

Lecico Egypt Group S.A.E. (Lecico Group)

Ratings and Contacts

Category	Current Rating	Previous Rating*	Analyst	Phone
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* Rated by other than MERIS

Operating Statistics

Lecico Group – Consolidated Results

Figures in EGP mn	2003	2002	2001
ROA (%)	11.0	7.2	3.4
ROE (%)	31.8	22.4	12.3
Operating Margin (%)	19.0	18.6	13.9
EBITDA Margin (%)	25.0	27.0	18.0

Balance Sheet Statistics:

Figures in EGP mn	2003	2002	2001
Turnover	559.0	381.7	280.2
Total Assets	873.8	691.7	666.2
N. Debt/EBITDA (x)	1.4	1.9	3.2
EBITDA/Interest (x)	4.0	3.5	2.2

Opinion

Rating Rationale

Lecico Group rating reflects its strong competitive position in Egypt and the Middle East through well established brand name, high quality product and established commercial relationships. In addition, the company has a strong, experienced management team.

We take also into account the anticipated increase in the production capacity associated by expansion in sanitary ware business (to bring up combined production to 6mn piece by year 2006) and ceramic tiles (to reach 16.0mn m² in 2005). Meanwhile, the frit plant will be operational by the beginning of 2005, which will also have positive impact on the group's business and financial profile.

Rating Outlook - Stable

The outlook factors the improvement in the operating performance during the last two years, which is anticipated to be sustained in the future.

Recent Events

In year 2003, Lecico Group has entered into a Purchase agreement with Sanitec, which is deemed to be an important driver to the group's future growth. On the other hand, Lecico has undertaken a US\$ 13 mn joint loan from the IFC and CIB to finance the capex program, which will affect the group indebtedness.

Strengths/Opportunities

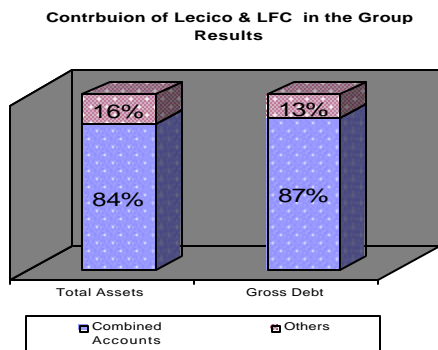
- ✍ Leading position in the domestic market, Middle East and Europe.
- ✍ Solid reputation, associated with a well known brand.
- ✍ A long track record.
- ✍ Wide geographical diversification, along with strong distribution network.
- ✍ Relatively strong and stable financial profile.
- ✍ Strong and high caliber management team.
- ✍ Well designed aggressive expansion plan, which has started to influence output.

Weaknesses/Challenges

- ✍ Exposed to potential political and economical risk in different countries.
- ✍ Expansion plans may lead to an increase in debt ratios.
- ✍ Downturn in European markets may impact on export sales

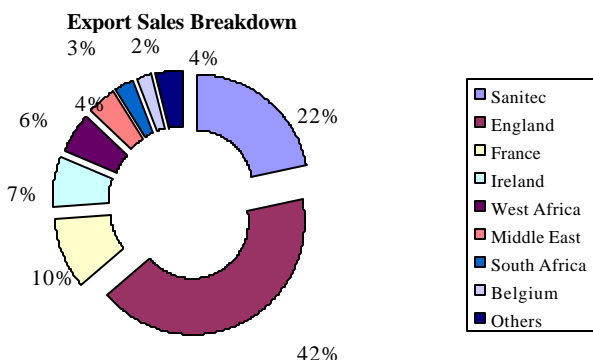
Corporate Profile

Founded in 1975, in Alexandria, Egypt, Lecico Egypt S.A.E. Group (Lecico Group) is one of the leading sanitary ware and ceramic tiles manufacturer in Egypt and the Middle East. Lecico Group's activities are basically organized in two main business segments: manufacturing, marketing & distribution (Refer to Annex 1). Going forward, the manufacturing segment is the most important segment for the group; its focus is primarily on manufacturing sanitary ware and ceramic tiles. Lecico group's manufacturing companies are Lecico Egypt, Lecico for Ceramic Industries Company and the Lebanese Ceramic Industries Company.



Although, Lecico is not structured as a holding company, it acts as an operating and parent company for the group. As the graph illustrates the group's activities are derived mainly from Lecico Egypt operating company under the name "Lecico", along with Lecico for Ceramics Industries "LFC". In 2003, the two companies combined contributed around 84% of total assets, and 87% of its total debts. Because of their significance, our analysis is based only on these two entities.

