) to (35) are an integral part of the consolidated financial statements and to be read herewith.

Chief Financial Officer
Colin Sykes

Managing Director
Elie J. Baroudi

KPMG Hazem Hassan

• Auditor's report attached

Consolidated income statement

For the year ended December 31 2005

	Note no.	31/12/2005 LE	31/12/2004 (Restated) LE
Net Sales	2.5	**652,380,045**	696,800,931
Cost of Sales		**(410,011,810)**	(396,680,698)
Gross Profit		**242,368,235**	300,120,233
Other Operating Income	3	**4,253,894**	10,700,055
Distribution Expenses		**(44,374,081)**	(50,179,074)
Administrative Expenses		**(62,435,452)**	(63,616,260)
Other Operating Expenses	4	**(196,469)**	(9,390,130)
Profit from Operations		**139,616,127**	187,634,824
Investment Revenues		**71,896**	580,323
Interest Revenues		**15,983,993**	4,014,071
Financing Expenses	2.6	**(32,503,598)**	(39,208,759)
Foreign Exchange (Loss) Gain	2.4	**(20,135,594)**	1,735,261
		103,032,824	154,755,720
Employees' Participation in Profit	2.7, 20.2	**(7,109,152)**	(7,344,973)
Profit Before Tax		**95,923,672**	147,410,747
Income Tax Expense		**(3,534,865)**	(10,865,222)
Deferred Tax		**(3,484,227)**	–
Profit for the Year		**88,904,580**	136,545,525
Attributable to:			
Equity Holders of the Parent Company		**88,838,750**	136,132,988
Minority Interest		**65,830**	412,537
Profit for the Year		**88,904,580**	136,545,525
Earnings Per Share (LE/Share)	5	**4.44**	7.92

• The accompanying notes from (1) to (35) are an integral part of the consolidated financial statements and to be read herewith.

Consolidated cash flow statement

For the year ended December 31 2005

	Notes	31/12/2005 LE	31/12/2004 (Restated) LE
Cash Flow From Operating Activities			
Net Profit for the Year		**88,838,750**	136,132,988
Adjustments to Reconcile Net Profit To Net Cash Provided by Operating Activities			
Fixed Assets Depreciation and Translation Differences		**37,625,384**	26,084,150
Intangible Assets Amortisation and Translation Differences		**179,922**	77,651
Employees Participation in net profit		**7,109,152**	7,344,973
Deferred income tax		**3,484,227**	–
Prepaid Rent Expense		**112,778**	112,778
Gain on Sale of Investments		**–**	(283,088)
Capital (Gains) Losses		**(58,430)**	2,759,778
Provided Provisions and Translation Adjustment		**(2,232,324)**	7,441,647
Reversal of Provisions		**–**	(5,954,582)
Increase in Minority Interest		**(45,513)**	(18,753,432)
(Decrease) Increase In Translation Reserve		**(3,031,017)**	755,120
		131,982,929	155,717,983
Changes in Working Capital			
Increase in Inventory		**(44,294,745)**	(51,134,102)
Increase in Receivables		**(33,994,104)**	(3,715,701)
(Decrease) Increase in Payables		**(28,090,947)**	23,499,203
Utilised Provisions		**(602,914)**	(20,354,920)
Increase in Other Current Investments		**(54,762,442)**	(4,933,412)
Net Cash (Used in) Provided by Operating Activities		**(29,762,223)**	99,079,051
Cash Flows from Investing Activities			
Fixed Asset Additions and Changes in Projects in Progress		**(166,342,125)**	(121,698,375)
Increase in Intangible Assets		**(241,840)**	(550,136)
Net Changes in Available for Sale Investments		**(804,218)**	857,306
Proceeds from Sales of Fixed Assets		**169,703**	240,222
Decrease in Long-Term Notes Receivable		**1,100,000**	1,239,516
Net Cash Used in Investing Activities		**(166,118,480)**	(119,911,467)
Cash Flow from Financing Activities			
Net Proceeds from Capital Issuance		**–**	290,683,333
(Decrease) Increase in Long-Term Liabilities and Its Current Portion		**(37,583,559)**	10,652,422
(Increase) Decrease in Treasury Stock		**(3,673,311)**	4,903,864
Paid participation in profit of employees		**(5,913,282)**	(4,437,360)
Dividends Paid		**(59,908,988)**	(43,662,977)
Net Cash (Used in) Provided by Financing Activities		**(107,079,140)**	258,139,282
Net Change in Cash and Cash Equivalents During the Year		**(302,959,843)**	237,306,866
Cash and Cash Equivalents at Beginning of the Year	2.14, 15	**145,810,033**	(91,496,833)
Cash and Cash Equivalents at the End of the Year	2.14, 15	**(157,149,810)**	145,810,033

• The accompanying notes from (1) to (35) are an integral part of the consolidated financial statements and to be read herewith.

