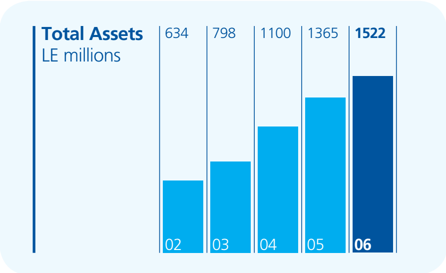
Lecico

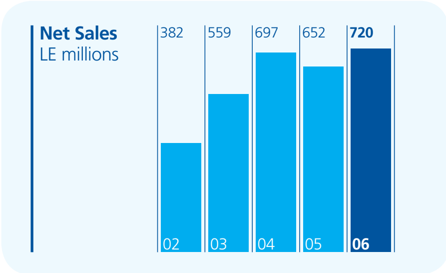
Annual Report 2006

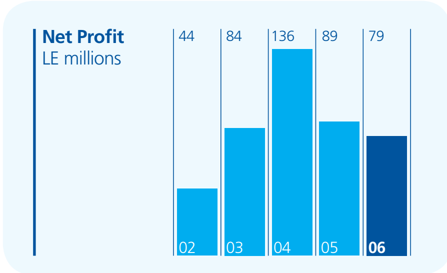
Lecico
www.lecicoegypt.com

Lecico is one of the world's largest sanitary ware producers and a significant tile producer in Egypt and Lebanon. Over its 48 years of operation, Lecico has developed into a major exporter by producing competitively priced sanitary ware to exacting European quality standards. Today, Lecico is one of the largest suppliers of sanitary ware to the UK, France and Ireland.

Lecico
Highlights







- Revenue up10% to LE 719.5 million (2005: LE 652.4 million).
- Sanitary ware revenue up14% to LE 443.9 million (2005: LE 389 million).
- Tiles Revenues up 5% to LE 275.6 million (2005: LE 263.4 million).
- EPS down 11% to LE 3.96 per share (2005: LE 4.44 per share).
- October acquisition of Sarreguemines adds high-end brand, fire clay specialisation and doubles footprint in France.
- Frit production reduces tile costs by over 5% and delivers record tile margins.

20%
Increase in sanitary ware sales volumes

27%
Increase in sanitary ware export volumes

Lecico
At a glance

In 2006, Lecico reported record revenues on the back of growing sanitary ware exports and tile capacity.

However, a 25% rise in Lecico's principal energy costs in Egypt and Israeli attacks on Lebanon prevented these record sales numbers translating into profit growth.

Lecico exports over 60% of its sanitary ware and has a significant presence in Europe, with wholly-owned subsidiaries in the UK and France. Most exports are sold under the Lecico brand, but the Company also produces own-brand pieces for leading European manufacturers, distributors and retailers, including Sanitec, IKEA, SFA and Setma.

Investments

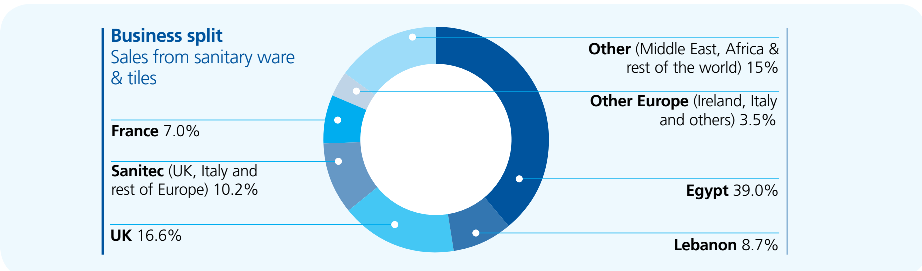
A substantial investment programme in 2006 has included finalising the first phase of a new 2 million piece sanitary ware plant, beginning work on a new tile line and building five frit kilns to bring the production of an essential raw material in-house.

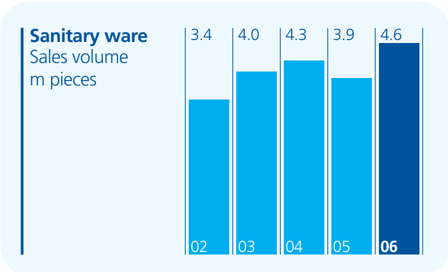
International

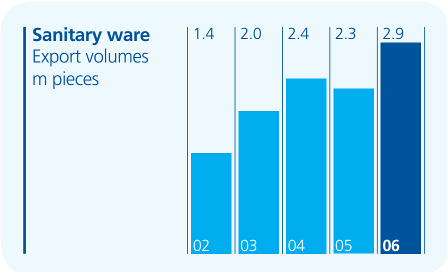
The acquisition of Sarreguemines, an established French manufacturer, has significantly expanded Lecico's European footprint. Over 84% of sanitary ware exports go to Europe, with the UK representing the largest individual market. 22% of tiles sales are now exported, primarily to Middle East countries.

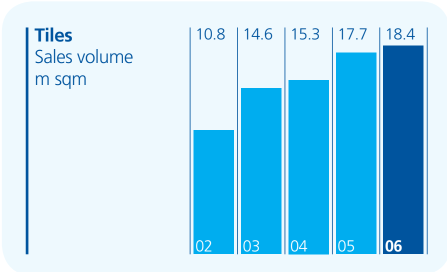
Expanding

Sanitary ware sales volumes increased 20% during 2006 to 4.6 million pieces, driven by strong growth in Egypt and rising exports. Tile production has grown consistently over the last five years, increasing to 18.4 million square meters, driven by strong export sales in the Middle East.



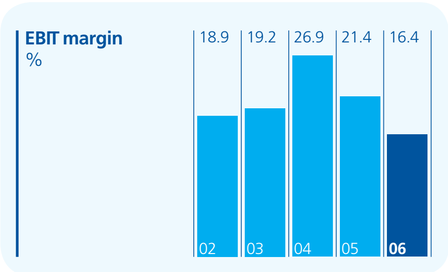


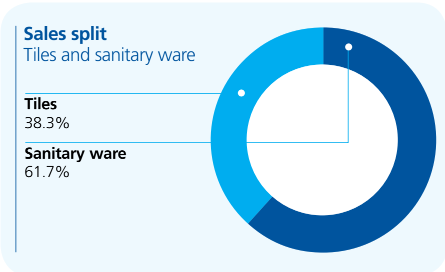


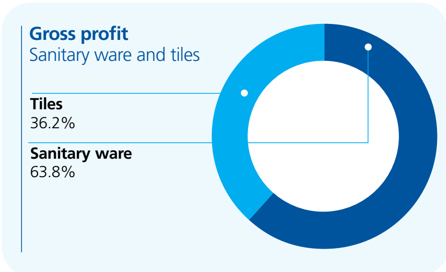


People

With 4,875 people, Lecico is a significant employer in the region. Lecico believe in continuous investment in human capital, particularly in a skill based industry like sanitary ware. With an international senior management team, Lecico's staff work in a vibrant, multi-cultural environment.







Chairman's statement
Gilbert Gargour

This is our third annual report since our IPO in 2004 and I am pleased to report record sales for the year. Although the year as a whole showed progress, this was overshadowed at the operating and net profit levels by the impact of Lebanon, energy price increases and restructuring costs in Europe. As a result, the turn-around was not apparent in our profits until the fourth quarter of 2006. These results reflect the first benefits of our investment in new markets and products over the last two years.

The impressive growth of the fourth quarter has continued in the new year. We expect to see a return to annual growth in 2007 as we increase our capacity and as our markets continue to expand.

Building a strong base for expansion

Our growth in 2006 was focused in Europe and other export markets. Sanitary ware sales into the UK grew as a result of our entry into new market segments, and exports to Sanitec continued to grow with an expanded outsourcing agreement. However, results were negatively affected by operational losses in France, largely as a result of the change in our business model following the Sarreguemines acquisition and the closure of our warehouse in Le Havre.

As we grow, we intend to develop our home markets as well as exports. Egypt is a particularly attractive market with a growing economy and a young population.

In the second half of 2006 we began to see the benefits of the government's expansionary programmes of the last two years. We expect this to continue and are encouraged by the government's steadfast commitment to economic reform. Lebanon also has great potential once it resolves its political issues.

But our home markets are also those of neighbouring countries. We have made significant progress in Libya and Syria. Though our new trading subsidiaries in Algeria and Saudi Arabia are slow in developing, we are confident in the eventual success of these operations.

I continue to be very bullish on Europe where we are well positioned to take advantage of the consolidating market. Our brand is still largely unknown in much of Europe and we have yet to take full advantages of the synergies created by our acquisition of Sarreguemines. Consequently, I am confident of our opportunity for growth in coming years.

In the OEM markets, we see European companies increasing their outsourcing or moving their manufacturing overseas. Our large production base is unique in its combination of size and dedication to quality. As such we are a reliable partner to clients looking for size and quality commitment in a proximate location. Our growth in 2006 was largely due to our ability to step into big markets like the UK DIY market by virtue of our size and ability to mobilize rapidly and effectively.

Looking forward with optimism

Without doubt, we will continue to face external challenge but we are in better shape to respond.

We have a stronger asset base with our industrial investments over the last two years. Our international footprint is growing larger with the acquisition of new brands and new capabilities. Our product line is expanding with new models and new materials. The response to our new Fire Clay products has been very encouraging.

Key to our future growth is our human capital. Last year we took steps to strengthen our management and add further depth and industry experience to our multi-national management team. Our skilled labour force is equally important to delivering quality products and retention of these skills is critical. I would like to thank them all for their hard work and commitment during the year.

Gilbert Gargour
Chairman and CEO

Managing Director's statement
Elie Baroudi

With revenues hitting a record high in the fourth quarter, we ended 2006 on a positive note despite operating in a difficult environment during the year. New DIY contracts in the UK and France delivered a 41% increase in sanitary ware export volumes that helped drive a recovery in gross profits, mitigating a weak first half and ensuring we start 2007 on a positive note.

Key achievements in a challenging environment

Revenue for 2006 was up 10% to LE 719.5 million (2005: LE 652.4 million) led by increased volumes in sanitary ware and the addition of Sarreguemines revenues in the fourth quarter. This accelerated growth in the final quarter of the year to an impressive 27%, with underlying sales also rising 17%, excluding Sarreguemines.

This growth has been achieved in a difficult operating environment which has had an impact on profitability. Plant closure during the war in the Lebanon and significant increases in energy prices reduced gross margins by 2.1% to 35.1% (2005: 27.2%). Gross profits, however, rose by 4% to LE 252.3 million (2005: LE 242.4 million) as increased volumes in sanitary ware sales and cost reductions from changes to production in our tile division started to deliver improvements in profitability in the fourth quarter.

Despite top line and gross profit growth, net profits fell to LE 79.2 million (2005 LE 88.8 million). This was due to a number of exceptional factors, among them the external pressures to operating margins mentioned above and one-off tax amnesty provisions.

Developing the business for future expansion

Our first European acquisition was completed in October 2006 when we acquired the assets of Sarreguemines, a long established small French sanitary ware producer. This will expand our footprint in Europe, with the potential of adding sales of around 400,000 pieces in France alone (a 90% increase on 2005 sales volumes) and bringing important design and manufacturing capabilities to Lecico. In terms of product positioning, the Sarreguemines range is high end, European styling which complements our current UK-design based range.

The acquisition also gave us the opportunity to consolidate our French operations in one centre. However, to transition to this improved model, we incurred significant losses as a result of the closure of our existing warehouse in Le Havre and the disposal of its excess inventory.

Our strategy for growth

We have built our reputation as a low cost, high quality producer in an industry where quality really matters. We aim to maintain our low cost advantage by continuing to use Egypt as our central manufacturing hub, sourcing raw materials – where possible – locally without compromising on quality and improving manufacturing efficiency.

Our geographic proximity to Europe, means we are in a strong position to increase our presence, targeting expansion in Germany, Greece, Spain and Italy. We also intend to extend our regional leadership in the Middle East by increasing our sales footprint in Algeria, Saudi Arabia and Syria.

We expect to see production capacity expand rapidly in 2007 as our new sanitary ware plant in Borg El-Arab comes on stream, increasing our capacity by over 40% by the end of the year. Tile capacity will also increase by 4.5 million square metres per annum, up by 24%. We expect the capital expenditure for these investments in 2007 to be significantly lower than the total investment of LE 163 million in 2006.

