MERIS
Middle East Rating & Investors Service

Corporate
Credit Analysis
December 2006

This Analysis provides a discussion of the factors underpinning the credit rating

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

Ratings and Contacts

Category	Current Rating	Previous Rating
Senior Unsecured	**A -**	**A -**
Outlook	**Stable**	**Stable**

Analyst	Phone
Marwa Ezzat Osman – Cairo marwa.ezzat@merisratings.com	+202 749 5616
Yasser ElKholy– Cairo yelkholy@merisratings.com	+202 749 5616

Operating Statistics:

Figures in EGP mn	FY06*	FY05	FY04	FY03
AROA (%)	5.5	7.2	14.3	12.2
AROE (%)	11.7	12.6	27.1	33.2
EBIT Margin (%)	18.9	21.4	26.9	19.3
EBITDA Margin (%)	24.6	27.2	30.7	22.1

* Projected Figures

Balance Sheet Statistics:

Figures in EGP mn	FY06*	FY05	FY04	FY03
Turnover	702.5	652.4	696.8	559.3
Total Assets	1,596.8	1,364.6	1,102.4	798.0
Gross Debt/EBITDA *(x)*	5.6	2.8	1.1	2.8
EBIT/Interest *(x)*	2.6	4.3	4.8	3.0

* Projected Figures

Strengths/Opportunities

- Leading position in the domestic market, with strong presence in Middle East and Europe, particularly in sanitary ware business.
- Long track record with a solid reputation and a well-known brand.
- Wide geographical diversification, along with strong distribution network.
- Strong management team, with significant experience in the industry.
- A comprehensive reorganization plan, along with a well designed expansion plan.

Weaknesses/Challenges

- A number of external factors impose challenges over the group's performance.
- Currency fluctuation may have an adverse impact on export sales.
- Expansion plans may lead to an increase in debt ratios.
- High dividends payout ratio, albeit in an expansion mode.
- Exposed to potential political and macro economic cycle in different countries.

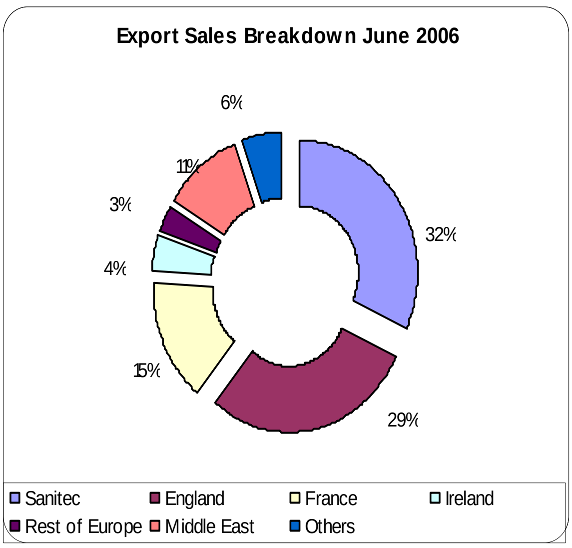
Company Fundamentals and Management Strategy

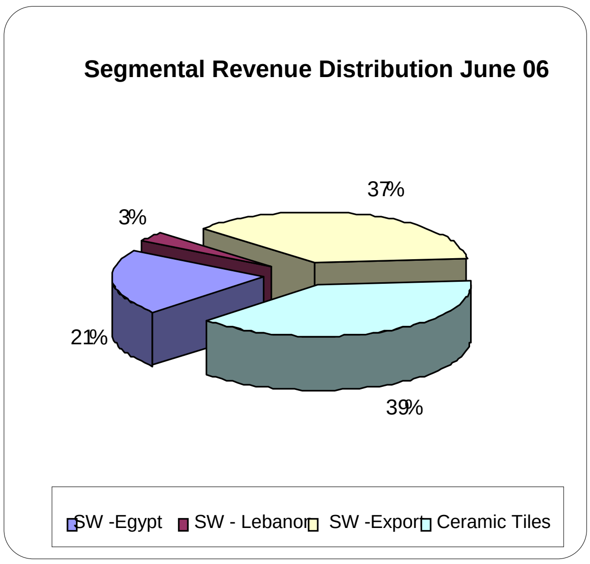
Lecico Egypt S.A.E. Group (Lecico) dates back to 1975, when the company was initially founded in Alexandria, Egypt. In 1997, the Gargour family entered into a 50/50 joint venture with Sanitec Ltd OY ("Sanitec"), a prominent manufacturer of sanitary ware in Europe. As a result of a GDR offering in 2004, the current shareholders structure is as follows: Gargour family retains control through a 32% stake, while Sanitec owns 15%, in addition to the free float that accounts for the remaining balance. The group is listed on "Cairo & Alex Stock Exchange" and "London Stock Exchange", but is not actively traded.