Consolidated statement of changes in shareholders' equity

For the year ended December 31 2005

	Issued & Paid Up Capital LE	Reserves LE
Balance at December 31, 2003 (Restated)	84,000,000	94,775,837
Prior Period Adjustments	–	–
Transfer to Retained Earnings (Restated)	–	–
Transfer to Legal Reserve	–	1,248,663
Dividends Declared	–	–
Adjustments Due to changes in Shareholding Percentage of Subsidiaries	–	864,092
Increase from Capital Issuance	16,000,000	292,883,994
Capital Issuance Expenses	–	(18,200,661)
Selling of Treasury Stock	–	–
Translation Adjustment for Foreign Subsidiaries	–	755,120
Profit for the Year (Restated)	–	–
Balance at December 31, 2004 (Restated)	100,000,000	372,327,045
Prior year adjustments	–	45,000
Transfer to Retained Earnings (Restated)	–	–
Dividends Declared *	–	–
Purchased Treasury Stock	–	–
Translation Adjustment for Foreign Subsidiaries	–	(4,246,783)
Minority interest in International Ceramic (A subsidiary)	–	–
Profit for the Year	–	–
Balance at December 31, 2005	100,000,000	368,125,262

* Dividends declared are after deduction of dividends to subsidiary companies amounting to LE 171,373 (2004: LE 56,287) for their owned shares in the parent company.

• The accompanying notes from no. (1) to no. (35) are an integral part of these consolidated financial statements therewith.

Retained Earnings LE	Profit for the Year LE	Treasury Stock LE	Total LE	Minority Interest LE	**Total Equity LE**
40,958,861	83,087,294	(4,903,864)	297,918,128	23,965,745	**321,883,873**
(37,846)	–	–	(37,846)	37,846	**–**
83,087,294	(83,087,294)	–	–	–	**–**
(1,248,663)	–	–	–	–	**–**
(33,543,713)	–	–	(33,543,713)	–	**(33,543,713)**
(11,018,278)	–	–	(10,154,186)	(20,388,639)	**(30,542,825)**
–	–	–	308,883,994	–	**308,883,994**
–	–	–	(18,200,661)	–	**(18,200,661)**
4,602,968	–	4,903,864	9,506,832	558,516	**10,065,348**
–	–	–	755,120	626,308	**1,381,428**
–	136,132,988	–	136,132,988	412,537	**136,545,525**
82,800,623	136,132,988	–	691,260,656	5,212,313	**696,472,969**
3,634,265	–	–	3,679,265	41,388	**3,720,653**
136,132,988	(136,132,988)	–	–	–	**–**
(59,828,627)	–	–	(59,828,627)	–	**(59,828,627)**
–	–	(3,673,311)	(3,673,311)	(74)	**(3,673,385)**
–	–	–	(4,246,783)	(157,648)	**(4,404,431)**
–	–	–	–	4,991	**4,991**
–	88,838,750	–	88,838,750	65,830	**88,904,580**
162,739,249	88,838,750	(3,673,311)	716,029,950	5,166,800	**721,196,750**

Notes to the consolidated financial statements

For the year ended December 31 2005

1. 2005 Preface On The Parent Company And Its Subsidiaries

1.1. Lecico Egypt (the Parent)

Lecico Egypt (S.A.E.) was established on November 1st, 1975 according to the resolution of Ministry of Economics and Economic Co-operation number 142 of 1975. The Company is subject to law number 8 of 1997. The Company purpose is the production of all ceramic products including the production of sanitary ware and all kinds of tiles.

1.2. Its Subsidiaries

The following is a list of the subsidiaries comprising the consolidated financial statements together with the respective percentage owned by the Parent.

	Country of Incorporation	31/12/2005 %	Ownership Interest 31/12/2004 %
Lecico for Ceramic Industries (S.A.E.)	Egypt	99.99	99.99
Lecico for Trading and Marketing (S.A.E.)	Egypt	99.83	99.83
Lecico for Financial Investments (S.A.E.)	Egypt	99.50	99.50
Lecico (UK) Limited	England	100	100
The Lebanese Ceramic Industries Co. (S.A.L.)	Lebanon	94.77	94.77
International Ceramics (S.A.E.)	Egypt	99.97	n/a

2. Significant accounting policies

2.1. Statement of Compliance

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

2.2. Basis of Preparation

The financial statements are presented in Egyptian Pounds (LE) and are prepared on the historical cost basis.

Non-current assets held for resale are stated at the lower of carrying amount and fair value less costs to sell.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by Group entities.

2.3. Basis of Consolidation

Subsidiaries

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

Transactions Eliminated on Consolidation

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

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

Minority Interests

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.

2.4. Foreign Currency Translation and Financial Statements of Foreign Subsidiaries

2.4.1. Foreign Currency Transactions

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

2.4.2. Financial Statements of Foreign Operations

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

2.5. Revenue Recognition

Goods Sold and Services Rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

2.6. 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.