Our focus in 2007 will be on completing the integration of Sarreguemines and the successful roll-out of the new production facilities in the Borg El-Arab and Khorshid factories combined with maintaining the sales momentum in both our domestic and export markets.

Elie Baroudi
Managing Director

Lecico

Quality

The core of Lecico's success is its ability to produce sanitary ware to exacting international quality standards.

Lecico's three day production cycle is a carefully controlled process, involving a significant amount of skilled labour, close attention to detail and rigorous quality checks at every stage of manufacture.

The nature of ceramics

Ceramics products dramatically change shape, size and chemical composition during production. No two pieces of ceramics are identical and all recognized quality standards are based on acceptable levels of imperfection in form, function and finish. This inherent imperfection makes sanitary ware particularly difficult to produce in large volumes and variety while maintaining quality. Lecico's ability to produce quality ware comes from decades of experience, rigorous quality control and a focus on developing and rewarding skilled labour.

From raw materials to slip

Slip is the material used to manufacture ceramics, created from a range of raw materials. Hard materials such as feldspar, a mineral, and sands are ground in large batch mills and mixed with clays and other plastic materials. Laboratory checks are undertaken on all incoming raw materials.

The casting process

The slip is then injected into plaster mould, which absorbs the water from the slip, to form a solid, hollow clay piece of sanitary ware. These moulds are produced in house and carefully controlled for thickness and firmness. After casting, the pieces are demoulded and finished by hand and dried for 8-10 hours. Any pieces below standard at this stage are scrapped and recycled.

Preparation for glazing

Following drying, acceptable pieces are re-finished, a skilled process to smooth any rough edges and correct imperfections. After a further quality inspection, the dried pieces are glazed by hand, using a spray gun. Excess glaze is recuperated and recycled.

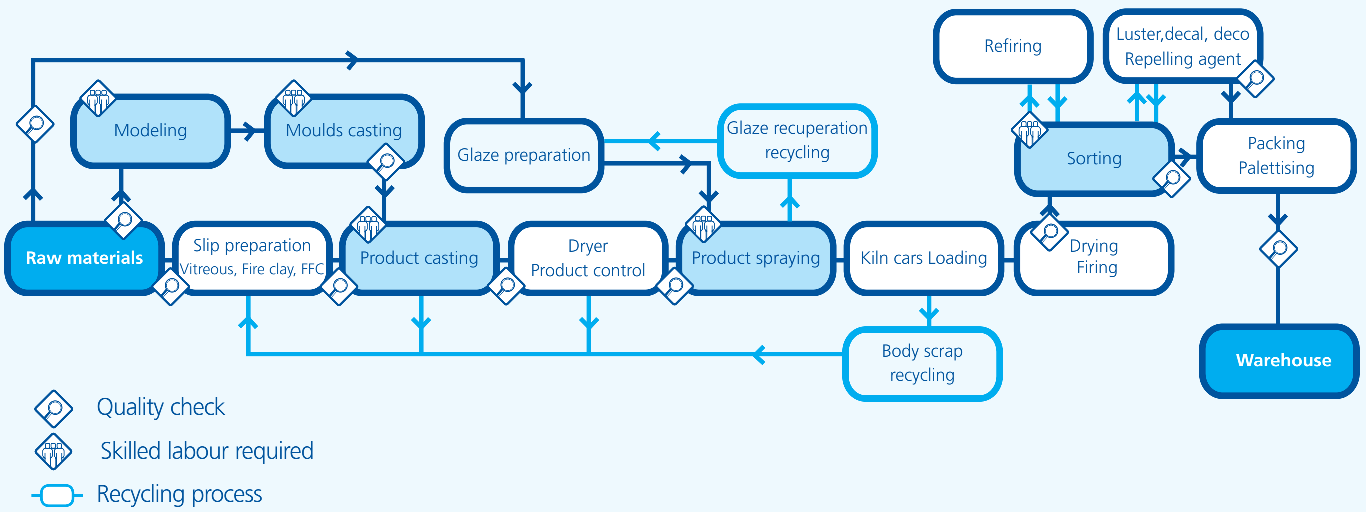
Kiln firing the final product

The piece is fired in kiln ovens for 14-18 hours, in temperatures of up to 1210 degrees centigrade. The fired pieces are taken for final inspection, decoration, packaging, storage and despatch. Quality audits check surface finish, dimensions and function. Small defects can be repaired and refired; unrepairable pieces are scrapped.

Meeting standards across the world

The heart of Lecico's export success is its ability to produce sanitary ware to European and international quality standards. Today, the Group's Egyptian factories manufacture 700 different sanitary ware items that meet – among others - BS (British Standards), NF (Norm Française), KIWA (Netherlands) and DIN (Germany), CE standards and – most recently – had its factory IACMO (USA) certified.

Sanitary ware production process



Lecico

International

The Sarreguemines acquisition is a significant step in elevating Lecico's brand and expanding its European footprint.

In October 2006, Lecico bought the assets of Sarreguemines Sanitaire – France's oldest running and leading high-end producer of fine fire clay (FFC) products.

A long established fine fire clay manufacturer

Based in Vitry le Francois, North East France, Sarreguemines specialises in manufacturing FFC products, such as kitchen sinks, shower trays and counter top basins. FFC products have a less viscous composition than vitreous china sanitary ware, allowing the production of larger or more angular pieces.

Sarreguemines produces approximately 130,000 FFC pieces, sells 400,000 sanitary ware pieces, and develops around 20 new models each year. Its well known brand is sold in most leading French DIY chains and its high-end European style complement Lecico's more UK-design based range.

Strong potential

With a history dating back to the 1700s, the high costs of operating in Europe forced Sarreguemines into receivership in July 2006, despite annual revenues of around €18 million. Lecico bought the company's assets with a reduced workforce of 143 (from 253 before receivership) and is implementing several efficiency projects that should significantly cut energy costs. With plans to outsource the manufacture of its vitreous china products to Egypt, the Group believes Sarreguemines can return to profitability by the end of 2007.

The acquisition will add around 400 thousand pieces to sales volumes in France - a 90% increase on 2005. In addition, it has enabled the Group to consolidate French operations in one centre with expanded efficiency, marketing and logistics functions for both brands.

Strategic fit

Increasing market share in the Fire Clay (FC) segment is one of Lecico's key strategies, highlighted in the 2005 annual report, which described the plans to increase capacity from 60,000 pieces to over 200,000 and announced the appointment of a new Fire Clay divisional manager. The acquisition of Sarreguemines will accelerate this strategy, contributing significant capacity, expertise and acting as the design centre for Lecico's own brand FC and FFC.

Lecico will cross sell the Sarreguemines product range into its existing markets as a high-end brand to complement Lecico's mass market offering and allowing Sarreguemines to expand aggressively both in its core French markets and beyond.

Sarreguemines
SANITAIRE
UNE AUTRE IDÉE DU BIEN-ÊTRE

Lecico

Exports

Exports reached their highest level ever in 2006, driven by targeting new market segments in the UK and by new and extended outsourcing agreements across Europe.

Lecico now sells to over 50 countries through its own direct sales force and through outsourcing agreements with major European sanitary ware suppliers, with exports accounting for 67% of sanitary ware sales in 2006.

Key European markets

Over 84% of exports go to Europe where the UK remains the largest individual single market. Export volumes to the UK were up an impressive 41% on 2005 accounting for one third of Lecico's 2006 export sales volumes. This was driven largely by penetrating new segments of the traditional market and the start of outsourcing to one of the UK's largest DIY chains.

France and Ireland are already well established export markets for Lecico and direct sales have just begun in Germany which is seen as a key target along with Greece, Spain and Italy. This year, the Group exhibited at ISH Frankfurt, the largest kitchen and bathroom fair in Europe for the first time, signalling its commitment to developing its presence in Europe.

Developing outsourcing partnerships

Lecico's low cost manufacturing base and proximity to European markets has contributed to the success of its long term partnership with Sanitec, a leading European bathroom products manufacturer and distributor. OEM production for Sanitec grew 30% year-on-year and accounted for 29% of export volumes in 2006, reflecting its recent decision to source 75% of its external sanitary ware needs from Lecico – up from 50% in 2005. Outsourcing agreements have also been signed with IKEA for a range of kitchen sinks and SFA, a leading French sanitary ware provider who specialise in toilets for boats and other locations where a macerating toilet that can cope with low flushing power is needed.

A focus on the Middle East

Sanitary ware exports to the Middle East were up over 18% on 2005, mainly driven by strong growth in sales to Libya. Trading subsidiaries have been set up in Algeria and Saudi Arabia to further boost direct sales in the region. Tile exports are almost solely focused in this region, with 90% currently going to Libya and Syria. Exports represented 21% of tile volumes in 2006, up from 18% in 2005 and these are expected to grow as the new channels for sanitary ware pull through tile sales.

Sanitary ware exports by volume

000s pieces	2002	2003	2004	2005	**2006**	CAGR
UK	640.9	767.6	825.2	677.3	**956.6**	10.5%
Sanitec	11.1	348.3	683.0	636.1	**829.2**	194.0%
France	299.9	317.9	304.2	256.4	**416.6**	8.6%
Ireland	81.1	110.0	114.3	135.6	**127.4**	12.0%
Other Europe	99.9	77.7	124.0	114.0	**94.7**	(1.3%)
Middle East	114.4	155.3	167.1	254.6	**301.2**	27.4%
Other	183.7	204.8	170.9	192.6	**157.9**	(3.7%)
Total exports	1,431.0	1,981.6	2,388.7	2,266.7	**2,883.6**	19.1%

Sanitec outsourcing volumes up 30%

Operational review
Sanitary ware

With a strong brand, built up over the last 48 years, Lecico is now the largest producer of sanitary ware in the Middle East and one of the largest in the world. With a market leading position in Egypt and Lebanon and a thriving export business, the key to the Company's strong competitive position is its ability to manufacture European quality sanitary ware at one of the lowest production costs in the industry.

This significant cost advantage is based on economies of scale, the low labour and energy costs in Egypt and proximity to the main European markets. Average costs are around 30% of European manufacturers and, combined with the efficiency of a skilled labour force, this has enabled the Company to build a strong position in the high volume, middle tier market, offering high quality pieces at competitive prices.

This year, 62% of output – over 2.8 million pieces – was exported to over 50 countries. 80% of this was destined for Western Europe, much of it under the Lecico brand, but with an increasing percentage being sold through outsourcing agreements with well known European sanitary ware suppliers. This successful model builds on the long outsourcing relationship with Sanitec which was extended this year to cover 75% of Sanitec's external sanitary ware requirements – up from 50% over the last three years.

A resilient performance

Strong demand in Egypt, combined with rising exports, led to an impressive 20% increase in volumes in 2006 to 4.6 million pieces. (2005: 3.8 million). In the fourth quarter, this included the first sales from Sarreguemines of 71,000 pieces, mitigating a 5% decline in volumes from Lebanon as a result of the unstable political situation during the year.

Revenue growth reflected the increased volumes, with turnover for the sanitary ware division up 14% to LE 443.9 million (2005: LE 386 million). Although sales were buoyant, prices remained subject to downward pressure. Average sanitary ware prices fell by 5% to LE 95.8 per piece – excluding Sarreguemines this decline would have been 8%. Whilst some of this is due to the continued appreciation of the Egyptian pound, it also reflects the impact of an increasing proportion of lower priced sales channels in the distribution mix.

The inclusion of Sarreguemines also contributed to a 5% increase in costs to LE 61.1 per piece. Excluding Sarreguemines, a focus on reducing costs combined with the impact of increased volumes on economies of scale kept costs flat, despite the 25% rise in energy costs in July 2006 and partial closures of the Lebanese plant in the second half.

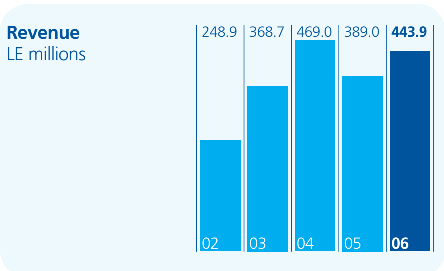
Although gross profits for the year suffered from the twin pressures of rising costs and declining prices, falling by 2% to LE 161 million (2005: LE 164.3 million), gross margins rebounded in the fourth quarter as sales volumes rose and gross profits showed an impressive rise of 23% over the same period in 2005.