Due to its high quality service, technical expertise, and efficient mobilization of resources, the company has been able to establish strong ties with sophisticated international markets. Hence, it succeeded in exporting to 42 countries around the world, accounting for 40% of the combined total sales in 2003. As noted in Annex 1, once phases 3&4 of the expansion plan are completed, this figure is anticipated to jump to 50% of combined total sales in 2007. The group's key markets outside the Middle East are England and France, representing 42% and 10% of combined export sales in 2003. It is of note that the profitability margin in Europe is higher than in Egypt, which improves the company's profitability.



Key Rating Considerations:

A Leading Position in the Domestic Market, in Addition to a Powerful Presence in International Market

As mentioned earlier, the group's core business is the manufacturing and distribution of sanitary ware and ceramic tiles with an estimated market share in Egypt of 37% and 15%, respectively, in 2003, which is anticipated to expand further by year 2007, backed by an increase in production capacity. According to management, the group will maintain a dominant position in its home market, while increasing its presence in the international markets capitalizing on its long track record, high quality products, which cater to different tastes, in addition to economies of scale and

state-of-the-art technology. Furthermore, it has good accessibility to export markets through a well located distribution network (i.e. fully owned subsidiaries, third parties... etc). In terms of targeted market niche in the domestic market, Lecico will persist in focusing on the middle and lower end segment, in light of the fact that the company is a market leader in this area; however it will gradually increase its sales in the upper end bracket.

On the other hand, in 2003, Lecico has accomplished a new scheme to manufacture on behalf of other well known brands. For instance the company will manufacture on behalf of Sanitec through an off take agreement (will be discussed in more detail latter on), with "SFA France" (to supply 30,000 piece annually) and also Castorama of France. Moreover, Lecico is currently negotiating with "Ikea" to furnish them kitchen sinks of around 50,000 pieces annually.

Sourcing Agreement with Sanitec, which is Considered One of the Group's Growth Drivers

In 2003, Lecico Group entered into a four year-renewable agreement with Sanitec (one of the group's main shareholders). Under this agreement, Lecico will provide Sanitec with 750,000 pieces in 2004 (as of May 04: 310,000 pieces, as compared to 350,000 pieces in the whole of 2003). This figure is expected to increase gradually and may reach 1.5mn pieces in 2006. MERIS believes that this purchase agreement will strengthen the group's business and financial profile.

Well Designed Aggressive Expansion Plan, which has Started to Gain Fruits

In an effort to enhance vertical and horizontal integration, Lecico has undertaken an aggressive expansion plan during the last years and will carry on until year 2006; this has been done through a number of projects:

A) Sanitary ware expansion:

The sanitary ware business is a strategic business for the group. As a result of Khorshid plant (Lecico as an operating company) reaching its full utilization capacity, management decided to launch its foremost subsidiary LFC in 1997, to take advantage of the increase in demand in sanitary ware market, in addition to the benefit of 10 years tax holiday granted to projects established in new cities. At present LFC has accomplished phase one and two, the latter started operations in 4Q03. In year 2003, the company has manufactured in Egypt (on a combined basis) 3.2mn pieces (compared to 2.9mn pieces in 2002). This is expected to reach approximately 4mn in 2004 and 4.4mn in 2005. Historically, management was scheduling to increase its combined production capacity to reach 6mn pieces by year 2006, through its Borg El Arab Plant (phase 3&4), however, in 2004, management has decided to form an independent entity, mainly to take the advantage of an extra 10 years tax exemption. Therefore, European Ceramics Company S.A.E. "ECC" will take over the construction of the pending two phases on an arm length basis with LFC and will be operational by year 2006. With equal note, the investment cost of the project will be US\$ 19mn, sourced from internal and external resources. ECC will also be located in Borg El Arab industrial area and will share some facilities and services with LFC to save cost. The bulk of the company production will be directed to export markets.

B) Ceramic tiles expansion:

The Khorshid plant reached its full utilization capacity in year 2001, reporting 8mn m² per annum. However, in light of the production efficiency and the ability to add capacity cheaply, this figure has leapt to 12mn m² in 2003. The company has recognized the opportunities in this business and has decided to add a new production facility to meet the increase in demand. As a result, the production capacity is expected to jump to 16mn m² by year 2004. The investment cost of this expansion is US\$ 2.5mn financed through a mix of internal and external resources.