Lecico is a leading producer of sanitary ware and ceramic tiles in Egypt, with a strong presence in international markets as well. The group core business entails the manufacturing of these products under Lecico brand name, in addition to the distribution activities. Currently, Lecico operates three production facilities with a designed capacity of 5.0mn pcs for sanitary ware and 18.0mn sqm for tiles in FY05. This is in addition to new capacities of 2.0mn pcs and 4.4mn sqm of sanitary ware and ceramic tiles, respectively, which will become operational during 2007. The Egypt-based facilities account for around 90% and 95% of the group's sanitary ware and ceramic tiles total capacities. On the other hand, the sanitary ware segment is the main contributor to consolidated revenue, reporting approx 60% as of September 2006.

The group's growth strategy focuses on expanding its production capacity; building leadership positions in both the local and export markets; gaining exposure to new opportunities; and reinvesting in people, in order to be the low-cost market leader. In line with that, the group has expanded aggressively over the last seven years, with more expansion plans in progress. It is foreseen that the company will succeed in increasing its sanitary ware capacity by approx two million pieces by year 2007.

Due to its high quality service, technical expertise, and efficient mobilization of resources, the company has been able to establish a strong presence in highly competitive markets. Hence, it succeeded in exporting to more than 55 countries around the world. As such, its sanitary ware and ceramic tiles export sales accounted for around 60% of sanitary ware sales and 22% of ceramic tiles sales in September 2006. In our view, this figure is anticipated to grow in the short to medium term, following the completion of the undergoing expansion plan. In June 2006, more than 75% of the combined export sales were directed to Sanitec, Europe and France. Notwithstanding the fact that Lecico has successfully entered in 2006 the more competitive DIY "Do It Yourself" business in the UK, which in nature is relatively lower than traditional international prices, the prices in international markets remain significantly higher than in Egypt, which ultimately translates into substantially higher profitability for Lecico's export sales. At the same time Lecico aims to improve the market share in existing markets and to catch more presence in other markets, such as the Middle East and other regions in Europe.





Key Rating Considerations:

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

The group had an estimated market share in Egypt of 38% and 17% for sanitary ware and ceramic tiles, respectively, in 2005, which is anticipated to remain stable in 2007, backed by an increase in the production capacity. According to management, the group will maintain a dominant position in its home markets while increasing its presence in 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 processes. Lecico has good accessibility to export markets through a well-located distribution network (i.e. subsidiaries and third parties) and competitive pricing. In the meantime, in terms of targeted market niche, Lecico Group will persist in targeting the middle and lower end, in light of the fact that the company is a market leader in these areas. However, the company plans to gradually increase its sales in the upper end bracket. As part of this strategy, management has accomplished the Sarreguemines transaction – which we will discuss later in more detail. This transaction will give Lecico ample room to capitalize on Sarreguemines' brand name, existing facilities and commercial base, which caters mainly to the upper to medium market segments. At the same time, Lecico manufactures on behalf of well-known producers in the sanitary ware field.

Management has Undertaken a Number of Corporate Initiatives, Which Are Anticipated to Reflect Positively on the Overall Performance

In a stepping stone towards its objective of strengthening the group's presence in the international market and enhancing vertical and horizontal integration, over the last years, management has undertaken a comprehensive reform plan. Going forward, management has revisited its growth plan to focus also on improving the corporate and organizational structure, in addition to investing in processes. These initiatives have covered different aspects, mainly:

……….. New Establishments and Acquisitions to Ensure Better Synergies among the Group

Since establishment, the company has reported significant organic growth both in production capacities and investments. It is worth mentioning that, although Lecico is not structured as a holding company, it acts as an operating and parent company for the group. At present, Lecico has investments spread over six countries in 14 subsidiaries/sub-subsidiaries, where its ownership interests range from 70% to 100%. Five of these subsidiaries are production facilities of which three are in Egypt; five are engaged in distribution, while the rest conduct different activities or are considered inactive/dormant subsidiaries.