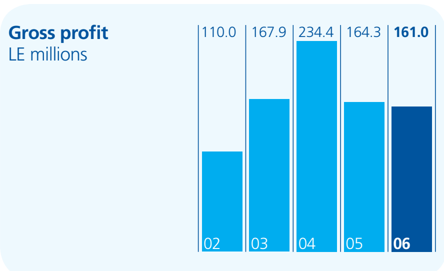
Expanding markets

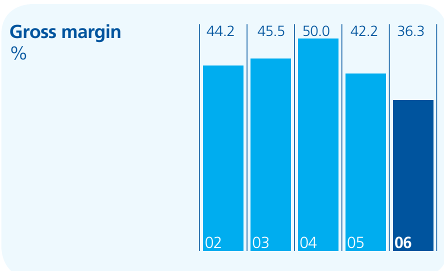
During 2006, Lecico retained a leading position in both its key home markets, with a market share of around 35% of a fragmented market in Egypt and around 55% in Lebanon. Sales were buoyant in Egypt, driven by demand for new houses and a recovery in GDP growth, compensating for the 18% drop in volumes from Lebanon.

Export sales rebounded to record levels in 2006, driven by new distribution channels in the UK, the expanded outsourcing agreement with Sanitec and the acquisition of Sarreguemeines in France.

Dealing with European markets brings it own challenges. Each country has its own quality standards and unique design requirements. Demand is primarily driven by renovation and replacement rather than new builds and by changing trends in style and plumbing. One of Lecico's key assets is its centralised production hubs that not only deliver high volumes to stringent quality standards but also have the ability to manufacture the wide range of products essential for each market.





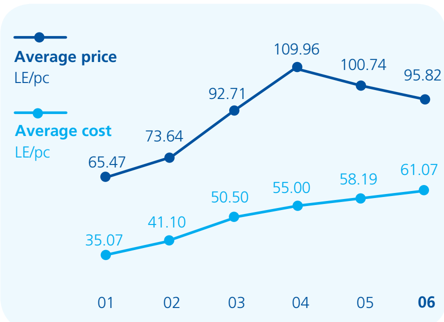


Investing for growth

Sales success in 2006 has meant plants are now working at full capacity, making the completion of the new production facilities a priority. The new plant at Borg El-Arab is adjacent to the existing plant and will benefit from shared resources in energy, raw material preparation, storage, modelling and administration. The first line is expected to come on stream during the second quarter of 2007, adding one million pieces per annum to capacity. Once the second line is operational later in the year, it will contribute a further million pieces per annum bringing total capacity to around 6.8 - 7.1 million pieces, dependent on product mix.

Sanitary ware capacity and sales by volume

000s pieces	2002	2003	2004	2005	**2006**	CAGR
Capacity	3,800	3,800	4,600	4,800	**4,800**	6.0%
Sales volume	3,380	3,977	4,265	3,861	**4,633**	8.2%
Capacity utilisation (%)	89%	105%	93%	80%	**97%**	
Egypt sales volume	1,668	110.0	1,600	1,383	**1,549**	(1.8%)
Lebanon sales volume	280	1,710	276	211	**200**	(8.1%)
Export sales volume	1,431	1,982	2,389	2,267	**2,884**	19.1%
Exports as a percent of total sales (%)	42.3%	49.8%	56.0%	58.7%	**62.2%**	



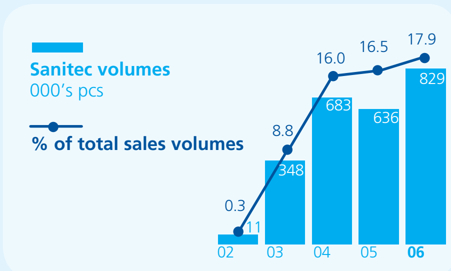
A successful strategic partnership

Sanitec

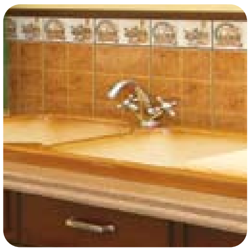
Lecico's strategic relationship with Sanitec, a leading provider of bathroom products in Europe, is a long-standing and important one. Sanitec has been a major shareholder in Lecico since 1997. Lecico, in co-operation with Sanitec, has established a system of monitoring productivity and quality improvement, which has helped Lecico improve production yields, employee productivity and reduce costs. In 2004, Lecico began training programmes for key members of its staff in Sanitec's facilities around Europe.

In 2003, Lecico entered into a supply agreement with Sanitec. For the last three years Sanitec has sourced 50% of its external outsourcing needs from Lecico. A new agreement, signed in 2006, increased this to 75%. In 2006, outsourcing for Sanitec accounted for 29% of Lecico's export volumes.

	2002	2003	2004	2005	2006
Sanitec	11	348	683	636	**829**
Exports	1,431	1,982	2,389	2,267	**2,884**
Volume	3,380	3,977	4,265	3,861	**4,633**
% of exports	0.8%	17.6%	28.6%	28.1%	**28.8%**
% of total sales	0.3%	8.8%	16.0%	16.5%	**17.9%**



Operational review
Tiles



Tiles are an essential component of Lecico's product range in Middle Eastern markets where tiles are seen as the natural flooring. In the Middle East – and most emerging markets – tiles and sanitary ware tend to be sold together through the same distributors – over half of tile production is exclusive to key distributors.

A strong competitive position
While tiles have historically only been sold to domestic markets, the Company's growing export profile in the Middle East has meant that regional tile exports, particularly to Syria and Libya, are becoming a more important part of its revenue stream. 22% of sales were exported in 2006, up from less than 5% of sales six years ago.

The market for tiles tends to be cyclical, with low barriers to entry and periods of high demand attracting new capacity and new competitors. However, a leading position in the sanitary ware market, exclusive relationships with distributors and ability to turn round high volume orders fast, puts Lecico in a strong position. In addition, the cost advantages from the recent investment in five kilns to bring production of frit – a key ingredient for tile glaze – in-house, have helped improve gross margins despite static prices.

Consistent performance
Volumes and sales have grown consistently over the last six years and this trend continued in 2006, with a 5% increase in revenues to LE 275.6 million (2005: LE 263.4 million). 18.4 million square metres of tiles were sold, up 4% on 2005, with 70% destined for the Company's home markets of Egypt and Lebanon.

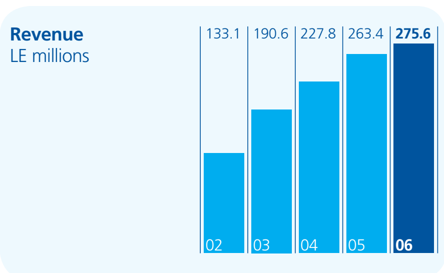
Although sales in Egypt were flat, export sales were up sharply year-on-year. Additionally, there was a strong recovery in demand from Lebanon in the fourth quarter, when sales shot up by almost 100% over the same period last year, as a result of 12 month anti-dumping measures that came into force in September 2006. These increases in demand put pressure on supply, with the plant working at almost 100% capacity by the end of the year.

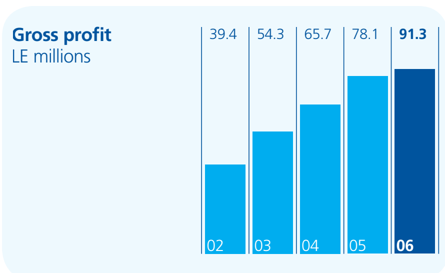
Three of the five new frit kilns planned came on stream, reducing average costs by 5% year on year. This helped mitigate rises in energy costs and contributed to an impressive 17% rise in gross profits to LE 91.3 million (2005: LE 78.1 million). Even though average tile prices were flat year-on-year at LE 14.9 per square metre, gross margins increased to 33.1%, up 3.5% on 2005.

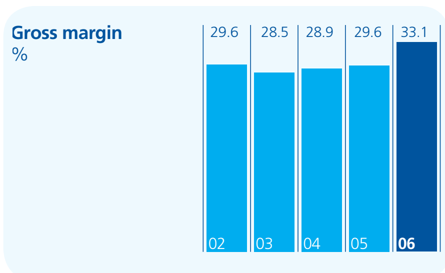
Establishing an industry leading position
Lecico has been producing tiles since 1959 and is one of the top four providers to the huge Egyptian market and the second largest supplier to the smaller Lebanese market. Highly specialist, made to order designs for hotels, restaurants, mosques and private homes complement a high volume, fast turnover, business supplying over 300 different floor and wall tiles to 25 distributors. With an inventory of less than two weeks of finished stocks, the Tiles division is an important generator of cash for the business as a whole.

Investing to meet demand
Increased focus on exports for sanitary ware is pulling through sales of tiles in the Middle East and the proportion of exports is likely to grow as capacity constraints ease over the next year.

Following the substantial investment in Tile division of LE 85 million in 2006, all five new frit kilns and a new tile line will be operational by mid 2007. The new tile line in Khorshid will expand capacity by 25%, adding an additional 4.5 million square metres to production volumes. The two additional frit kilns will take frit capacity to 60 tons per day – sufficient to support the new tile line and allow time for routine maintenance without any impact on production.







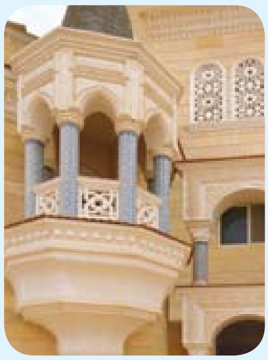
Original design

Decorated tiles

Whilst Lecico tile production focuses on high volume, mass market production for domestic and export markets in the Middle East, it has a team of artists that offer customers a range of "made to order" designs. These unique designs are generally created for restaurants, hotels, mosques and private homes. Recent orders include:

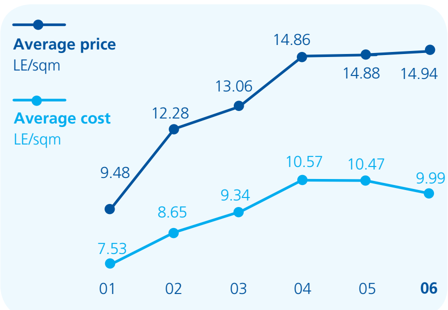
- The Lagoon Resort and Spa in Alexandria, where Lecico designed and produced hand painted tableaux with the resort's logo for its swimming pool.
- The El Hussein Jewellery Mall in Cairo, where both hand-painted and Islamic tiles from Lecico were used extensively to give the mall a strong oriental look in keeping with its historic surroundings.
- The Royal Palace Hotel in Marsa Matrouh, where Lecico's hand-painted and Islamic tiles were used to give the impression of the grandeur of the palaces and noble homes from Egypt's medieval history.

On a commercial level, Lecico offers several models of Islamic tiles, hand-painted ceramic tables and hand-painted tableaux to end users through the Company's various distribution channels.



Tile capacity and sales by volume

000s sqm	2002	2003	2004	2005	**2006**	CAGR
Capacity	10,841	14,500	16,500	18,220	**18,220**	13.9%
Sales volume	10,840	14,592	15,334	17,698	**18,442**	14.2%
Capacity utilisation (%)	100%	101%	93%	97%	**101%**	
Egypt sales volume	9,150	12,301	12,788	13,595	**13,386**	10.0%
Lebanon sales volume	1,101	1,278	962	948	**1,002**	(2.3%)
Export sales volume	589	1,013	1,584	3,155	**4,053**	62.0%
Exports as a percent of total sales (%)	5.4%	6.9%	10.3%	17.8%	**22.0%**	



Corporate social responsibility

Lecico has considered Corporate Social Responsibilities (CSR) issues as part of its business operations for a number of years and is reporting on these topics more fully this year for the first time.

In accordance with reporting guidelines the Board takes regular account of the social, environmental and ethical matters that are significant to the Company's business and the measures covered in this report are monitored and reviewed with the aim of continually improving performance. A comprehensive risk management and internal control process is in place which identifies and assesses any significant risks to the Group's short and long term value arising.

Environment

Lecico is committed to the implementation of a company wide environmental policy and seeks to ensure that all its companies are fully compliant where appropriate. We believe that developing our businesses in an environmentally responsible manner, taking full account of evolving environmental issues, compliance with applicable legal requirements and commitment to the prevention of pollution, is in the best interests of the Company, its employees and external stakeholders.

Environmental policy

All Lecico companies seek to:-

- Minimise the use of all materials, supplies and energy, and – wherever possible – use renewable or recyclable materials.
- Minimise the quantity of waste produced in all aspects of our business.
- Adopt an environmentally sound transport policy.
- Communicate our environmental policy to all staff and encourage them to participate in the achievement of our goals.
- Supply and promote, wherever possible, those products, which contribute to energy conservation and do not damage the environment.
- Ensure that the Company continues to meet present and future environmental standards and legislation.