C) *Flushing mechanism project:*

The flushing mechanism business will permit a horizontal integration to the group business. Therefore, management is currently exploring with a leading Germany company the possibility of establishing a joint venture company to serve Lecico Group's customer needs. At present, Lecico serves its clients' needs through China, France and Spain for export sales, while for local sales these products have been sourced from Rubex. The investment cost of this business is around US\$ 2-3 mn. No time table is set for the implementation of this plan as yet.

Management Intends to Closely Control Cost (Frit Plant)

In year 2003, management has applied a cost saving program, according to which management will closely control the operating cost and consequently the foreign exchange resources, through setting up of a frit production facility. The frit is a key component for making "Glaze", which accounts for around 19% of operating cost. The proposed capacity of the frit facility is approximately 13,000 ton per year, with an investment cost of US\$ 2.5mn, financed through internal resources. It is anticipated that the plant will be running by the beginning of next year and will save around US\$ 1.5mn annually from the group's imported raw material. In our view, this investment will have a positive impact on the group cost structure and accordingly its financial performance.

Highly Exposed to Construction Sector Volatility, Nonetheless, the Group's Overall Performance Has Improved, Backed by Diversified Products and Geographical Mix

Although the company's business is linked to the cyclicity of the construction sector, its broad geographical mix has mitigated the effect of this threat. Therefore, group operating margins have proven comparatively resilient to the current economic downturn, which has particularly affected the construction industry and consumer spending.

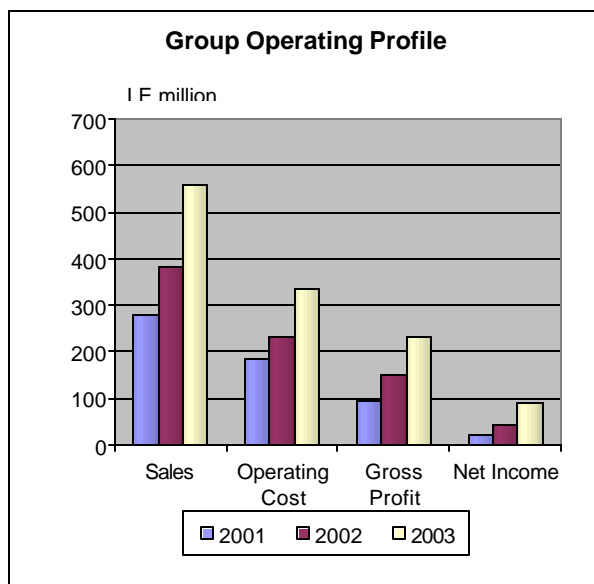
Financial Analysis:

KPMG, is the auditor of the group consolidated financial statements, also of all subsidiaries, excluding LUK and LFI. The auditor has issued an unqualified opinion. Lecico Group has reported results according to the International Accounting Standards (IAS).

Earnings:

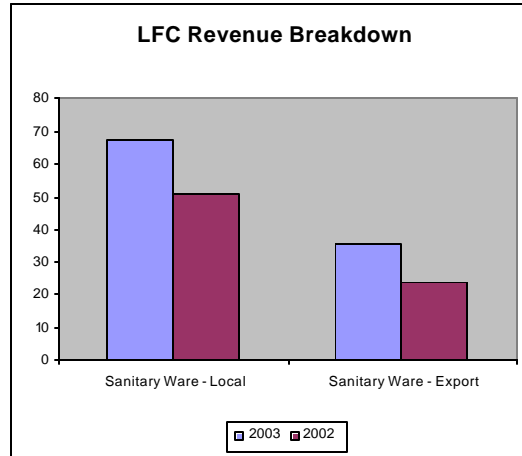
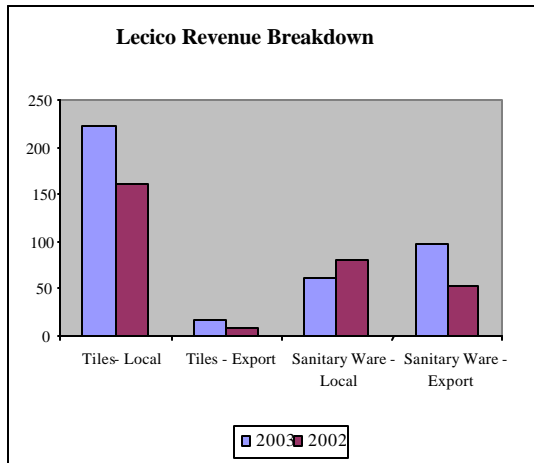
Improvement in Lecico Group's Profitability and Margins