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

Notes to the consolidated financial statements

For the year ended December 31 2005

2.7 Employees Benefits

2.7.1. Employees Insurance Fund

The parent company and one of its subsidiaries (Lecico for Ceramic Industries) contributed to an employees insurance fund, this contribution representing 3% of the annual salaries. In addition, 1/2 to 1% of the annual net profit is recognised in the current year but pending the approval by the Assembly General Meeting along with annual dividends.

2.7.2. Employees Training Fund

By law, the parent company and its Egyptian subsidiaries deduct 1% of annual net profit to form a training fund for employees. This deduction is recognized in the current year pending approval of financial statements in the Assembly General Meeting.

2.7.3.

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

2.8. 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. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Asset	Estimated Useful life in years
Buildings	20-40
Leasehold Improvements	3
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

2.9. Capital Leases

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

Finance Lease Payments

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

2.10. Projects In Progress

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

2.11. Intangible Assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

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

Intangible assets which include trademarks of Lecico UK are valued at cost, and amortised over ten years.

2.12. Other Investments

Investments in Debt and Equity Securities

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement

Where the group has the positive intent and ability to hold an investment to maturity, they are stated at amortised cost less impairment losses.

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

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

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

Treasury Bonds of The Egyptian Government Held For Trading

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

2.13. Inventory

Inventory is valued as follows:

- Raw materials, consumables 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.

2.14. Cash and Cash Equivalents

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

2.15. Share Capital Repurchased and Dividends

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

Dividends are recognised as a liability in the period in which they are declared.

Notes to the consolidated financial statements
For the year ended December 31 2005

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

2.16.1. End of Services Indemnity
a The parent company makes provision for end of service benefits due to expatriate employees.

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

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

2.17. Deferred Income Tax
Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

2.19. Consolidated Cash Flow Statement
The cash flow statement is prepared according to the indirect method.

2.20. Impairment Of Assets
Impairment

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

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

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

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

2.20. Impairment Of Assets (Cont.)

Calculation of recoverable amount

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

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment Reversal

An impaiment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

3. Other Operating Income

	31/12/2005 LE	31/12/2004 LE
Reversed Provision	–	5,954,582
Other Revenue	**2,914,189**	3,844,456
Scrap Sales	**1,281,275**	759,195
Capital Gains	**58,430**	115,822
Fire Indemnity	–	26,000
	4,253,894	10,700,055

4. Other Operating Expenses

Provided Provisions	**91,395**	6,312,479
Amortisation of Intangible Assets	**105,074**	77,651
Capital Loss	–	3,000,000
	196,469	9,390,130

5. Earnings Per Share

The earnings per share for the year ended December 31, 2005 is computed as follows:

	31/12/2005	31/12/2004 (Restated)
Net Profit for the Year (in LE)	**88,838,750**	136,132,988
Number of Shares	**20,000,000**	17,200,000
Earnings Per Share (LE / Share)	**4.44**	7.92

Notes to the consolidated financial statements

For the year ended December 31 2005

6. Fixed Assets

	Land LE	Buildings LE	Leasehold Improvements LE	Machinery & Equipment LE	Machines Overhauls LE	Motor Vehicles LE	Tools LE	Furniture, Office Equipment & Computers LE	**Total LE**
Cost									
As at 1/1/2005	119,573,896	98,989,532	–	329,425,372	3,613,130	26,326,997	6,300,666	13,823,502	**598,053,095**
Translation Differences	(408,026)	(1,179,299)	–	(3,314,916)	–	(701,030)	–	(100,149)	**(5,703,420)**
Year Additions	65,696	24,798,172	299,519	67,633,010	4,459,025	5,033,649	1,671,848	808,310	**104,769,229**
Capitalized Borrowing Cost	–	564,925	–	1,530,642	–	–	–	–	**2,095,567**
Year Disposals	–	(35,001)	–	–	(1,241,506)	(942,250)	–	–	**(2,218,757)**
As at 31/12/2005	119,231,566	123,138,329	299,519	395,274,108	6,830,649	29,717,366	7,972,514	14,531,663	**696,995,714**
Accumulated Depreciation									
As at 1/1/2005	–	33,413,617	–	195,457,444	1,259,412	17,295,221	4,869,248	6,995,703	**259,290,645**
Translation Differences	–	(453,059)	–	(2,624,651)	–	(466,321)	–	(88,216)	**(3,632,247)**
Year Depreciation	–	4,622,977	49,920	23,374,739	1,348,686	2,843,213	658,394	1,308,285	**34,206,214**
Acc. Dep. For Disposals	–	(34,991)	–	–	(1,241,506)	(830,987)	–	–	**(2,107,484)**
As at 31/12/2005	–	37,548,544	49,920	216,207,532	1,366,592	18,841,126	5,527,642	8,215,772	**287,757,128**
Net Book Value as at 31/12/2005	119,231,566	85,589,785	249,599	179,066,576	5,464,057	10,073,660	2,444,872	6,315,891	**409,238,586**
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**

- The Land and Buildings include properties at a cost of LE 1.8 million, LE 6.5 million and LE 3 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 sanitaryware machinery whose cost amounted to LE 117.5 million and its net book value amounted to LE 2.2 million, as a collateral for facilities granted to the parent company.
- The Machinery and Equipment includes an amount of LE 12.3 million 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 (2.8.), (22.1.)).
- 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.