Packaging and Waste Reduction Policy

All Lecico companies seek to:

- Purchase recycled and recyclable packaging where practicable, including pallets and cartons.
- Return reusable pallets to suppliers and similarly recover used pallets from customers.
- Reuse packaging opened at branch level for internal transfers and deliveries.
- Actively take part in recycling and reclamation schemes.
- Within its businesses embrace electronic communication aimed at significant reduction in internal paperwork throughout the Company.

Lecico has also actively looked at ways to reduce the number of printed copies of its annual report, accounts and circulars by making electronic copies available to Internet users.

Community

Lecico endeavours to contribute to the communities in which it operates. This is mainly achieved through charitable donations and other initiatives that help the community.

During the year, Lecico made donations of LE 43 thousand to a range of local charities, associations, orphanages and schools. This was more than matched by donations of sanitary ware and tiles. It is the Company's policy not to make political donations and no political donations were made in the year 2006.

Wherever possible employees are encouraged to get involved with their community, including participating in an annual outing for orphans led by the Company's marketing team.

Employees

The Personnel Director has responsibility for human resource issues within the Company and reports to the Chief Executive who is responsible for human resource issues at Board level.

Employment policy

Lecico's policy is to provide equal opportunities to all existing employees and anyone seeking to join. The Company recognises that its reputation is dependent on the quality, effectiveness and skill base of its employees and is committed to the fair and equitable treatment of all its employees and specifically to prohibit discrimination on the grounds of race, religion, sex, nationality or ethnic origin.

Employment opportunities are available to disabled persons in accordance with their abilities and aptitudes on equal terms with other employees. If an employee becomes disabled during employment the Company makes every effort to enable them to continue employment, with re-training for alternative work where necessary.

The Company operates a number of employee pension schemes across its business.

Training

Lecico is committed to ensuring that all employees and management are properly inducted into the Company and given the necessary training to fulfil their roles. During 2006, employees have attended a range of courses to develop their full abilities, including MBAs and CMAs, and business development courses in English, Finance, Marketing and IT.

In order to meet ever increasing customer demand particular emphasis is placed on customer service and interpersonal skills in the training programme. The Company has introduced a policy of increasing the number of man-hours of staff and management training per annum beginning in 2007, with its senior management all tasked with developing training programs for their staff and middle managers.

Employee communications

Lecico recognises the importance of good communications with employees and acknowledges that there should be clear channels of communication and opportunities for consultation and dialogue on issues which affect both business performance and employees work lives. This is achieved through notice boards, newsletters and meetings and, in the near future, through a company wide intranet.

Holidays and pilgrimages

Lecico recognises the importance of a good work/life balance for its staff and offers several programs to help staff make the most of their time outside of work. These programmes include organising and subsidising day trips and week-long holidays for its staff and their families in the summer; partially funding its staffs' Hajj and Omra pilgrimages; and giving salary bonuses to the staff in Ramadan and around other key holidays.

Our people

Community

Lecico believes it has a responsibility to contribute to its community through donations of goods, funds and time to charitable organisations; as well as through investment in the neighbourhoods around its facilities, both by direct investment and by lending its support to local government initiatives.

During the year, Lecico contributed goods and funds to seven charities, schools and orphanages in Egypt including the Sidi Beshr School, the Dar El Orman Orphanage and the El Nour and Wady Food Charities.

Every year, Lecico participates in an orphans day at the Dar El Orman Orphanage. In 2006, six members of Lecico's marketing team participated, bringing the orphans presents and spending the day with them.

Lecico has worked to improve its neighbourhood, initiating and completing several projects to landscape public spaces around its factories in the Khorshid area of Alexandria.

Decorated and hand-painted tiles were contributed to several government run landscaping projects in the city of Alexandria. The Company designed and created hand-painted tile signs for several local government offices and donated coloured tiles for collage and mural projects being undertaken around Alexandria under the auspices of the local governor.

These are just a few examples of how Lecico tries to share its success with its local communities, its cities and the countries in which it operates through charity, investment and personal involvement.

Financial review

A year of recovery

Lecico's financial results for 2006 show the beginnings of a recovery from the sharp drop in performance witnessed in 2005. Strong sales in sanitary ware and a continued cost reduction in the tiles production were key factors contributing to this recovery.

The pace of recovery suffered from the conflict and political uncertainty in Lebanon and from significant increases in energy costs in Egypt.

During the conflict between Lebanon and Israel in July, Lecico was forced to close its Lebanese factory for the better part of a month and domestic demand in Lebanon continued to be weak for the remainder of the year as a result of the damage done to the country's economy, infrastructure and confidence. Internal political instability and uncertainty continued to impact consumer confidence in Lebanon over the rest of the year. The management fees normally paid by Lecico Lebanon to CMS, for the provision of management, marketing, financial and technical consultancy services, were waived for 2006 in a gesture of support for the Lebanese company.

In Egypt, costs were impacted by the 21st of July increase in some energy prices, including a 25% increase in natural gas and diesel prices. This had a direct effect on the Company's energy costs, of which approximately 50% are natural gas-based. Additionally, the increase in the cost of diesel fuel and some types of petrol had the effect of increasing transportation costs for all production inputs and on inflation in general.

Sarreguemines acquisition and new protection for Lebanon announced late in 2006

The impact of these external factors on financial performance were partially offset by the Company's acquisition of certain operational assets of Sarreguemines Sanitaire in France and the imposition of anti-dumping measures on tile imports into Lebanon.

In early October 2006, Lecico announced the acquisition of certain assets of Sarreguemines Sanitaire in France for € 1.5 million. This acquisition not only expands Lecico's brand portfolio and footprint in Europe but brings important design and manufacturing capabilities to the Company, particularly in fine fireclay products. Sarreguemines has historically averaged sales of 460 thousand sanitary ware pieces a year of which 130 thousand pieces are fine fired clay ones. The acquisition added LE 21.4 million to Lecico's sales in the fourth quarter (3% of total sales for 2006), but reduced operating profits by LE 0.8 million (a 1% reduction in total operating profits for 2006).

In September 2006, Lebanon imposed a 12 month anti-dumping measure on a number of goods including ceramic tiles. This effectively set a price for imported tiles that made it impossible to significantly undercut local prices. The impact of this protective measure was seen in the strong tile growth in the last quarter of the year.

Operational review

Revenue for 2006 was up 10% year-on-year at LE 719.5 million (2005: LE 652.4 million), led by strong sanitary ware volume growth and the addition of Sarreguemines in the fourth quarter. This compares to a 6% drop in sales year-on-year in 2005.

Gross profits rose 4% to LE 252.3 million (2005: LE 242.4 million) with gross margin falling 2.1 percentage points to 35.1%. This compares to a 19% drop in gross profits year-on-year in 2005.

Proportional distribution and administration expenses were up 0.9 percentage points year-on-year at 17.3% of net sales compared to 16.4% in 2005. A significant portion of this increase was a result of the consolidation of Sarreguemines.

Operating profits for the period fell 15% to LE 118.1 million, with the operating profit margin declining by 5 percentage points to 16.4%. This compares to a 26% drop in operating profits year-on-year in 2005. The drop in operating profit and margin in 2006 was largely the result of LE 10 million in provisions taken in the fourth quarter. The Company decided to take a prudent approach on provisions in light of the special income it has booked on the Sarreguemines transaction.

Net financing expenses were LE 27.9 million in 2006 compared to LE 16.5 million in 2005. Total foreign currencies exchange differences showed a gain of LE 1.5 million compared to a loss of LE 20.1 million in the same period last year.

The Company also benefited from an LE 11.3 million gain on the assets of Sarreguemines. Lecico bought the Sarreguemines assets at a deep discount to book value and in line with IFRS has booked those assets at fair value.

Income tax expense more than doubled during 2006 to reach LE 17.4 million due to provision for settlement of prior years' (until 2000) taxes amounting to LE 8.5 million in total. Net profit for the year fell 11% year-on-year to reach LE 79.2 million (2005: LE 88.8 million), with margins for the period down 2.6 percentage points from the same period last year to reach 11%. This compares to a 35% drop in net profits year-on-year in 2005.

Profit and loss statement highlights

LE million	FY 2006	2005	% 06/05	2004	FY 2003	2002	2002-06 CAGR%
Sanitary ware	443.9	389.0	114%	469.0	368.7	248.9	16%
Tiles	275.6	263.4	105%	227.8	190.6	133.1	20%
Net sales	**719.5**	**652.4**	**110%**	**696.8**	**559.3**	**382.0**	**17%**
Sanitary ware/net sales (%)	61.7%	59.6%	2.1%	67.3%	65.9%	65.2%	
Cost of sales	(467.2)	(410.0)	114%	(396.7)	(337.2)	(232.7)	19%
Cost of sales/net sales (%)	(64.9%)	62.8%)	103%	(56.9%)	(60.3%)	(60.9%)	
Gross profit	**252.3**	**242.4**	**104%**	**300.1**	**222.1**	**149.3**	**14%**
Gross profit margin (%)	35.1%	37.2%	(2.1%)	43.1%	39.7%	39.1%	
Distribution and administration (D&A)	(124.2)	(106.8)	116%	(113.8)	(103.1)	(65.1)	18%
D&A/net sales (%)	(17.3%)	(16.4%)	(0.9%)	(16.3%)	(18.4%)	(17.0%)	
Net other operating income	(10.0)	4.1		1.3	(11.4)	(12.1)	
Net other operating income/net sales (%)	(1.4%)	0.6%	(2.0%)	0.2%	(2.0%)	(3.2%)	
EBIT	**118.1**	**139.6**	**85%**	**187.6**	**107.6**	**72.1**	**13%**
EBIT margin (%)	16.4%	21.4%	(5.0%)	26.9%	19.2%	18.9%	
Net profit	**79.2**	**88.8**	**89%**	**136.1**	**84.0**	**44.2**	**16%**
Net profit margin (%)	11.0%	13.6%	(2.6%)	19.5%	15.0%	11.6%	

Sanitary ware segmental analysis

LE million	FY 2006	2005	% 06/05	2004	FY 2003	2002	2002-06 CAGR%
Sanitary ware volumes (000 pcs)							
Egypt	1,549	1,383	112%	1,600	1,710	1,668	(2%)
Lebanon	200	211	95%	276	286	280	(8%)
Export	2,884	2,267	127%	2,389	1,982	1,431	19%
Total sanitary ware volumes	**4,633**	**3,861**	**120%**	**4,265**	**3,977**	**3,380**	**8%**
Exports/total sales volume (%)	62.2%	58.7%	3.5%	56.0%	49.8%	42.3%	
Sanitary ware revenue	**443.9**	**389.0**	**114%**	**469.0**	**368.7**	**248.9**	**16%**
Average selling price (LE/pc)	96	101	95%	110	93	74	7%
Average cost per piece (LE/pc)	61	58	105%	55	51	41	10%
Sanitary ware cost of sales	(282.9)	(224.7)	126%	(234.6)	(200.9)	(138.9)	19%
Sanitary ware gross profit	**161.0**	**164.3**	**98%**	**234.4**	**167.9**	**110.0**	**10%**
Sanitary ware gross profit margin (%)	36.3%	42.2%	(6.0%)	50.0%	45.5%	44.2%	

Financial review continued

Sanitary ware

Sanitary ware sales volumes for the year were up 20% year-on-year at 4.6 million pieces driven by strong growth in Egypt and exports. In Egypt, volumes were up 12% year-on-year. In Lebanon, volumes slipped 5% year-on-year as a result of both the war with Israel and continued political uncertainty.

Export volumes were up 27% year-on-year at 2.9 million pieces, with most of the growth coming from new market channels in the UK, additional supply to Sanitec and the acquisition of Sarreguemines. Lecico also continued to grow its exports in the Middle East. Exports represented 62.2% of volumes for the year up from 58.7% of total sales in 2005.

While average sanitary ware prices fell 5% in 2006 to LE 95.8 per piece, prices excluding Sarreguemines would have been down 8%, largely on the back of business mix as the Company has entered new, lower price sales channels in the UK and the business with Sanitec has grown.

Sanitary ware revenues were up 14% year-on-year at LE 443.9 million (2005: LE 386 million).