Group sales in 2003, have consistently increased, even beyond management internal projections, for instance the budgeted gross sales –on a combined basis- for FY03 was EGP 470mn , while the reported gross sales was EGP 502.6mn, capitalizing on production efficiency. This increase was driven by volume increase in both sanitary ware and ceramic tiles, in addition to the devaluation of the Egyptian pound, which had a positive affect on the export sales side. MERIS believes that this upward trend will continue in the future, which will be triggered by the completion of phase 3&4, coupled with the off take agreement with Sanitec. Meanwhile, the entity should be able to achieve further cost-savings through a frit plant, which is anticipated to a have great effect on the group's operating cost and accordingly profitability margin (it is anticipated to save US\$ 1.5mn annually from the cost of imported raw materials).



Sanitary Ware Is Considered the Key Driver for the Group's Growth.

It is worth noting that both Lecico and LFC account for 70% of the group's revenue in FY03, and 93% of net profit. In terms of products, sanitary ware will continue to be the group's growth driver capitalizing on its broader profitability margin compared to tiles, around 50% and 30%, respectively.



Significant Increase in EBITDA Figures, Nonetheless, Cash Generation Ability Has Been Hampered by a High Level of Working Capital

EBITDA figures have shown an impressive improvement during the last year, reporting approximately a 40% increase. Nonetheless, in FY03, the working capital needs badly affected the group's cash position, this increase was driven by the depreciation of the Egyptian pound, which reflected in an increase in inventory and receivable (export side) balances. Going forward, management

has highlighted the need to closely control the working capital and has started taking corrective steps. In April 2004, LLC has reported a notable improvement in working capital figures reporting LBP 15.6 bn, compared to LBP 18.6 bn on yo-y basis. In addition to the increase in capital expenditure figures associated by the expansion of tiles and sanitary ware production capacity, we expect that this figure will continue increasing till 2006.

Consolidated Cash Flow and Coverage			
Figures in EGP mn	FY03	FY02	FY01
EBITDA	141.6	104.3	50.0
Working Capital	(91.3)	(18.3)	n.a
Interest Expense	35.4	30.2	23.1
Dividends	11.4	8.5	n.a
Capex	56.2	30.5	n.a
Free Cash Flow	(52.7)	16.8	n.a
EBITDA/ Net Interest (x)	4.5	3.9	2.5

n.a: Comparative figures are not available as this was the first year in which the group generated consolidated financial statements.

Sufficient Resources of Foreign Currency to Meet the Company's Foreign Obligations

It is worth noting that around 80% of the combined raw material (FY03: approx. EGP 70 mn) is imported, in addition to other expenses including interest expense, management fees and expertise salaries which is equivalent to around US\$ 8mn annually. Nonetheless, Lecico has never experienced any shortage of foreign exchange resources, thanks to export sales (combined sales in FY03: more than EGP 150mn), which is considered sufficient to cover the company's foreign currency obligations. In our view this situation will improve taking into account the future growth in export sales, and the inception of the frit plant, which would also have a positive impact on the group's foreign currency resources.

Consolidated Leverage & Liquidity			
Figures in EGP '000	FY03	FY02	FY01
Short Term Debt	250.9	202.8	180.6
Total Financial Debt	342.5	280.6	251.9
Cash & C. Equivalent	140.6	85.3	93.0
Net Financial Debt	201.9	195.3	158.9
Net Debt /EBITDA (X)	1.5	1.9	3.2
Net Debt / T. Capital (%)	66.2	88.2	85.0

Increase in Debt Levels as a Result of the Aggressive Capex Program.