7. Projects in progress

		31/12/2005 LE	31/122004 LE
Machinery Under Installation		**8,513,347**	24,364,050
Capitalized Borrowing Cost	2-6	**2,778,303**	–
Building Under Construction		**57,016,608**	2,956,530
Advance Payment *		**23,489,716**	13,678,934
L/C For Purchase of Fixed Assets		**20,939,195**	12,260,326
		112,737,169	53,259,840

* The advance payment includes an amount of LE 9.2 million which represents the acquisition cost of a plot of land and buildings acquired by the parent company. This value was not segregated between land and buildings yet; accordingly a consulting firm is to be engaged for this purpose.

8. Intangible assets

	Goodwill LE	Trademarks LE	Development Costs LE	**Total LE**
Cost				
Balance as at 1/1/2005	19,172,883	133,837	488,846	**19,795,566**
Translation Differences	–	(23,216)	(73,851)	**(97,067)**
Elimination of Fully Amortized Goodwill	(3,698,304)	–	–	**(3,698,304)**
Year Additions	–	4,480	237,360	**241,840**
Balance as at 31/12/2005	15,474,579	115,101	652,355	**16,242,035**
Amortisation & Impairment Losses				
Balance as at 1/1/2005	3,698,304	49,048	44,387	**3,791,739**
Translation Differences	–	(9,871)	(12,326)	**(22,197)**
Elimination of Fully Amortized Goodwill	(3,698,304)	–	–	**(3,698,304)**
Year Amortization	–	21,687	83,366	**105,053**
Balance as at 31/12/2005	–	60,864	115,427	**176,291**
Carrying Amount as at 31/12/2005	15,474,579	54,237	536,928	**16,065,744**
Carrying Amount as at 31/12/2004	15,474,579	84,789	444,459	**16,003,827**

9. Other Investments

	Ownership	**31/12/2005 LE**	31/122004 LE
Murex Industries and Trading (S.A.L.)	40 %	**4,272,414**	4,525,484
Lecico Algeria *	60 %	**1,180,799**	–
Arab Company for Ceramics (Aracemco)	–	**19,372**	19,372
Al-Gawhara Company	–	**1,440**	1,440
Other Investments	–	**270**	286
Solidere	–	**–**	123,496
		5,474,295	4,670,078

* Lecico Algeria is a newly established subsidiary during 2005, in which Lebanese Ceramic Industry (a subsidiary) owns 60% of its shares. Based on the fact that this new subsidiary did not start its operation until the year end, it was not consolidated in the group accounts. It is expected to start operation in 2006.

Notes to the consolidated financial statements
For the year ended December 31 2005

10. Inventory

	31/12/2005 LE	31/12/2004 LE
Raw Materials, Consumables and Spare Parts	**119,424,515**	91,252,342
Work In Process	**13,002,937**	9,843,675
Finished Products	**149,723,599**	127,904,197
L/Cs for Purchase of Goods	**2,325,694**	11,181,786
	284,476,745	240,182,000
Less:		
Impairment of Inventory	(13,043,644)	(13,338,734)
	271,433,101	226,843,266

11. Receivables

	31/12/2005 LE	31/12/2004 LE
Trade Receivables	**153,536,607**	118,309,846
Notes Receivable	**57,568,534**	54,915,746
Sundry Debtors	**8,213,350**	5,746,307
Suppliers – Debit Balances	**917,758**	1,066,268
Tax Administration - Tax Withheld	**9,011,873**	7,430,294
Tax Administration – Sales Tax	**681,581**	4,576
Other Debit Balances	**1,426,472**	343,339
Prepaid Expenses	**7,063,237**	4,667,908
Accrued Revenues	**979,916**	334,649
Dividends Payable - Debit Balances (Restated)	**110,095**	120,312
	239,509,423	192,939,245
Less:		
Impairment of Receivables	**(42,217,209)**	(43,939,948)
	197,292,214	148,999,297