Average cost per piece was up 5% year-on-year at LE 61.1 per piece, almost entirely due to the impact of Sarreguemines. Excluding Sarreguemines, a strong cost reduction effort and increasing economies of scale kept costs flat despite the 25% increase in most energy costs in July and the partial closures in the Lebanese plant over much of the second half.

Sanitary ware gross profit margin fell by 6 percentage points in 2006 to reach 36.3% and gross profits fell 2% to LE 161 million (2005: LE 164.3 million).

Tiles

Tile sales volumes grew by 4% year-on-year in 2006 to reach 18.4 million square metres. The growth in sales was generated primarily in Lecico's export markets with Lebanon sales volumes accelerating in the fourth quarter. Exports accounted for 22.0% of total sales volumes, compared with 17.8% in the same period last year.

In Lebanon, despite a very slow first three quarters of the year, overall sales volumes were up 6% year-on-year, on the back of 93% volume growth in the fourth quarter as local tile production competitiveness benefited from 12-month anti-dumping measures enacted in September. Revenue for the year showed a 5% increase to LE 275.6 million (2005: LE 263.4 million).

Average tile prices for the year were flat at LE 14.9 per square metre. In-house production of frit in Egypt continued to deliver savings, reducing cost per square metre by 5% year-on-year. The Tile division's gross margin rose 3.5 percentage points to reach 33.1% for 2006 and gross profits rose 17% to reach LE 91.3 million (2005: 78.1 million) as a result of the continued roll out of Lecico's frit plant in Egypt.

Financial position

The value of Lecico's assets have risen 12% since the beginning of the year to reach LE 1,522.4 million, driven primarily by continued investments in Lecico's expansion program (projects in progress) and an increase in working capital.

Total liabilities grew 31% to LE 842.1 million mainly due to an LE 149.4 million increase in gross debt. Net debt to equity reached 0.57x as of 31 December, 2006.

For 2006, Lecico Egypt, distributed a cash dividend of LE 1.00 per share. Lecico Egypt is the principle operating company in Egypt and holding company for all the companies in the Lecico group. In addition, the Company issued a 5% stock dividend to all shareholders. As this bonus issue followed the Company's cancellation of 1.0 million treasury shares, the number of shares issued and outstanding will remain unchanged at 20.0 million shares

Outlook for 2007

The last quarter of 2006 and early indications for 2007 all point to a positive demand outlook for the coming year, largely as a result of efforts taken by the Company over the past two years to penetrate new markets; new market segments and develop a wider product offering for all its key customers.

Preliminary indications for 2007 are positive for all Lecico's main markets (Egypt, the UK, outsourcing and Lebanon) while the Company's efforts to penetrate new markets should start to generate results later in the year.

The key drivers for performance in the coming year are likely to be the speed that the Company can roll out its new capacity and product ranges in sanitary ware and tiles while continuing to improve efficiency and reduce costs. The other major challenge for Lecico in 2007 is to integrate Sarreguemines into the Group as quickly as possible and restore its sales to pre-receivership levels. Finally, the Group is planning to improve its working capital position in 2007 by reducing both inventory and receivables levels.

However, as witnessed in 2005 and 2006, performance is also dependent on several external and unpredictable factors; chiefly energy prices in Egypt, exchange rates of the Egyptian pound and demand in Lecico's major markets. Of particular concern on the demand side is Lebanon, where concerns over political stability remain an issue.

Sanitary ware exports by destination

000's pcs	2006	% of total	**2005**	% of total	% 06/05
UK	956.6	33%	677.3	30%	141%
Sanitec	829.2	29%	636.1	28%	130%
France	416.6	14%	256.4	11%	162%
Ireland	127.4	4%	135.6	6%	94%
Rest of Europe	94.7	3%	125.6	6%	75%
Middle East	301.2	10%	254.6	11%	118%
Other	157.9	5%	181.1	8%	87%
Total exports	**2,883.6**	**100%**	**2,266.7**	**100%**	**127%**

Tile segmental analysis

LE million	2006	FY 2005	% 06/05	2004	**2003**	FY 2002	2002-06 CAGR%
Tile volumes (000 sqm)							
Egypt	13,386	13,595	98%	12,788	12,301	9,150	10%
Lebanon	1,002	948	106%	962	1,278	1,101	(2%)
Export	4,053	3,155	128%	1,584	1,013	589	62%
Total tile volumes	**18,442**	**17,698**	**104%**	**15,334**	**14,592**	**10,840**	**14%**
Exports/total sales volume (%)	22.0%	17.8%	4.1%	10.3%	6.9%	5.4%	
Tile revenue	**275.6**	**263.4**	**105%**	**227.8**	**190.6**	**133.1**	**20%**
Average selling price (LE/sqm)	15	15	100%	15	13	12	5%
Average cost per piece (LE/sqm)	10	10	95%	11	9	9	4%
Tile cost of sales	(184.3)	(185.3)	99%	(162.1)	(136.3)	(93.7)	18%
Tile gross profit	**91.3**	**78.1**	**117%**	**65.7**	**54.3**	**39.4**	**23%**
Tile gross profit margin (%)	33.1%	29.6%	3.5%	28.9%	28.5%	29.6%	

Board of directors

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

Mr. Elie Baroudi
Managing Director
He was appointed Managing Director in September 2002 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 Express's Egyptian joint venture bank, Egyptian American Bank (1986 to 1990).

Mr. Alain Gargour *
Non-executive Director
He has been involved with Lecico since 1978 and has been a Director of the Company since 1997. He is also a Director of Lecico Lebanon, Lecico UK and 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. Toufick Gargour
Non-executive Director
He has been a Director of the Company since 1974. He is a citizen of both Canada and Lebanon and holds an IEP from INSEAD. In addition to being a Director at Lecico Egypt, he has been a Director of Lecico Lebanon since 1969 and is Chairman of Gargour Holdings S.A. and a Director and co-owner of Intage. He served as the General Manager and as a Director of T. Gargour & Fils SAL (1968 to 1996) and Uniceramic Lebanon (1973 to 2000).

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

Eng. Aref Hakki *
Non-executive Director
He has been a Director since 1998. He is a citizen of Egypt with an engineering degree from Cambridge University and an MBA from Seattle University. He is also the Chairman and Chief Executive Officer of EMEC and on the boards of several other companies. Previously, he served as Chief Executive Officer of ABB Egypt (1978 to 1998) and as Chairman until 1999, after working for Brown Boveri in the US and Switzerland (1970 to 1978).






Name	Age	Representing	Appointed to the Board
Mr. Gilbert Gargour	63	Intage	1981
Mr. Elie Baroudi	60	Management	2003
Mr. Alain Gargour	54	Intage	1997
Mr. Toufick Gargour	65	Intage	1974
Mr. Georges Ghorayeb	56	Management	2003
Eng. Aref Hakki	72	Independent	1998
Mr. Pertti Lehti	48	Sanitec	2002
Mr. Juergen Lorenz	64	Independent	2003
Mr. Bengt Pihl	50	Sanitec	2005
Mr. Mohamed Younes	68	Independent	2004

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. Bengt Pihl

Non-executive Director

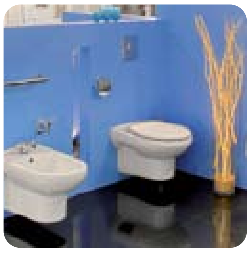
He was appointed to the Board in 2006. He is a Swedish citizen and holds a Masters Degree in Economics from Harvard University. He has been the President and Chief Executive Officer of the Sanitec Corporation since 2006 and is one of the two Directors representing Sanitec, a key customer and principal shareholder in Lecico. Mr Pihl has held various senior positions within Bombardier, ABB and Atlas Copco throughout the world.

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.

* Member of the Lecico Egypt Audit Committee



Financial contents

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

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Lecico Egypt (S.A.E.) and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2006 and the consolidated income statement, statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these Consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
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 comply to ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lecico Egypt (S.A.E.) and its subsidiaries as of December 31, 2006, and of its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we like to draw attention to:

Note no. 20 to 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.

Note no. 21 to the consolidated financial statements related to treasury shares as the article no. 48 of law no. 159 for the year 1981 obliges the Parent Company to sell the treasury shares within one year starting from the acquisition date or else it has to reduce the share capital with its nominal value after the year has lapsed.

KPMG Hazem Hassan
Alexandria March 4, 2007

Consolidated income statement

For the Year Ended December 31, 2006

	Note no.	31/12/2006 LE	31/12/2005 LE
Net Sales	(2.5)	**719,499,865**	652,380,045
Cost of Sales		**(467,209,394)**	(410,011,810)
Gross Profit		**252,290,471**	242,368,235
Other Operating Income	(3)	**4,093,902**	4,253,894
Distribution Expenses		**(44,009,204)**	(44,374,081)
Administrative Expenses		**(80,190,310)**	(62,435,452)
Other Operating Expenses	(4)	**(14,044,431)**	(196,469)
Operating Profit		**118,140,428**	139,616,127
Investment Income	(2.12)	**618,643**	71,896
Profit on Acquisition of Assets	(6)	**11,312,294**	-
Interest Revenue		**23,226,076**	15,983,993
Interest Expense	(2.6)	**(51,128,204)**	(32,503,598)
Foreign Currency Exchange Gains (Losses)	(2.4)	**1,511,082**	(20,135,594)
		103,680,319	103,032,824
Employees' Participation in Year		**(7,600,588)**	(7,109,152)
Profit Before Tax	(5)	**96,079,731**	95,923,672
Income Tax Expense		**(14,028,965)**	(3,534,865)
Deferred Income Tax		**(3,434,760)**	(3,484,227)
Net profit for the Year		**78,616,006**	88,904,580
Attributable to			
Equity Holders of the Parent Company		**79,230,451**	88,838,750
Minority Interest		**(614,445)**	65,830
Net Profit for the Year		**78,616,006**	88,904,580
Earnings Per Share (LE / Share)	(7)	**3.96**	4.44

The accompanying notes from no. (1) to no. (37) are an integral part of these consolidated financial statements and should be read in conjunction therewith.

Consolidated balance sheet
For the Year Ended December 31, 2006

	Note no.	**31/12/2006 LE**	31/12/2005 LE
Assets			
Fixed Assets (Net)	(2.8), (2.9), (2.20), (8)	**447,312,906**	409,238,586
Projects in Progress	(2.10), (9)	**196,813,325**	112,737,169
Intangible Assets (Net)	(2.11), (10)	**17,133,902**	16,065,744
Other Investments	(2.12), (11)	**4,271,166**	5,474,295
Long-term Notes Receivable		**1,190,484**	2,130,484
Long-term Pre-paid Rent		**582,685**	695,462
Total Non-Current Assets		**667,304,468**	546,341,740
Inventory (Net)	(2.13), (12)	**325,229,268**	271,433,101
Receivables (Net)	(13)	**225,173,809**	197,292,214
Related Parties – Debit Balances	(14)	**40,894,759**	30,203,395
Trading Investment	(15)	**239,221,896**	184,712,442
Cash in Bank and on Hand	(16)	**24,588,926**	134,682,754
Total Current Assets		**855,108,658**	818,323,906
Total Assets		**1,522,413,126**	1,364,665,646
Equity			
Issued and Paid-up Capital	(18)	**100,000,000**	100,000,000
Reserves	(19)	**368,838,888**	368,125,262
Retained Earnings	(20)	**187,908,034**	162,739,249
Profit for the Year		**79,230,451**	88,838,750
Treasury Stocks	(2.15), (21)	**(60,668,166)**	(3,673,311)
Total Equity attributable to Equity Holders		**675,309,207**	716,029,950
Minority Interest		**5,053,100**	5,166,800
Liabilities			
Long-term Loans	(22)	**126,157,469**	49,135,772
Other Long-term Liabilities	(23)	**10,184,945**	11,585,833
Deferred Income Tax	(2.17), (24)	**6,918,987**	3,484,227
Provisions	(2.16), (25)	**6,177,794**	6,257,114
Total Non-Current Liabilities		**149,439,195**	70,462,946
Bank Overdrafts		**464,535,717**	417,196,965
Current Portion of Non-Current Liabilities	(26)	**56,394,693**	28,149,028
Related Parties – Credit Balances	(14)	**8,422,210**	9,054,850
Trade and Notes Payable	(27)	**69,515,307**	55,569,662
Other Current Payable	(28)	**82,299,832**	55,667,457
Provision	(2.16), (25)	**11,443,865**	7,367,988
Total Current Liabilities		**692,611,624**	573,005,950
Total Equity and Liabilities		**1,522,413,126**	1,364,665,646

The accompanying notes from no. (1) to no. (37) are an integral part of these consolidated financial statements and should be read in conjunction therewith.
Auditor's report attached.