The manufacturing segment is the most important segment for the group. It concentrates on manufacturing of sanitary ware and ceramic tiles. Lecico group's manufacturing companies encompass Lecico Egypt as an operating company under the name of (Lecico-Khorshid), Lecico for Ceramics Industries (LFC) and the Lebanese Ceramic Industries (LLC). This is in addition to the European Ceramics Company (ECC), a sanitary ware greenfield investment with a production capacity of 2mn pcs per annum. The company was founded in mid 2004 and is anticipated to start operation in early 2007. With regard to the distribution division, it incorporates: Lecico UK (LUK) with subdivisions in three different countries, Lecico Algeria Co (LAG), in addition to El Sharaf for Ceramics Co. (El Sharaf) located in Egypt.

Organic growth was strong over the last two years, which was reflected into many changes in the group's structure (Refer to the chart in annex 1).

- First it has established financial investment company, Lecico Investment company (LIC), a fully-owned subsidiary based in UK market with USD 6 mn paid-in capital. The main purpose of this entity is to invest a portion of the IPO proceeds, through outsourced fund managers.
- In an action to build direct access to customers - through its own distribution channels and warehousing facilities - Lecico has established El Sharaf for Ceramics Co. (El Sharaf) through a joint venture agreement with one of its partners. Meanwhile, it established LAG through its Lebanese based subsidiary. LAG commenced operation in 2006 to handle the group's distribution activities in North Africa. According to management, the temporary closure of LLC during 2006 as a result of the Lebanese political situation will not affect LAG's business operations; taking into account that the latter subsidiary will depend partially on the Egyptian facilities to source its needs. Currently, the company is studying the feasibility of entering into

other partnerships with foreign/local distributors, in order to reinforce its presence in the local and export market.

- Also, the company formed the International Ceramic Company (ICC) in Borg El Arab City, to be used as a centralized warehouse for the company's export products in the initial stage and later on to include expansion in manufacturing facilities. ICC will be located at Borg El Arab industrial area and will share some facilities and services with LFC and ECC to save cost.
- Finally, in October 2006, Lecico acquired the assets of a French based company Sarreguemines against Euro 1.5mn. The transaction has been accomplished through Lecico France (LFA). According to management, this takeover transaction will be a challenging and important step to expand the group's brand and footprint in Europe. Meanwhile, Lecico will capitalize on Sarreguemines facilities in higher value fine fireclay products that are typically large pieces (i.e. shower trays and kitchen sinks) to expand the group's portfolio. Lecico already produces on average 60,000 pcs per annum of fire clay products. As per management assumptions, this facility will add a manufacturing capacity of approx. 100,000 pcs per annum.

In **MERIS** view, the latest acquisition/establishment transactions will add to the group's synergies in the future; however, we believe that management should continue to focus more on its core business and to reconsider the activities of the inactive facilities, in order to ease the complexity of the group/corporate structure and to relieve the complexity of logistics transactions.

……. Amendments in the Organization Structure and Human Resources to Cope with the Rapid Growth

Although the company in nature is a family-owned business, Mr. Gilbert Gargour's involvement in the day-to-day management is modest. Overall, there are no major changes in the day-to-day management since our review last year; nonetheless, management has undertaken a number of actions to gear the organization to become more institutionalized. Historically, the daily operation was vested in the chairman and a team of senior executives that includes the Managing Director and General Managers, who were responsible for manufacturing, finance, legal and administration, in addition to the plant managers. Moreover, there are a number of executive committees namely, "Product Development Committee", "Quality Control Committee" and "Sanitary Ware Production Committee", which comprise senior management and technical experts. In 2006, the company has formed another three committees in an action to closely monitor the business and improve the overall efficiency; namely "Audit Committee", "Treasury & Debt Management Committee" and the "Credit Control Unit Committee" which focus on monitoring the inventory transactions and collection cycle. The Board of Directors consists of ten members, three representing Gargour's family, two representing Sanitec, the Managing Director, the General Manager for Manufacturing and three independent members. Furthermore, management has hired new calibers/ senior managers mainly in the sales, production and finance areas with a long track record in the industry in general, or particularly within Lecico group. **MERIS** believes that the company is well-managed with an experienced and capable management team, and anticipates that the abovementioned changes will have a positive impact on the group performance in the short to medium term.

In 2006 management has introduced a development scheme, focusing mainly on processes in order to enhance efficiency – through improving response and service level - and control cost. This program will cover three areas:

- The introduction of "Total Quality Management", a technology which focuses on customer service satisfaction, through imposing the concept of "Right First Time". As such, they started to train Lecico's production staff. From management point of view, this philosophy will take time and effort to be fully implemented; nonetheless, it will have long term benefits.
- IT Investments: this project entails rolling out a system to integrate and centralize the production management, business control and finance departments. The in-house generated program will cost approx. EGP 600,000 and will be fully implemented by end of 2007. With equal note, Lecico is also upgrading the existing computers infrastructure and the storage system.
- Lecico has proposed training programs to employees covering different areas. The training budget is projected to be around EGP 250,000 to be expensed by the end of 2007.