As a result of the expansion mode, the debt levels show an upward trend, which is anticipated to continue in the future, taking into account the IFC/CIB proposed loan, which is undertaken mainly to finance the capex program associated with the sanitary ware expansion. The

eight-year loan (including a two year grace period), is equivalent to US\$ 13mn, with an applicable interest rate of 2.5% above six months US\$ LIBOR. The loan is secured by an irrevocable power of attorney to mortgage the future movable and immovable assets related to phases 3 & 4. Meanwhile, Lecico Group has to sustain a sinking fund of at least the equivalent of the next semi-annual payment (interest and principal). The terms and conditions of the loan agreement highlighted various covenants under which the company (on a consolidated and non-consolidated basis) shall not incur any additional short or long-term debt that pushes the company's long-term debt to equity ratio beyond 50:50 or the current ratio to less than 1.0:1.0. It is of note that the initial amount of the IFC/CIB loan was US\$20mn of which an amount of US\$13mn was to be used in financing the sanitary ware expansion, while the balance would be used to replace a portion of LLC's existing short term debt. However, in light of the change in the lending environment in Lebanon and the introduction of the new interest rate regime, management has decided to depend on refinancing through Lebanese banks the existing short term debts of LLC.

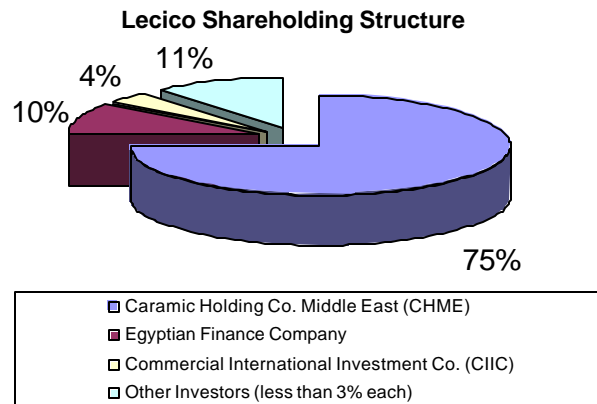
The Group Debt Structure.

Lecico Group raises the majority of its external debt at the parent company level. As of 31 December 2003, more than 85% of the consolidated debt was raised directly by Lecico, which represents the European Investment Bank "EIB" loan, which will mature in 2009. The loan was denominated in foreign currency (US\$ and EUR) – equivalent to US\$ 6.6mn and EUR 10mn, which were fully utilized at FYE01. This loan was taken up primarily to finance the Borg El Arab plant, which is owned by LFC, in addition to the expansion of the tiles production line. The loan, secured by a letter of guarantee issued by the Commercial International Bank of Egypt (CIB), will be repaid in foreign currency and bears a fixed interest rate (6.17%) for the utilized portion in US\$, while for the EUR portion the applicable interest rate is LIBOR+0.15%. Under the terms of the agreement, Lecico has undertaken not to take on any other debts that would push the cash flow/debt service cost ratio below 2:1x. The company has been in compliance with this covenant so far: the ratio stood at 4.0 times as at 31 December 2003. While the remaining balance of the group long term debt is related to LLC, the debt is equivalent to US\$ 1.8mn and will mature in 2008. The loan bears an annual interest rate of LIBOR 3 months plus 7.1% of which 7% is recovered from the Central Bank under its investment subsidy scheme, the loan was undertaken mainly to finance general investment needs.

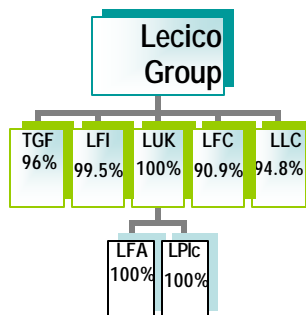
As of December 2003, the short term facilities account for more than 70% of the consolidated total debt. Furthermore, Lecico on a combined basis has access to additional credit facilities equivalent to approximately EGP 190mn, sourced from seven banks.

Annex 1: Background and Group Structure

The business dates back to 1975, when the Gargour family incorporated Lecico as a Joint Stock Company under law No. 43/1974 (amended by laws No. 230/1989 and 8/1997). In 1997, the Gargour family entered into 50/50 joint venture with Sanitec Ltd OY ("Sanitec"), the prominent manufacturer of sanitary ware in Europe, with net sales of EUR 951.1mn in 2003 and 30 production facilities in Europe. The group's current shareholding structure is illustrated below:



Since establishment the company has reported significant growth in investments. As the chart below details, the company's current corporate structure encompasses five subsidiaries, where its ownership interests range from 90% to 100%. Three of these are production companies; one is engaged in distribution, while the remainder is comprised of inactive subsidiaries. Moreover Lecico retains a minimal shareholding stake in El Motahedon (22.5%) and Aracemco (0.17%).