12. Related parties

	Nature of Transaction	Transaction Amount LE	31/12/2005 LE	31/12/2004 LE
Debit Balances				
Sanitec Subsidiaries				
Keramag	Sales	6,342,446	**269,846**	1,229,172
	Notes Receivable	–	–	80,588
Pozzi Ginori	Sales	14,770,448	**2,720,699**	1,607,127
Twyford	Sales	31,555,235	**1,532,113**	1,824,203
	Notes Receivable	–	**11,265,766**	11,867,266
Kolo Sanitec	Sales	6,441,973	–	3,372,004
			15,788,424	19,980,360
Murex Industries and Trading (S.A.L.)	Sales	47,689,796	**4,035,080**	6,473,891
	Notes Receivable	–	**9,108,128**	7,532,428
			13,143,208	14,006,319
Ceramic Holding Middle East B.V. (CHME)	Current	1,045,114	**1,045,114**	–
T. Gargour et Fils - Kuwait	Sales	–	**87,362**	212,709
Gargour Holding (S.A.)	Current	(281,056)	**–**	281,056
Board of Directors of The Lebanese Ceramic Industries Co. (S.A.L.)	Current	(788)	**2,338**	3,126
International Ceramics (S.A.E.)*	Current	–	**–**	7,910,806
Ceramic Management Services Ltd. (CMS) **	Current	–	**–**	385,091
Lecico Algeria	Current	136,949	**136,949**	–
Total Debit Balances			**30,203,395**	42,779,467
Credit Balances				
Ceramic Holding Middle East B.V. (CHME)	Current	(471,067)	**7,952,707**	8,423,774
Murex Industries and Trading (S.A.L.)	Purchase	4,389,635	**179,016**	163,561
LIFCO	Rent	86,662	**142,653**	90,746
Board of Directors of The Lebanese Ceramic Industries Co. (S.A.L.)	Current	(67,524)	**116,582**	184,106
T. Gargour et Fils (S.A.L.)	Current	(485)	**8,327**	8,812
Ceramic Management Service Ltd. (CMS) **	Technical Assistance Fees	9,610,908	**461,295**	2,585,106
TGF Travel	Current	26,749	**26,749**	–
Sanitec Subsidiaries				
Kolo Sanitec		–	**167,521**	–
Total Credit Balances			**9,054,850**	11,456,105

* The comparative debit balance of International Ceramics (S.A.E.) includes cash at banks of LE 6 million representing its paid capital. This company was newly formed and is owed by Lecico Egypt. This balance also includes a LE 1.89 million down payment on a plot of land acquired by International Ceramics at Borg El Arab. Since the incorporation formalities of this company were completed during this year, it has accordingly been consolidated in the accompanying group accounts.

** According to the agreement between the parent company, Lecico for Ceramic Industries (a subsidiary) and CMS (affiliated company) the technical assistance incurred for 2005 was reduced by 25% and amounted to LE 3.2 million. There was no technical assistance incurred by the Lebanese Ceramic Industries Co.(a subsidiary) to CMS (affiliated company) for the same year.

Transactions with Key Management

- Board of directors of the Parent Company control 0.06% of the voting shares of the Parent company.
- The balances of the Board of directors of the Parent Company amounted to LE 50,000 (debit balances) and LE 123,246 (credit balances) as at December 31, 2005. These balances are included in sundry debtors and creditors in receivables and other current payables respectively.
- The Board of directors emoluments, allowances and expenses charged to the administrative expenses in the consolidated income statement amounted to LE 3,267,836 (December 31, 2004 : LE 3,557,958)

Notes to the consolidated financial statements
For the year ended December 31 2005

13. Other Current Investments

	31/12/2005 LE	31/12/2004 LE
Treasury Bills*	**146,250,000**	–
Less:		–
Issuance Discount	**(2,290,158)**	–
Acquisition Cost of Treasury Bills	**143,959,842**	–
Treasury bonds Held for Trading	**35,252,600**	–
Bank - Certificates of Deposit	**5,500,000**	5,000,000
	184,712,442	5,000,000

* Of the above, treasury bills issued by the Egyptian government and maturing during the next three months amounted to LE 124,950,000 are accordingly included in cash and cash equivalents for the purpose of preparing the cash flow statement (Note no. 15).

14. Cash in Banks and on Hand

	31/12/2005 LE	31/12/2004 LE
Banks - Time Deposit*	**116,535,905**	148,241,341
Banks - Current Accounts	**17,063,024**	110,149,338
Cash On Hand	**1,083,825**	827,617
	134,682,754	259,218,296

* The Bank Deposits include an amount of LE 317,304 blocked for issuing letters of guarantee to third parties (note no. 28.1).

15. Cash & Cash Equivalents for the Purpose of Preparing Cash Flow Statement

	31/12/2005 LE	31/12/2004 LE
Banks - Time Deposits	**116,535,905**	148,241,341
Banks - Current Accounts	**17,063,024**	110,149,338
Cash on Hand	**1,083,825**	827,617
Treasury Bills Due During the Next Three Months	**124,950,000**	–
	259,632,754	259,218,296
Less:		
Bank Overdrafts	**(416,782,564)**	(113,408,263)
	(157,149,810)	145,810,033

16. Capital

16.1. Authorized capital
The authorized capital was determined to be LE 250 million distributed over 50 million shares at a par value of LE 5 per share.

16.2. Issued and paid up capital
The issued capital amounting to LE 100 million is distributed over 20 million shares of LE 5 par value per share fully paid. Part of the shares is in the form of Global Depository Receipts (GDRs) listed on the London Stock Exchange and is held by the Bank of New York as a Depository Bank.