Chief Financial Officer
Colin Sykes

Managing Director
Elie J. Baroudi

Consolidated cash flow statement

For the Year Ended December 31, 2006

	Note no.	31/12/2006 LE	31/12/2005 LE
Cash Flow from Operating Activities			
Profit for the Year		**79,230,451**	88,838,750
Adjustments to Reconcile Net Profit to Net Cash Used in Operating Activities			
Fixed Assets Depreciation and Translation Adjustment	(8)	**40,818,570**	37,625,384
Intangible Assets Amortisation and Translation Adjustment	(10)	**82,326**	179,922
Prepaid Rent Expense		**112,778**	112,778
Current Income Tax		**14,028,965**	-
Deferred Income Tax		**3,434,760**	3,484,227
Capital Gains		**(189,778)**	(58,430)
Provided Provisions, Impairment in Inventories and Receivables and Translation Adjustment	(25)	**18,887,715**	(2,232,324)
Employees' Share in Net Profit		**7,600,588**	7,109,152
Decrease in Minority Interest		**(113,700)**	(45,513)
Decrease in Translation Reserve		**(331,159)**	(3,031,017)
		163,561,516	131,982,929
Changes in Working Capital			
Increase in Inventory		**(55,258,131)**	(44,294,745)
Increase in Receivables		**(47,140,769)**	(33,994,104)
Increase (Decrease) in Payables		**27,578,055**	(28,090,947)
Utilised and Reclassified Provisions	(24)	**(4,861,383)**	(602,914)
Paid Income Tax		**(5,848,542)**	-
Net Change in Trading Investment		**(177,059,454)**	(54,762,442)
Net Cash Used in Operating Activities		**(99,028,708)**	(29,762,223)
Cash Flow from Investing Activities			
Payments for Fixed Assets Additions and Projects in Progress		**(163,054,762)**	(166,342,125)
Change in Intangible Assets		**(1,150,485)**	(241,840)
Increase in Long-term Investments		**1,203,129**	(804,218)
Proceeds from Sales of Fixed Assets		**275,494**	169,703
Decrease in Long-term Notes Receivable		**940,000**	1,100,000
Net Cash Used in Investing Activities		**(161,786,624)**	(166,118,480)
Cash Flow from Financing Activities			
Increase (Decrease) in Long-term Loans and its Current Portion		**105,267,362**	(35,231,848)
Decrease in Other Long-term Liabilities		**(1,400,888)**	(2,351,711)
Increase in Treasury Stock		**(56,994,855)**	(3,673,311)
Payments for Employees' Share in Net Profit		**(3,879,371)**	(5,913,282)
Dividends Paid		**(62,573,897)**	(59,908,988)
Net Cash Used in Financing Activities		**(19,581,649)**	(107,079,140)
Net Change in Cash and Cash Equivalents		**(280,396,981)**	(302,959,843)
Cash and Cash Equivalents at Beginning of the Year	(2.14), (17)	**(157,149,810)**	145,810,033
Cash at Cash Equivalents at End of the Year	(2.14), (17)	**(437,546,791)**	(157,149,810)

The accompanying notes from no. (1) to no. (37) are an integral part of these consolidated financial statements and should be read in conjunction therewith.

Consolidated statement of changes in shareholders' equity

For the Year Ended December 31, 2006

	Issued & Paid up Capital LE	Reserves LE	Retained Earnings LE
Balance at December 31, 2004	100,000,000	372,327,045	82,800,623
Adjustments	-	45,000	3,634,265
Transfer to Retained Earnings	-	-	136,132,988
Dividends Declared	-	-	(59,828,627)
Acquired Treasury Stock	-	-	-
Translation Adjustment of Foreign Subsidiaries	-	(4,246,783)	-
Minority Interest in Subsidiaries	-	-	-
Profit for the Year	-	-	-
Balance at December 31, 2005	100,000,000	368,125,262	162,739,249
Adjustments	-	-	1,240,981
Transfer to Retained Earnings	-	-	88,838,750
Dividends Declared *	-	-	(64,910,946)
Acquired Treasury Stock	-	-	-
Translation Adjustment of Foreign Subsidiaries	-	713,626	-
Minority Interest in New Subsidiaries	-	-	-
Profit for the Year	-	-	-
Balance at December 31, 2006	100,000,000	368,838,888	187,908,034

The accompanying notes from no. (1) to no. (37) are an integral part of these consolidated financial statements and should be in conjunction therewith.

* Dividends declared in the last year are after deduction of dividends to subsidiaries amounting to LE 56,920 for their owned shares in the Parent Company.

Profit for the Year/Period LE	Treasury Shares LE	Total LE	Minority Interest LE	**Total Equity LE**
136,132,988	-	691,260,656	5,212,313	**696,472,969**
-	-	3,679,265	41,388	**3,720,653**
(136,132,988)	-	-	-	**-**
-	-	(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**
88,838,750	(3,673,311)	716,029,950	5,166,800	**721,196,750**
-	-	1,240,981	91,106	**1,332,087**
(88,838,750)	-	-	-	**-**
-	-	(64,910,946)	-	**(64,910,946)**
-	(56,994,855)	(56,994,855)	-	**(56,994,855)**
-	-	713,626	50,729	**764,355**
-	-	-	358,910	**358,910**
79,230,451	-	79,230,451	(614,445)	**78,616,006**
79,230,451	(60,668,166)	675,309,207	5,053,100	**680,362,307**

1. Preface on the Parent Company and its Subsidiaries

1.1 Lecico Egypt (the Parent Company)

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's purpose is the production of all ceramic products including the production of sanitary ware and all kinds of tiles.

1.2 Subsidiaries

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

	Country of Incorporation	Ownership Interest 31/12/2006 %	Ownership Interest 31/12/2005 %
Lecico for Ceramic Industries (S.A.E.)	Egypt	99.99	99.99
Lecico for Trading and Marketing (S.A.E.)	Egypt	99.41	99.83
Lecico for Financial Investments (S.A.E.)	Egypt	99.33	99.50
Lecico (UK) Ltd.	United Kingdom	100.00	100.00
Lecico for Investments Company Ltd.	United Kingdom	100.00	-
The Lebanese Ceramic Industries Co. (S.A.L.)	Lebanon	94.77	94.77
International Ceramics (S.A.E.)	Egypt	99.97	99.97
El Sharaf for Ceramics (S.A.E.)	Egypt	70.00	-

2. Significant Accounting Policies

2.1 Statement of Compliance

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

2.2 Basis of Preparation

The consolidated financial statements are presented in Egyptian Pounds (LE) and are prepared on the historical cost convention, as modified by the revaluation of financial assets held for sale to their fair value.

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

The preparation of consolidated 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 those 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 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 rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into reporting currency at the foreign exchange rates 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 rates at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into reporting currency 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 into 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 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. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods along with continuing management involvement with the goods.

Interest revenue is recognised as it accrues on a timely basis.

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 capitailised. This accounting treatment is applied consistently to all borrowing costs and all qualified fixed assets.

2.7 Employees Benefits

2.7.1 End of Services Benefit Fund

The Parent Company and one of its subsidiaries (Lecico for Ceramic Industries) contributed to an employees End of Services Benefit fund. This contribution represents 3% of the annual salaries. In addition, ½ 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

As per the Egyptian law, the Parent Company and its Egyptian subsidiaries deduct 1% of annual net profit to be paid for the training fund for employees. This deduction is recognised 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 Company, 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 (except for the land) over the estimated useful lives of each part of an item of fixed assets. 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	4-10
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 and 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 amounts spent 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 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
Intangible assets which include the Trademark of Lecico UK and development costs are valued at cost, and amortised over ten years. Key money in Lebanon is not amortised.

2.12 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, then 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 the consolidated income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

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 and any resultant gains or loss are recognised in the consolidated income statement.

2.13 Inventory

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials, consumables and spare parts – purchase cost on a moving average basis.

Finished products and work-in-process – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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 receivable 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 directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury stock and presented as a deduction from total equity.

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 recognised 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, the recoverable amount is estimated at each balance sheet date. Impairment losses are 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 impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the profit and loss account. 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 the profit and loss account, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit and loss account.

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 recognised.

3. Other Operating Income

	31/12/2006 LE	31/12/2005 LE
Other Revenue	**3,550,467**	2,914,189
Scrap Sales	**353,657**	1,281,275
Capital Gains	**189,778**	58,430
	4,093,902	4,253,894

4. Other Operating Expenses

	31/12/2006 LE	31/12/2005 LE
Provided Provisions	**3,292,134**	91,395
Impairment of Inventory	**1,488,000**	-
Impairment of trade receivables	**9,113,684**	-
Amortisation of Intangible Assets	**150,613**	105,074
	14,044,431	196,469

5. Income Tax Expense

	31/12/2006 LE	31/12/2005 LE
Current Income Tax Expense for the Year	**5,492,885**	3,534,865
Income Tax Expenses Provided for Prior Periods*	**8,536,080**	-
	14,028,965	3,534,865

* The Parent Company's management decided to take advantage of the Egyptian tax law no. 91 for the year 2005 which permits the settlement of tax disputes, outstanding in the courts as at October 1st, 2004, at certain percentages of the disputed amounts. The Parent Company had cases in the courts for the years 1986 to 2000 that the Group management considered it to be the best interest of the Parent Company to make such settlement amounting to LE 6,693,461. In addition a subsidiary, Lecico Lebanon has provided an amount of LE 1,842,619 for tax claims made in respect of prior years.

6. Profit on Sarreguemines Deal

On the 5th October 2006 the court-appointed administrator of Sarreguemines S.A accepted the offer of € 1.5 million made by Lecico Egypt, through its consolidated subsidiary, Lecico France, to acquire the business activity, 143 members of staff and certain operating assets including inventory, a warehouse, trade marks and manufacturing facilities along with the assumption of some specific liabilities (largely employee and finance lease obligations) related to these particular assets acquired and the employees.

The assets were acquired at below their fair value and as a result a gain of LE 11,312,294 equivalent to € 1,571,185 is shown in the income statement in 2006 which arose as follows:

	€	LE
Property, Plant & Equipment	1,209,435	8,707,741
Inventories	3,157,725	22,735,119
Employee Related liabilities	(665,431)	(4,790,988)
Finance Lease Obligation	(460,579)	(3,316,093)
Others	(119,965)	(863,729)
Fair Value of Net Assets Acquired	3,121,185	22,472,050
Amount Paid	(1,550,000)	(11,159,756)
Gain on Sarreguemines Transaction	1,571,185	11,312,294

7. Earnings Per Share

The earnings per share for the period ended December 31, 2006 is computed as follows:

	31/12/2006	31/12/2005
Net Profit for the Year (in LE)	**79,230,451**	88,838,750
Number of Shares	**20,000,000**	20,000,000
Earnings Per Share (LE / Share)	**3.96**	4.44

8. Fixed Assets

	Land LE	Buildings LE	Leasehold Improvements LE	Machinery & Equipment LE	Machines Overhauls LE	Motor Vehicles LE	Tools LE	Furniture, Office Equip. & Computers LE	**Total LE**
Cost									
As at 01/01/2006	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**
Translation Differences	(39,305)	392,218	-	(300,424)	-	337,088	-	(8,909)	**380,668**
Transfers	177,038	(960,870)	-	783,832	-	-	-	-	**-**
Year Additions	12,038,875	14,495,389	232,484	35,924,955	2,122,774	6,161,582	5,980,467	2,022,080	**78,978,606**
Year Disposals	-	-	-	(2,551,371)	(249,970)	(1,231,720)	-	(415,982)	**(4,449,043)**
As at 31/12/2006	131,408,174	137,065,066	532,003	429,131,100	8,703,453	34,984,316	13,952,981	16,128,852	**771,905,945**
Accumulated Depreciation									
As at 1/1/2006	-	37,548,544	49,920	216,207,532	1,366,592	18,841,126	5,527,642	8,215,772	**287,757,128**
Translation Differences	-	245,744	-	(248,714)	-	185,394,	-	(8,948)	**173,476**
Transfers	-	(522,077)	-	522,077,	-	-	-	-	**-**
Year Depreciation	-	5,468,384	112,489	26,872,027,	2,325,189,	3,931,409	866,730,	1,449,534,	**41,025,762**
Acc. Dep. for Disposals	-	-	-	(2,551,371)	(250,061)	(1,152,435)	-	(409,460)	**(4,363,327)**
As at 31/12/2006	-	42,740,595	162,409	240,801,551	3,441,720	21,805,494	6,394,372	9,246,898	**324,593,039**
Net Book Value as at 31/12/2006	131,408,174	94,324,471	369,594	188,329,549	5,261,733	13,178,822	7,558,609	6,881,954	**447,312,906**
Net Book Value as at 31/12/2005	119,231,566	85,589,785	249,599	179,066,576	5,464,057	10,876,240	2,444,872	6,315,891	**409,238,586**

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 additions to land include an amount of LE 3.4 million equivalent to € 303,931 representing land acquired as part of the Sarreguemines transaction which was purchased with unregistered deed but pending registration in the name of Lecico France

The Parent Company provided certain banks with a power of attorney to pledge some of the sanitary ware machinery whose cost amounted to LE 117.5 million and its net book value amounted to LE 661,536 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 Company from Soglease Egypt Co. for Capital Lease (notes (2-9), (23-1)).