1) Manufacturing Segment: Lecico for Ceramic Industries (LFC):

LFC's Financial Performance		
(EGPm)	2003	2002
Turnover	92.1	61.8
Net Profit	71.5	28.1
EBITDA	45.3	25.1
Short-Term Debt	0.0	1.8
Long-Term Debt	0.0	0.0

LFC, was established in 1997, as a joint stock company. The initial authorized and paid in capital totaled EGP 1.0mn and EGP 250,000, respectively, with a large increase to EGP 250mn and 110mn in 2003. Lecico retains 90.9% stake in the company, while the balance is held by a financial institution under a risk capital funding arrangement with European Investment Bank ("EIB"). Under the terms of this agreement, Lecico has the right to execute a buy-back-option at any time.

At present, LFC's operations are focused on the manufacture of sanitary ware under Lecico brand name and also on behalf of other export customers, while the parent company carries out marketing and distribution. LFC carries no debt and thus can maximize its net profit after-tax. As the above table illustrates, LFC's financial performance, measured by turnover and EBITDA has shown a significant increase (approx. +50%), reflecting the increase in production capacity associated with the implementation of phase 2.

The Lebanese Ceramic Industries (LLC):

Lecico owns 94.77% of LLC, a manufacturing and marketing of sanitary ware and ceramic tiles based in Lebanon. The origin of LLC dates back to 1959, as a joint stock company. It was the predecessor company and one of the founders of Lecico Egypt, going forward Lecico acquired a controlling interest in LLC in 2000.

LLC Key Financials		
(USDm)	2003	2002
Turnover	17.0	15.3
Net Profit	0.9	1.5
EBITDA	2.1	3.1
Short-Term Debt	9.0	8.0
Long-Term Debt	1.7	1.6

1USD = 1.5m LBP

As the only sanitary ware manufacturer in Lebanon, LLC has a dominant share of the domestic market with about 56% in 2003, as compared to 53% in 2002. The prices in the Lebanese market are much stronger than in Egypt and other countries in the region. LLC also produces ceramic tiles where it has 16% of the domestic market in Lebanon.

Historically, LLC was responsible for marketing Lecico's products in the Middle East, while Egypt was responsible for Europe and Africa. This situation has not remained advantageous to either side, as Lebanon's operating costs have increased and capacity in Egypt has become available at very low marginal cost. As a consequence, management has decided to switch the main focus of LLC to the Lebanese market where prices are attractive and LLC is planning in the future to develop its presence in the higher market segments.

As the above table summarizes, although turnover has shown a reasonable improvement, net profit and EBITDA figures are vulnerable to increase in operating cost –mainly energy cost-, in addition to raw material costs. In terms of debts, both the short and long terms debt has increased slightly as a result of the increase in the expansion in tile production.

II) Marketing & Distribution Segment:

Lecico UK (LUK):

LUK's Key Financials		
(GBPm)	2003	2002
Turnover	15.8	14.5
Net Profit	0.2	0.5
EBITDA	0.3	0.8
Short-Term Debt	0.2	0.1
Long-Term Debt	0.0	0.0

LUK is a wholly owned subsidiary based in England with a GBP 1mn paid in capital in year 2003. The company was established in 1987, to take over the marketing and distribution role of Lecico's products in England, France and South Africa through wholly owned subsidiaries. Historically, LUK used to have a subsidiary in South Africa "LSFA"; however, due to losses incurred, management decided to make this

subsidiary dormant and depends on an independent agency to undertake the marketing of Lecico's product in South Africa.

In year 2003, sales to Lecico plc "Lplc" and Lecico France "LFA" were 800,000 pieces, which is expected to reach 970,000 pieces by the end of current year (sales as of 1Q04: 330,000 pieces). According to management, the parent company has given plc permission to source products from other manufacturers, in order to meet the increase in demand.

Although, Lplc has reported a growth in terms of turnover and operating profit of GBP 11.14mn and GBP 0.62mn in FY03, as compared to GBP 9.18mn and GBP 0.59mn in the previous year, however, in light of the losses incurred by LFA, which was attributed to reduced margins, LUK's financial performance has been slightly affected.

III) Others:

Lecico for Financial Investments (LFI):

In November 2001, Lecico set up LFI to act as a holding company through which to hold all non-Egyptian companies in order to extend its tax shelter. Lecico retains a majority shareholding in LFI (99.5%), and its authorized and paid-in capital stands at EGP15mn and EGP1.5mn respectively. This company has not yet made any investments.