17. Reserves

	Legal Reserves LE	Other Reserves LE	Special Reserve Premium LE	Land Revaluation Surplus LE	Translation Reserve LE	**Total LE**
Balance at December 31, 2003	13,788,957	14,661,940	–	52,765,085	13,559,855	**94,775,837**
Transfer to Legal Reserve	1,248,663	–	–	–	–	**1,248,663**
Change Due to Increase in Shareholding Percentage of Lecico for Ceramic Industries	–	864,092	–	–	–	**864,092**
Increase from Capital Issuance	–	–	292,883,994	–	–	**292,883,994**
Capital Issuance Expenses	–	–	(18,200,661)	–	–	**(18,200,661)**
Transferred to Legal Reserve	4,962,380	–	(4,962,380)	–	–	**–**
Translation Adjustment for Foreign Subsidiaries	–	–	–	–	755,120	**755,120**
Balance at December 31, 2004	20,000,000	15,526,032	269,720,953	52,765,085	14,314,975	**372,327,045**
Prior Year Adjustments	–	45,000	–	–	–	**45,000**
Translation Adjustment for Foreign Subsidiaries	–	–	–	–	(4,246,783)	**(4,246,783)**
Balance at December 31, 2005	20,000,000	15,571,032	269,720,953	52,765,085	10,068,192	**368,125,262**

* 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.

18. Retained Earnings

As at December 31, 2005 the retained earnings represent the retained earnings of the parent and its share of the retained earnings of its other subsidiaries.

19. Restatement of Prior Year Figures

19.1.

Under the Egyptian Accounting Standards the Employees' Profit Participation is included with declared dividends and is charged to equity only once it has been approved by the shareholders at the Annual General Assembly meeting. IFRS requires such benefits to employees to be accrued in the year to which it relates.

The expected Employees' Benefits to be approved at the forthcoming General Assembly are now being charged to the Consolidated Income Statement in accordance with IFRS. This is a correction of the treatment previously adopted.

19.2.

According to the agreement dated October 12, 1998 between the parent company and the Commercial International Bank (CIB) under which the CIB would be admitted as a shareholder in Lecico For Ceramic Industries (a subsidiary), an amount of LE 1,583,076 was paid by the subsidiary to CIB representing CIB's share of the dividends paid during the period from the date of the agreement up to the year 2002. This amount was reflected as a debit balance in the subsidiary's books as the shareholding of the CIB was not formally completed until August 6, 2002. The parent company received all its share of the paid dividends from the subsidiary when declared during this period including the above-mentioned amount. Accordingly, the parent company's share of dividends should be adjusted by the same amount. The necessary amendments had been done during the year to charge this amount to the retained earnings of the parent company, and to eliminate the debit balance by the same amount.

Notes to the consolidated financial statements
For the year ended December 31 2005

19. Restatement of Prior Year Figures (Cont.)
The following tables summarize the effects on the consolidated financial statements for the years ended December 31, 2003 and 2004 in respect of the corrections mentioned in notes 19.1 and 19.2.

	31/12/2004 LE	31/12/2003 LE
Retained Earnings		
Balance as previously reported	**85,581,482**	42,541,937
Dividends paid by the subsidiary Company and to be Incurred by the Parent Company	**(1,583,076)**	(1,583,076)
Lecico for Ceramic Industries (a subsidiary) profit participation not provided in year	**(1,197,783)**	–
Restated Balance	**82,800,623**	40,958,861
Profit for the year		
Balance as previously reported	**142,809,209**	87,467,242
Parent company and Lecico for Ceramic Industries (a subsidiary) profit participation charged against appropriate year	**(6,676,221)**	(4,379,948)
Restated Balance	**136,132,988**	83,087,294
Minority Interest		
Balance as previously reported	**6,715,637**	24,800,317
Training fund of 2003 for Lecico for Ceramic Industries (a subsidiary) now included with profit participation	**(714,728)**	(714,728)
Training fund of 2004 for Lecico for Ceramic Industries (a subsidiary) now included with profit participation	**(668,647)**	–
Minority interest in employees participation in profit of 2003 of Lecico for Ceramic Industries (a subsidiary)	**(119,844)**	(119,844)
Minority interest in employees participation in profit of 2004 of Lecico for Ceramic Industries (a subsidiary)	**(105)**	–
	5,212,313	23,965,745
Minority Interest in Profit		
Balance as previously reported	**1,081,289**	7,385,723
Training fund of 2004 for Lecico for Ceramic Industries (a subsidiary) now included with profit participation	**(668,647)**	(714,728)
Minority interest in employees participation in profit of 2004 of Lecico for Ceramic Industries (a subsidiary)	**(105)**	–
	412,537	6,670,995

20. Treasury Stock

	31/12/2005 LE	31/12/2004 LE
Treasury stock is represented in:		
Acquisition Cost of the Parent's Global Depository Receipts (GDRs) by the Parent Company	**2,035,365**	–
Acquisition Cost of the Parent's Shares by Lecico for Ceramic Industries (S.A.E.) (a subsidiary)	**1,638,020**	–
	3,673,385	–
Less		
Minority Interest in Treasury Stock	**(74)**	–
	3,673,311	–