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.

9. Projects in Progress

	Note no.	**31/12/2006 LE**	31/12/2005 LE
Machinery Under Installation		**145,882,821**	8,513,347
Buildings Under Construction		**12,626,842**	57,016,608
Capitalised Borrowing Cost	(2.6)	**8,056,409**	2 778 303
Advance Payment		**13,242,701**	23,489,716
L/C For Purchase of Fixed Assets		**17,004,552**	20,939,195
		196,813,325	112,737,169

10. Intangible Assets

	Goodwill LE	Trademarks LE	Development Costs LE	Other Intangibles LE	**Total LE**
Cost					
Balance as at 1/1/2006	15,474,579	115,101	652,355	-	**16,242,035**
Translation Differences	-	12,938	86,408	-	**99,346**
Year Additions	-	151,973	284,760	713,752	**1,150,485**
Balance as at 31/12/2006	15,474,579	280,012	1,023,523	713,752	**17,491,866**
Amortization & Impairment Losses					
Balance as at 1/1/2006	-	60,864	115,427	-	**176,291**
Translation Differences	-	7,813	23,290	-	**31,103**
Year Amortisation	-	20,542	130,028	-	**150,570**
Balance as at 31/12/2006	-	89,219	268,745	-	**357,964**
Carrying Amount as at 31/12/2006	15,474,579	190,793	754,778	713,752	**17,133,902**
Carrying Amount as at 31/12/2005	15,474,579	54,237	536,928	-	**16,065,744**

11. Other Investments

	Ownership %	**31/12/2006 LE**	31/12/2005 LE
Murex Industries and Trading (S.A.L.)	40 %	**4,250,085**	4,272,414
Lecico Algeria*	60 %	**-**	1,180,799
Arab Company for Ceramics (Aracemco)	-	**19,372**	19,372
Al-Gawhara Company	-	**1,440**	1,440
Other Investments	-	**269**	270
		4,271,166	5,474,295

* Lecico Algeria is now a consolidated subsidiary.

12. Inventory

	31/12/2006 LE	31/12/2005 LE
Raw Materials, Consumables and Spare Parts	**138,086,279**	119,424,515
Work in Process	**18,516,023**	13,002,937
Finished Products	**178,348,589**	149,723,599
L/Cs for the Purchase of Goods	**4,783,985**	2,325,694
	339,734,876	284,476,745
Less:		
Impairment of Inventory	**(14,505,608)**	(13,043,644)
	325,229,268	271,433,101

13. Receivables

	31/12/2006 LE	31/12/2005 LE
Trade Receivables	**158,798,227**	153,536,607
Notes Receivable	**81,463,522**	57,568,534
Sundry Debtors	**5,137,131**	8,213,350
Suppliers – Debit Balances	**1,073,042**	917,758
Tax Administration – Tax Withheld	**13,344,569**	9,011,873
Tax Administration – Sales Tax	**5,931,243**	681,581
Other Debit Balances	**1,712,466**	1,536,567
Prepaid Expenses	**7,481,323**	7,063,237
Accrued Revenues	**1,017,306**	979,916
	275,958,829	239,509,423
Less:		
Impairment of Receivables	**(50,785,020)**	(42,217,209)
	225,173,809	197,292,214

14. Related Parties

	Nature of Transaction	Transaction Amount LE	**31/12/2006 LE**	31/12/2005 LE
Debit Balances				
Sanitec Subsidiaries				
Keramag	Sales	5,796,357	**667,969**	269,846
Pozzi Ginori	Sales	17,340,334	**1,140,568**	2,720,699
Twyford	Sales	44,661,899	**4,929,368**	1,532,113
	Notes Receivable	-	**14,410,977**	11,265,766
	Current	(2,603)	**(2,603)**	-
Kolo Sanitec	Sales	151,202	**14,904**	-
Allia	Sales	1,862,966	**191,956**	-
Sanitec	Current	121,259	**121,259**	-
			21,474,398	15,788,424
Murex Industries and	Sales	51,542,607	**13,286,695**	4,035,080
Trading (S.A.L.)	Notes Receivable	-	**667,223**	9,108,128
			13,953,918	13,143,208
Ceramic Holding Middle East B.V. (CHME)	Current	1,223,849	**2,268,963**	1,045,114
T. Gargour et Fils - Kuwait	Current	(75,942)	**11,420**	87,362
T. Gargour et Fils - Jordan		580,192	**580,192**	-
Board of Directors of The Lebanese Ceramic Industries Co. (S.A.L.)	Current	(20)	**2,318**	2,338
Lecico Algeria	Current	-	**-**	136,949
Lecico Saudi Arabia Branch	Current	78,258	**78,258**	-
Lecico Plus for Trading (S.A.E.)**	Current	2,525,292	**2,525,292**	-
Total Debit Balances			**40,894,759**	30,203,395
Credit Balances				
Ceramic Holdings Middle East B.V. (CHME)	Current	(1,754,563)	**6,198,144**	7,952,707
Murex Industries and Trading (S.A.L.)	Purchase	3,786,030	**226,472**	179,016
LIFCO	Rent	85,659	**227,131**	142,653
Board of Directors of the Lebanese Ceramic Industries Co. (S.A.L.)	Current	(1,587)	**114,995**	116,582
T. Gargour et Fils	Current	25,251	**33,578**	8,327
Ceramic Management Services Ltd. (CMS)	Technical Assistance Fees*	11,971,253	**1,621,890**	461,295
TGF Travel	Current	(26,749)	**-**	26,749
Sanitec Subsidiaries				
Kolo Sanitec	Sales	-	**-**	167,521
Total Credit Balances			**8,422,210**	9,054,850

* The Group management had decided to reduce the technical assistance fees payable to CMS from 2% of gross sales of the Group companies to be 1.6% of gross sales of the Group companies, excluding the Lebanese Ceramics Industries Co. (S.A.L.), which has been given a waiver for the current year.

** The balance of Lecico Plus for Trading (S.A.E.) includes cash at banks of LE 2.5 million representing 25% of the capital of this subsidiary. As at December 31, 2006 the incorporation formalities of this subsidiary were not fully completed.

14. Related Parties (Cont.)

Transactions with Key Management

The 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 92,063 (credit balances) as at December 31, 2006. These balances are included in sundry debtors and creditors in receivables and other current payables respectively.

The emoluments for the Board of Directors of the holding company, for the year ended December 31, 2006 charged to the administrative expenses in the consolidated income statement amounted to LE 1,342,087 (December 31, 2005 : LE 1,294,206).

15. Trading Investments

	31/12/2006 LE	31/12/2005 LE
Treasury Bills*	**164,000,000**	146,250,000
Less:		
Issuance Discount	**(5,959,039)**	(2,290,158)
Acquisition Cost of Treasury Bills	**158,040,961**	143,959,842
Treasury bonds (Held for Trading)	**39,650,430**	35,252,600
Bank – Certificates of Deposit (Held for Trading)	**5,500,000**	5,500,000
Callable Money Market Securities	**36,030,505**	-
	239,221,896	184,712,442

* Of the above, treasury bills issued by the Egyptian government and maturing within three months from acquisition date amounted to LE 2,400,000, and accordingly included in cash and cash equivalents for the purpose of preparing the cash flow statement (Note no. 17).

16. Cash in Banks and on Hand

	31/12/2006 LE	31/12/2005 LE
Banks - Time Deposit*	**7,346,100**	116,535,905
Banks - Current Accounts	**16,856,073**	17,063,024
Cash On Hand	**386,753**	1,083,825
	24,588,926	134,682,754

* The bank time deposits includes an amount of LE 1,752,236 blocked for issuing L/G s' to third parties (note no. 29-1).

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

	31/12/2006 LE	31/12/2005 LE
Banks - Time Deposits	**7,346,100**	116,535,905
Banks - Current Accounts	**16,856,073**	17,063,024
Cash on Hand	**386,753**	1,083,825
Treasury Bills Due During Three Months from Purchasing Date (note 15)	**2,400,000**	124,950,000
	26,988,926	259,632,754
Less:		
Bank Overdrafts	**(464,535,717)**	(417,196,965)
	(437,546,791)	(157,564,211)

18. Capital

18.1 Authorised Capital

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

18.2 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.

19. Reserves

	Legal Reserve LE	Other Reserves LE	Special Reserve Premium LE	Land Revaluation Surplus LE	Translation Reserve LE	**Total LE**
Balance at December 31, 2004	20,000,000	15,526,032	269,720,953	52,765,085	14,314,975	**372,327,045**
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**
Translation Adjustment for Foreign Subsidiaries	-	-	-	-	713,626	**713,626**
Balance at December 31, 2006	20,000,000	15,571,032	269,720,953	52,765,085	10,781,818	**368,838,888**

* 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.

20. Retained Earnings

As at December 31, 2006 the retained earnings represent the retained earnings of the Parent Company and its share of the retained earnings of the consolidated subsidiaries.

21. Treasury Shares

Treasury shares is represented in:

	Number of GDRs	31/12/2006 LE	31/12/2005 LE
Firstly: Acquired Global depositary receipts (GDRs)			
Acquisition cost of GDRs acquired in January 2005	20,000	**2,035,365**	2,035,365
Acquisition cost of GDRs acquired in May 2006	400,000	**22,878,917**	-
Acquisition cost of GDRs acquired in July 2006	50,000	**2,851,942**	-
Acquisition cost of GDRs acquired in August 2006	50,200	**2,806,000**	-
Acquisition cost of GDRs acquired in September 2006	200,000	**11,957,786**	-
Acquisition cost of GDRs acquired in October 2006	200,000	**11,790,535**	-
Acquisition cost of GDRs acquired in November 2006	79,800	**4,709,675**	-
	1,000,000	**59,030,220**	2,035,365
Secondly: Acquisition cost of the Parent Company's shares by Lecico for Ceramic Industries (S.A.E.) (a subsidiary)		**1,638,020**	1,638,020
Minority Interest		**(74)**	(74)
		1,637,946	1,637,946
Total		**60,668,166**	3,673,311