TGF for Consultant & Trading:

TGF, established in 1992 and based in Borg El Arab industrial area, was launched to import raw materials as well as complementary products needed for the manufacture of ceramic tiles and sanitary ware. The company's authorized and paid-in capital both stands at EGP250,000. This company is currently inactive.

During the last years, Lecico's expansion program has necessitated successive capital increases. The company's paid-in capital increased several times from 2,000,000 to EGP 84mn in December 2003. The increases were made through the capitalization of retained earnings. Although Lecico is listed in Cairo and Alexandria Stock Exchange "CASE", it is not actively traded. In 2003, management accomplished a share split, according to which, the par value of the share was dropped from EGP 1,000 per share to EGP 100 per share.

MERIS believes that the company is well-managed with an experienced and capable management team. Although, the company in nature is a family owned business, Mr. Gilbert Gargour's, involvement in the day – to- day management is modest; moreover the participation of other relatives is not foreseen in the near future. It is worth noting that the day-to-day management of the group is vested in the chairman and a team of senior executives that includes the Managing Director and three General Managers, who are responsible for manufacturing, finance, legal & administration, in addition to the plant managers. Also there are three executive committees namely, "Product Development Committee", "Quality Control Committee" and "Sanitary Production Committee", which contain senior management and technical expertise. The Board of Directors consists of 11 members, 3 representing the Gargour family, 3 representing Sanitec, the Managing Director and the General Manager for Manufacturing and three independents.

Appendix 2: Business Operation

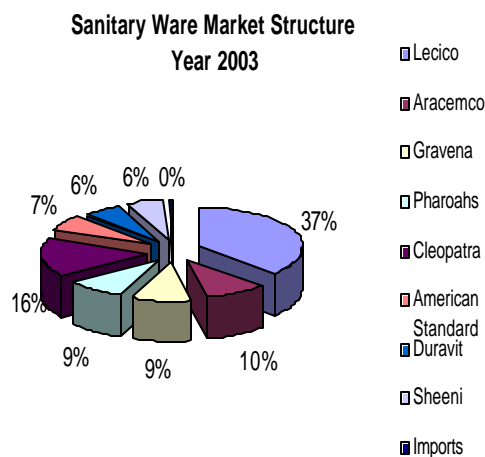
At present Lecico Group operates two manufacturing facilities based in Cairo namely; Khorshid and Borg El Arab.

	Khorshid	Borg El Arab
Background & Location	Established in 1975, in Alexandria, spanning 150,000 m ²	Launched in 1997, in Borg El Arab, over 200,000 m ² .
Type of Production	<p>Manufactures both ceramic tiles and sanitary ware. In the sanitary ware section, there are seven fires; five of them are used for firing process, two for re-firing and the other for decorating process.</p> <p>In the ceramic tiles section the production process is through eight production facilities and eight fires. In addition to a new fire, which will be operational in October 2004.</p>	Focuses on the production of sanitary ware. Currently the plant maintains five fires, three of them for re-firing process.
Employee	Employs 2445 permanent staff, 11 of whom are foreign experts, which represented 13% of total salaries in FY03.	Employs 705 permanent staff, compared to 450 in year 2002.
Production Capacity	<p>The initial production capacity was 1,000 sanitary ware pieces per day, which jumped to 6,700 piece/day capitalizing on high quality service, efficient mobilization of resources and technical expertise.</p> <p>In year 2003, production capacity of sanitary ware was 1.8 mn piece, compared to 1.7 mn piece in 2002. This figure is anticipated to leap to 2mn pieces. While for the ceramic tiles, the production was 13.0 m² in 2003, which is projected to reach 16.0 m² by the end of the current year.</p>	The production volume in year 2003 was 1.3mn piece (YE02: 1.24 mn piece), it is anticipated to reach 1.8 mn piece by the end of 2004.
Operating Cost Analysis	<p>Raw materials accounts for around 65% of the production cost, while power & electricity and salaries comprise around 9% and 17% respectively.</p> <p>Around 80% of the raw materials are sourced mainly from England, Spain, Italy and Germany. Lecico maintains three months safety stock for imported raw materials and one month for the local inputs.</p>	As mentioned earlier, LFC is deemed to be only a production facility as all other activities have been taken over by Lecico as an operating company. As such the plant sources the required raw material through the same suppliers as the parent company.

Appendix 3: Market Environment

Demand for ceramic tiles and sanitary ware have been growing, in view of some improvement in general living standards, also the number of people moving into adulthood has grown which has translated into an increase in demand for new buildings.