21. Long-Term Loans

	31/12/2005 LE	31/12/2004 LE
21.1. European Investment Bank Loan The amount represents the outstanding countervalue of the foreign currency loan granted to the parent company by the European Investment Bank (EIB), which is equivalent to Euro 5 036 666 (variable interest rate). The balance will be repaid in 8 semi annual installments in June and December of each year, ending December 15th, 2009. The loan is guaranteed by letters of guarantee issued by CIB in favor of the EIB amounting to Euro 6,516,186.	**34,249,326**	51,814,697
21.2. Loan from Barclays Bank Egypt The loan granted to the Parent by Barclays Bank Egypt is repayable in eight quarterly installments starting from June 30, 2005 until March 31, 2007 after a grace period of 15 months at variable interest rate guaranteed by Lecico for Ceramic Industries Co. (a subsidiary).	**11,375,000**	17,000,000
21.3. The Lebanese Ceramic Industries Co. (S.A.L.) (subsidiary) obtained a long-term loan amounting to USD 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).	**5,082,761**	7,341,570
21.4. The Lebanese Ceramic Industries Co. (S.A.L) (subsidiary) obtained a Long-Term Loan amounting to USD 5,500 000 repayable over five and a half years in semi-annual installments ending in 2009 with an interest rate of LIBOR 3 months plus 2.25 %.	**22,952,385**	33,428,906
	73,659,472	109,585,173
Less Installments due within one year which are classified as current liabilities (note 25).	**(24,523,700)**	(26,312,657)
	49,135,772	83,272,516

According to the resolution of the Ordinary General Assembly Meeting of the parent 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 USD 13 Million. The loan is to be repaid in 12 semi-annual installments with grace period for two years and will be used to finance future expansion in sanitaryware undertaken by European Ceramics which has provided a power of attorney to pledge the financed assets in favor of these lenders. The commitment fees and other loan related expenses amounting to LE 502,490 were paid and charged to the consolidated income statement. At the balance sheet date the Company has not made any draw down under this loan.

Notes to the consolidated financial statements
For the year ended December 31 2005

22. Other Long-Term Liabilities

	31/12/2005 LE	31/12/2004 LE
22.1.		
The Outstanding balance of 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 final installment is due on August 1st, 2007.	**5,181,452**	7,595,080
Less		
Installments due within one year which are classified as current liabilities (note 25)	**(2,796,552)**	(2,413,628)
	2,384,900	5,181,452
22.2.		
Lease obligation to finance certain vehicles of Lecico (UK) Limited	**990,424**	1,002,995
Less		
Installments due within one year which are classified as current liabilities (note 25)	**(487,874)**	(379,044)
	502,550	623,951
22.3 Other Long-Term Liabilities		
Sales tax authority	**7,340,767**	6,158,916
Notes payable	**1,698,526**	2,112,028
	9,039,293	8,270,944
Less		
Installments due within one year which are classified as current liabilities (note 25)	**(340,910)**	(138,803)
	8,698,383	8,132,141
Total Other Long-Term Liabilities	**11,585,833**	13,937,544

23. Deferred Income tax assets and liabilities

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

	Assets 31/12/2005 LE	Liabilities 31/12/2005 LE
Property, plant and equipment	–	**6,271,769**
Inventory	**(2,787,542)**	–
Total Deferred Income tax (assets)/liabilities	**(2,787,542)**	**6,271,769**
Net Deferred Income Tax	–	**3,484,227**

24. Provisions

	Balance asat 1/1/2005 LE	Translation Differences LE	Utilised Provisions LE	Provided Provisions LE	Balance as at 31/12/2005 LE
Provision Disclosed in the Current Liabilities					
Potential Losses and Claims Provision	7,367,988	–	–	–	**7,367,988**
	7,367,988	–	–	–	**7,367,988**
Provision Disclosed in the Non Current Liabilities					
End of Service Indemnity Provision	6,474,432	(276,376)	(248,957)	91,395	**6,040,494**
Restructuring Provision	600,091	(29,514)	(353,957)	–	**216,620**
Change/Increase from Capital Issuance	7,074,523	(305,890)	(602,914)	91,395	**6,257,114**
Total	14,442,511	(305,890)	(602,914)	91,395	**13,625,102**

25. Current Portion Of Non Current Liabilities

	31/12/2005 LE	31/12/2004 LE
Current Portion of Long-Term Loans (Note 21)	**24,523,692**	26,312,657
Current Portion of Other Long-Term Liabilities (Note 22)	**3,625,336**	2,931,475
	28,149,028	29,244,132

26. Trade And Notes Payable

	31/12/2005 LE	31/12/2004 LE
Trade Payable	**24,310,833**	30,756,094
Notes Payable	**31,258,829**	31,600,228
	55,569,662	62,356,322