22. Long-term Loans

	31/12/2006 LE	31/12/2005 LE
22.1 European Investment Bank Loan (EIB) The amount represents the outstanding counter value of the foreign currency loan granted to the Parent Company by the EIB, which is equivalent to € 3,777,499 (variable interest rate). The balance will be repaid in 8 semi-annual installments on June and December of each year, ending December 15th, 2009. The loan is guaranteed by letters of guarantee issued by CIB in favour of the EIB amounting to € 3,777,499.	**28,369,019**	34,249,326
22.2 Loan from Barclays Bank Egypt The loan granted to the Parent Company by Barclays Bank Egypt is repayable in eight quarterly installments starting from June 30, 2005 till March 31, 2007 after a grace period of 15 months at a variable interest rate and is guaranteed by Lecico for Ceramic Industries Co. (a subsidiary)	**3,000,750**	11,375,000
22.3 International Finance Corporation (IFC) The utilised amount granted from IFC under the amended loan agreement dated January 16, 2005 equivalent to USD 8,937,500, is to be repaid over 12 semiannual installments starting from July 15, 2006 to July 15, 2012; at a variable interest rate.	**51,033,125**	-
22.4 Commercial International Bank (CIB) The loan amount granted to the Parent Company from CIB according to the signed loan contract dated April 3, 2005 equivalent to USD 2,979,167, to be repaid over 12 semiannual installments starting from July 15, 2006 to July 15, 2012; at a variable interest rate. The IFC and CIB loans are granted to finance the future expansion in sanitary ware plant of the subsidiary Company European Ceramics (under construction) which has provided a power of attorney to pledge its financed assets in favour of the lenders. The two loans are also guaranteed by the two subsidiary companies, Lecico for Ceramic Industries and European Ceramics.	**17,011,044**	-
22.5 Commercial International Bank (CIB) A medium term loan granted to the Parent Company from CIB amounted to USD 4,774,306, to be repaid in 13 quarterly installments starting from September 30, 2006 and ending September 30, 2009, with a variable interest rate.	**27,261,287**	-
22.6 Commercial International Bank (CIB) A medium term loan granted to the Parent Company from CIB amounted to USD 2,871,074, to be repaid in 7 semiannual installments starting from December 15, 2006 and ending December 15, 2009. The medium term loans of the CIB are to finance the repayment of certain short term debts, with a variable interest rate.	**16,393,833**	-
22.7 Commercial International Bank (CIB) A medium term loan granted to the Parent Company from CIB amounted to USD 2,387,142, to be repaid on 13 semiannual installments starting from September 30, 2006 and ending September 30, 2009, with a variable interest rate	**13,630,581**	-
22.8 Commercial International Bank (CIB) The balance of the Lebanese Ceramic Industries Co. (S.A.L.) (subsidiary) obtained a long-term loan amounting to USD 1.8 million, repayable over seven years in semi annual installments ending in 2008, with a variable interest rate (a certain percent is to be recovered from the Lebanese Central Bank as an investment incentive).	**3,215,090**	5,082,757
22.9 Commercial International Bank (CIB) The balance of the Lebanese Ceramic Industries Co. (S.A.L) (subsidiary) obtained a long-term loan amounting to USD 5.5 million repayable over five years and half in semi-annual installments ending in 2009 with a variable interest rate.	**17,124,317**	22,952,381
	177,039,046	73,659,464
Less: Installments due within one year which are classified as current liabilities (note 26).	**(50,881,577)**	(24,523,692)
	126,157,469	49,135,772

23. Other Long-term Liabilities

	31/12/2006 LE	31/12/2005 LE
23.1 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.	**2,384,899**	5,181,542
Less: Installments due within one year which are classified as current liabilities (note 26).	**(2,384,899)**	(2,796,552)
	-	2,384,900
23.2 Lease obligation to finance certain vehicles of Lecico (UK) Limited.	**4,960,816**	990,424
Less: Installments due within one year which are classified as current liabilities (note 26).	**(2,259,018)**	(487,874)
	2,701,798	502,550
23.3 Other Long-Term Liabilities Sales tax authority (deferred sales tax related to imported machinery)	**6,956,549**	7,340,767
Notes payable	**1,395,797**	1,698,526
	8,352,346	9,039,293
Less: Due within one year which are classified as current liabilities (Note 26).	**(869,199)**	(340,910)
	7,483,147	8,698,383
Total Other Long-Term Liabilities	**10,184,945**	11,585,833

24. Deferred Income Tax Assets and Liabilities

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

	Assets 31/12/2006 LE	Liabilities 31/12/2006 LE	Assets 31/12/2005 LE	Liabilities 31/12/2005 LE
Property, plant and equipment	**-**	**10,189,739**	-	6,271,769
Inventory	**(3,270,752)**	**-**	(2,787,542)	-
Total Deferred Income Tax (assets)/liabilities	**(3,270,752)**	**10,189,739**	(2,787,542)	6,271,769
Net Deferred Income Tax Liabilities	**-**	**6,918,987**	-	3,484,227

25. Provisions

	Balance as at 1/1/2006 LE	Translation Differences LE	Reclassification LE	Utilised Provisions LE	Provided Provisions LE	**Balance as at 31/12/2006 LE**
Provision Disclosed in the Current Liabilities						
Potential Losses and Claims Provision*	7,367,988	-	(2,726,453)	-	6,802,330	**11,443,865**
	7,367,988	-	(2,726,453)	-	6,802,330	**11,443,865**
Provisions Disclosed in the Non Current Liabilities						
End of Service Indemnity Provision	6,040,494	(23,730)	-	(1,238,970)	1,400,000	**6,177,794**
Restructuring Provision	216,620	(32)	-	(216,588)	-	**-**
	6,257,114	(23,762)	-	(1,455,558)	1,400,000	**6,177,794**
Total	13,625,102	(23,762)	(2,726,453)	(1,455,558)	8,202,330	**17,621,659**

* The amounts represent a provision for certain claims brought against the company. The charge recognised in the income statement for 2006 is LE 6,802,330. In the directors opinion, after taking appropriate advice, the outcome of these claims will not give rise to any significant loss beyond the amounts provided at LE 11,443,865.

26. Current Portion of Non Current Liabilities

	31/12/2006 LE	31/12/2005 LE
Current Portion of Long-Term Loans (Note 22)	**50,881,577**	24,523,692
Current Portion of Other Long-Term Liabilities (Note 23)	**5,513,116**	3,625,336
	56,394,693	28,149,028

27. Trade and Notes Payable

	31/12/2006 LE	31/12/2005 LE
Trade Payable	**35,739,402**	24,310,833
Notes Payable	**33,775,905**	31,258,829
	69,515,307	55,569,662

28. Other Current Payables

	31/12/2006 LE	31/12/2005 LE
Trade Receivables – Credit Balances	**4,665,546**	4,688,345
Social Insurance Authority and Tax Authority	**9,272,630**	6,596,255
Income Tax Payable	**22,405,645**	14,225,222
Accrued Expenses	**22,638,097**	12,509,282
Deposits Due to Others	**147,641**	27,701
Sundry Creditors	**9,125,305**	6,629,730
Current Account for Sales Tax Department	**437,772**	1,156,228
Dividends Payable	**567,975**	516,691
Profit Sharing Provision for Employees of Certain Group Companies	**13,039,221**	9,318,003
	82,299,832	55,667,457

29. Contingent Liabilities

29.1 Letters of Guarantee

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

Currency	31/12/2006	31/12/2005
LE	**8,628,064**	8,966,128
LBP (000)	**249,384**	280,638

29.2 Letters of Credit

Currency	31/12/2006	31/12/2005
LE	**7,591,670**	6,353,079

29.3 Other 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 in financing the future expansion of the Group companies; Parent Company has fully drawn down these loans as at December 31, 2006.

29.4

The Parent Company guaranteed one of its overseas subsidiaries in the loan granted to this subsidiary by one of the French Banks (Banque Audi France). The referred to loan is capped at an amount of € 2 million (equivalent to LE 15.02 million). There was no outstanding balance under this loan as at December 31, 2006.

30. Litigation

The Electricity Utility Organisation 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.

31. Capital Commitment

The capital commitment as at December 31, 2006 amounting to LE 25.3 million related to the purchase of fixed assets of the Group.

32. Letters of Guarantee

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

	31/12/2006	31/12/2005
Sanitary Ware Segment		
Sales Volumes (in 000 pcs)		
Egypt	**1,548.8**	1,383.0
Lebanon	**200.3**	211.5
Export	**2,883.6**	2,266.7
Total Sales Volume (in 000 pcs)	**4,632.7**	3,861.2
Sales Revenues (LE million)	**443.9**	389.0
Average Selling Price (LE/pc)	**95.8**	100.7
Total Cost of Sales (LE million)	**282.92**	224.7
Gross Profit (LE million)	**161.0**	164.3
Tile Segment		
Sales Volumes (in 000 m2)		
Egypt	**13,386.3**	13,595.1
Lebanon	**1,002.5**	948.2
Export	**4,053.0**	3,155.2
Total Sales Volume (000 m2)	**18,441.8**	17,698.5
Sales Revenues (LE million)	**275.6**	263.4
Average Selling Price (LE/ m2)	**14.9**	14.9
Total Cost of Sales (LE million)	**184.3**	185.3
Gross Profit (LE million)	**91.3**	78.1

33. Personnel Cost

The personnel costs incurred during the period ended December 31, 2006 amounted to LE 102,330,483 (December 31, 2005: LE 91,242,637).

34. Financial Instruments

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

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

- Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.
- Trade and other receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

35. Financial Instruments Risk Management

35.1 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 Company 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.

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

35.3 Foreign Currency Exchange Rates Fluctuations Risk

Foreign currency exchange rate fluctuation risk is represented in exchange rate 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 rate fluctuations risk is considered high.

36. 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/ 2000
The Parent Company's management decided to take advantage of the Egyptian tax law no. 91 for the year 2005 which permits the settlement of tax disputes, outstanding in the courts as at October 1st, 2004, at certain percentages of the disputed amounts. The Parent Company had cases in the courts for the years 1986 to 2000 that after consultation with experts, the Group management considered it to be the best interests of the Parent Company to make such a settlement.

Years 2001/ 2002
The Parent Company's records were examined for these years; the company was informed by the tax department of claims and objected to these claims 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 concerned the exemption of the paid-up capital and additional depreciation.

Year 2003
The Parent Company's records for this year was examined, and the company was notified of the tax claims, which it has objected to during the legal period.

Year 2004 / 2005
The Parent Company's records for the years referred to were not examined yet.

B - Salaries tax

Years till 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 of claims and objected to these during the legal period. The dispute was transferred to the internal committee of the tax department.

Years 2004 / 2005
The Parent Company's records for the years referred to were not examined yet.

C - Stamp Tax

- The Parent Company has obtained a final settlement and paid all the taxes obligations regarding the years till 2003.
- The Parent Company's records of 2004 were examined and the company was not yet informed of any claims by the tax department.
- Year 2005 was not examined yet.

D - Sales Tax
The tax examination until 2003 was finalised and led to unsettled differences due to amended sales tax claims. The settlement of these differences with the tax authority is still in process.

Year 2004
This year was examined and the Parent Company has still not been informed of any tax claims.

In-depth 5 year profit and loss summary

37. Comparative Figures

Some of the comparative figures were reclassified to comply with the classification of the current year figures.

	2002	2003	2004	2005	2006
Sanitary Ware Segment					
Sales Volume (000s of pieces)	3,380	3,977	4,265	3,861	**4,633**
Exports as a Percentage of Total	42.3%	49.8%	56.0%	58.7%	**62.2%**
Average Price (LE/piece)	73.6	92.7	110.0	100.7	**95.8**
Sanitary Ware Revenue	248.89	368.74	468.95	388.96	**443.90**
Sanitary Ware Gross Profit	109.98	167.86	234.38	164.28	**160.98**
Sanitary Ware Gross Margin (%)	44.2%	45.5%	50.0%	42.2%	**36.3%**
Tile Segment					
Sales Volume (000s of sqm)	10,840	14,592	15,334	17,698	**18,442**
Exports as a Percentage of Total	5.4%	6.9%	10.3%	17.8%	**22.0%**
Average Price (LE/sqm)	12.3	13.1	14.9	14.9	**14.9**
Tile Revenue	133.11	190.56	227.85	263.42	**275.60**
Tile Gross Profit	39.36	54.25	65.74	78.09	**91.31**
Tile Gross Margin (%)	29.6%	28.5%	28.9%	29.6%	**33.1%**
Consolidated Profit and Loss					
Net Sales	382.00	559.30	696.80	652.38	**719.50**
Sanitary Ware (% of Net Sales)	65.2%	65.9%	67.3%	59.6%	**61.7%**
Gross Profit	149.34	222.11	300.12	242.37	**252.29**
Gross Margin (%)	39.1%	39.7%	43.1%	37.2%	**35.1%**
Sanitary Ware (% of Gross Profit)	73.6%	75.6%	78.1%	67.8%	**63.8%**
Distribution and Administrative Expense	65.11	103.13	113.80	106.81	**124.20**
D&A Expense/Sales (%)	17.0%	18.4%	16.3%	16.4%	**17.3%**
EBIT	72.10	107.59	187.63	139.62	**118.14**
EBIT Margin (%)	18.9%	19.2%	26.9%	21.4%	**16.4%**
Net Financing Expense	27.19	31.57	35.19	16.52	**27.90**
EBIT/Net Financing Expense (x)	2.7	3.4	5.3	8.5	**4.2**
Net Profit	44.15	83.97	136.13	88.84	**79.23**
Net Margin (%)	11.6%	15.0%	19.5%	13.6%	**11.0%**
EPS (LE/Share)	2.64	5.01	7.91	4.44	**3.96**

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