The market is heavily dependent on the strength of the construction sector and overall economic conditions. Between 1995 and 1998 the construction sector has been booming, which had positive impact on the bath market. Going forward, the construction sector has shown a number of problems represented in saturation in the sector and the fact that the government stopped paying the construction companies, thus, it was anticipated that the market will shrink. Nevertheless, the market has continued growing as a result of the devaluation of the EGP and the increase in export sales. In our view this export growth will persist in the future and, as the government launched a new payment scheme for construction companies' payables, local demand should also increase.



Sanitary ware Business:

Despite the fact that the domestic sanitary ware market in 2003 has shown a slight decline estimated at 4.47mn piece (compared to 4.6mn piece in 2002), the overall industry has grown rapidly over the last years, as a result of the increase in domestic demand and the increase in export sales. The total production is expected to reach 5.0mn pieces by year 2006. On the other hand, imports accounts for an insignificant share in the market, around 20k piece in 2003, mainly from Italy and Spain.

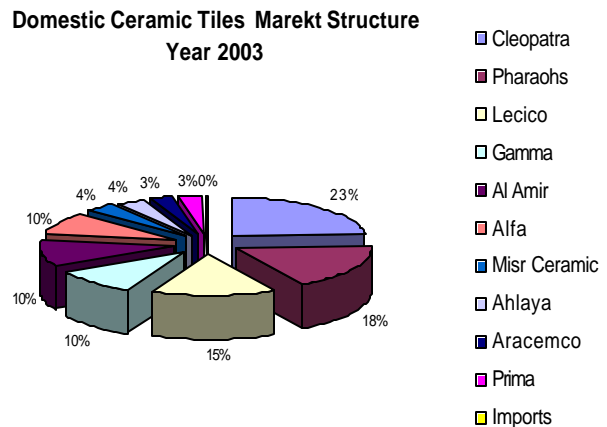
As the graph illustrates, Lecico is deemed to be the domestic market leader, with around 37% market share. The second and third closest followers are "Aracemco" and "Gravena" and their shares fall far

below Lecico. According to management, Lecico will preserve the leading position in the domestic market in the future. In terms of end user niche, the domestic market is divided into three brackets low, middle and high accounting for 35%, 41% and 24%, respectively. It is of note that Lecico focuses primarily on the middle and lower segment.

Ceramic Tiles Business:

The ceramic tiles business in Egypt has been growing during the last 10 years, due to wide spreading usage of tiles and the popularity of the material, in addition to the availability of raw materials in the local market. As such, the industry reported remarkable growth rates in 2002 and 2003 (7.9% and 15.7% respectively). In 2003, the tiles markets estimated at EGP 1.24 bn corresponded to 78.7 million m², 50 million m² of which is consumed locally, while the balance is exported.

As the graph details, Lecico is considered the third player following Cleopatra and Pharoahs.



Financial Summary – Lecico Egypt Group S.A.E. (Lecico)

(EGP m)

31/12/200331/12/200231/12/2001**Income Statement**

Turnover	559.0	381.7	280.2
Growth Profit Margin (%)	40.0	39.0	33.0
EBITDA	141.6	104.3	50.0
EBIT	163.3	124.0	n.a
Interest Incurred	3.9	2.8	2.8
Net Income	89.3	45.5	20.7

Balance Sheet

Cash and Equivalents	140.6	85.2	93.0
Total Assets	873.8	691.7	666.2
Short-Term Debt	250.9	202.8	180.6
Long-Term Debt	91.6	77.7	71.3
Total Debt	342.5	280.6	251.9
Common Equity	84.0	70.0	60.0
Net Worth	303.4	221.5	186.9

Profitability Ratios

Return on Assets (%)	11.0	7.2	3.4
Return on Equity (%)	31.8	22.4	12.3
EBITDA Margin (%)	25.0	27.0	18.0
Net Profit Margin (%)	16.0	11.9	7.4

Liquidity Ratio

Cash & Cash Equivalent/Total Assets (%)	16.0	12.0	14.0
Cash & Cash Equivalent/C. Liabilities (%)	31.0	23.0	27.0

Coverage Ratios

EBITDA/Interest Expense (x)	4.0	3.5	2.2
Net Debt/EBITDA	1.4	1.9	3.2
Net Debt/Equity (x)	66.6	88.2	85.0