27. Other Current Payable

	31/12/2005 LE	31/12/2004 LE
Trade Receivables - Credit Balances	**5,102,746**	2,667,746
Social Insurance Authority and Tax Authority	**6,596,255**	8,453,854
Income Tax Payable	**14,225,222**	12,632,100
Accrued Expenses	**12,509,282**	13,434,842
Deposits Due to Others	**27,701**	1,825,082
Sundry Creditors	**6,629,730**	25,464,682
Current Account for Sales Tax Department	**1,156,228**	1,776,743
Dividends Payable	**516,691**	607,702
Profit sharing provision for Employees of certain Group Companies	**9,318,003**	8,122,133
	56,081,858	74,984,884

28. Contingent Liabilities

28.1. Letters of Guarantee

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

	31/12/2005	31/12/2004
Currency		
LE	**8,966,128**	8,708,115
LBP 000	**280,638**	993,314

The letters of guarantee issued by the Commercial International Bank (CIB) include an amount of LE 317,304 collateralized by the same amount out of the deposits held at the same bank of one of subsidiaries (note no. 14).

The parent company had issued L/Gs' to third parties to guarantee its subsidiaries for an amount of LE 3,589,300 collateralized by an amount of LE 134,300 out of the parent company's deposits held at CIB.

28.2. Letters of Credit

	31/12/2005	31/12/2004
Currency		
LE	**6,353,079**	8,742,919
Euro	–	128,000
LBP 000	–	25,326

Notes to the consolidated financial statements

For the year ended December 31 2005

28.3. Guarantees

According to the resolution of the ordinary general assembly of certain of the group companies, 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 (CIB) to other subsidiaries of the group. The total of these loans amount to USD 13 Million and will be used when received, to finance the future expansion of the group.

28.4.

The parent company guaranteed one of its overseas subsidiaries for the loan granted to this subsidiary by one of the French Banks (Banque Audi). The referred to loan is capped at an amount of Euro 2 million (equivalent to LE 13.6 million). There was no outstanding under this loan as at December 31, 2005.

29. Litigation

The Electricity Utility Organization in Lebanon has charged The Lebanese Ceramic Industries S.A.L. (a subsidiary) about LBP 855 million (equivalent to LE 3.3 million) as unpaid electricity charges for the year from March 1996 until 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.

30. Capital Commitment

The capital commitment as at December 31, 2005 amounting to LE 21,515,022 related to the purchase of fixed assets of the group.

31. Information About Business Segment

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

	31/12/2005	31/12/2004
Sanitary ware segment Sales Volumes (in 000 pcs)		
Egypt	**1,383.0**	1,600.3
Lebanon	**211.5**	275.6
Export	**2,266.7**	2,388.7
Total Sales Volume (in 000 pcs)	**3,861.2**	4,264.6
Sales Revenues (LE million)	**389.0**	469.0
Average Selling Price (LE/pc)	**100.7**	109.9
Total Cost of Sales (LE million)	**224.7**	234.6
Gross Profit (LE million)	**164.3**	234.4

Tile segment Sales Volumes (in 000 m2)		
Egypt	**13,595.1**	12,787.9
Lebanon	**948.2**	962.0
Export	**3,155.2**	1,583.7
Total Sales Volume (000 m2)	**17,698.5**	15,333.6
Sales Revenues (LE million)	**263.4**	227.8
Average Selling Price (LE/ m2)	**14.9**	14.9
Total Cost of Sales (LE million)	**185.3**	162.1
Gross Profit (LE million)	**78.1**	65.7

32. Personnel Cost

The Personnel costs incurred during the year ended December 31, 2005 amounted to LE 89,541,836 (December 31, 2004 : LE 85,137,464).

33. Financial Instruments

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

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

Securities:

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

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

34. Financial Instruments Risk Management

34.1. 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.

34.2. Credit Risk

Represented in the ability of the clients who have been granted credit to pay their debts and the probability that the Parent Company may lose all or part of these debts. This is considered one of the risks that confronts 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 only after obtaining adequate guarantees.

34.3. 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.

Notes to the consolidated financial statements
For the year ended December 31 2005

35. 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 concerned court. These disputed points represented in the exemption of the paid-up capital and the additional depreciation.

Year 2003

The parent company's record for this year was examined, and the Company was notified by the tax forms, which was objected during the legal period.

Year 2004

The parent company records for this year were not examined yet.

B. Salaries tax

Years until 2000

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

Years 2001/2003

The tax examination 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.

Year 2004

The parent company records for this year were not examined yet.

C. Stamp Tax

- The parent company has obtained a final settlement and paid all the taxes obligations regarding the years until 2003.
- The parent company's records of 2004 were examined and the Company was informed of the tax department forms up until now.

D. Sales Tax

The tax examination until 2003 was finalized and led to unsettled differences due to amended sales tax forms, these differences settlement with the tax authority is still in process.

Year 2004

This year was examined and the parent company still not informed by any tax forms.

Designed by DMI Creative +44 20 7993 2583

P.O Box 358 – Alexandria – Arab Republic of Egypt
Tel: +20 3 518 0011 • Fax: +20 3 518 0029

www.lecico.com