We believe that the above mentioned initiatives will be reflected positively on the overall performance and will empower the group's logistics system and team to match with the undergoing growth mode.

………. Well Designed Expansion Plan, which Has Started to Reap Benefits

As we highlighted earlier, Lecico has been expanding rapidly over the last years, covering all its core business segments. As of June 2006, the sanitary ware capacity stood at approx 2.2mn pcs (FY05: 4.0mn pcs), a figure which is anticipated to reach more than 6.5mn pcs by the end of 2007, following the completion of the expansion plan. It is worth mentioning that ECC will commence operation in the first quarter of 2007 with completion projected towards the end of 2007. The bulk of the new production will be directed to export markets.

As for the ceramic tiles, Lecico is in the process of adding 4.4mn sqm through Khorshid plant to increase the group's production capacity to 22.5mn sqm in year 2007, compared to 18.1mn sqm in 2005. The investment cost of the new addition is equivalent to EGP 40mn, financed from internal resources. As of June 2006, actual production of tiles was 9.3mn sqm, more than 95% of which was produced through Egyptian-based facilities. Tile export sales as a percentage of total ceramic tiles sales have increased to more than 22% in September 2006 (up from 17% in FY05). It is of note that the significant improvement in tile business has offset to a certain extent the decline in margins of the sanitary ware segment. With regard to the frit plant, currently there are three operational kilns, producing about 36 tons per day. According to management, the remaining two kilns will be on stream by mid 2007 to take total capacity to 60 tons per day. The whole project investment cost is US$ 5.5 mn, financed through internal resources and will save around US$ 3.5mn annually when fully operational from the group's imported raw materials. The first phase started operation in June 2005. A further sum of around EGP 10 mn will be invested over the coming year. This investment will cover most of the group's needs. In **MERIS** view, this investment will have a positive impact on the group's cost structure and accordingly its financial performance.

A Number of Factors Impose Challenges for the Group's Operations

The group's overall performance boomed in 2004, mainly benefiting from the weaker EGP exchange rate which supported the export business. Since then there have been many challenges which put pressures on the group's overall performance. For instance, the appreciation of the Egyptian pound, has negatively affected export proceeds, coupled by the slowdown which the group has faced in major export markets, mainly the traditional sanitary ware market in UK. This is in addition to the temporarily closure of LLC, due to the military conflicts in Lebanon. Although management has projected that this closure will cost the group approx. EGP 3.2mn/per month, the company has succeeded in mitigating this loss in the third quarter of 2006, through increasing export sales capitalizing on existing stocks. On the other hand, the two main shareholders (Gargour Family and Sanitec) have decided to reduce the management fee for the Egyptian subsidiaries by 25% (to be 1.6% instead of 2%), in addition to waiving, on a temporary basis, the management fee for LLC for both of 2005 and 2006.

With regard to the European market, sales recovery has begun to take roots, benefiting from the DIY business, as it absorbed – to a certain extent – the slowdown in the traditional sanitary ware business. As of June 2006, DIY sales stand at 300,000pcs and is expected to increase to 500 thousand pcs. With equal note, DIY business is considered one of the reasons for the decline in profitability margins, taking into account its relatively lower prices compared to average export selling prices. The Egyptian government announced recently a 25% increase in natural gas and energy cost. The energy cost accounts for around 10% of the consolidated cost of sales; the implication of this notable increase will indirectly affect other components of operating cost, consequentially, putting more pressure on margins. In response, management has announced a price increase in the local market, to pass on part of the record run-up in input costs. On the export front, it is not foreseen to adjust the selling prices. Going forward, we assume the operation of the frit plant will partially relieve these pressures imposed on margins. With equal note, Lecico began a sales push aimed at targeting new markets and increasing sales in existing markets. The company also continues the strong marketing campaign which was launched in the previous year in the local market as part of a comprehensive effort to enhance its brand image. Although the outlook for the coming year is still unclear, **MERIS** believes that the group is most likely to overcome these challenges in the foreseeable future based on previous experience with management.

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

In early 2006 the company has renewed the sourcing agreement which was signed earlier in 2003 with Sanitec (one of the group's main shareholders). This agreement was in line with Sanitec's policy to outsource its goods from relatively cheaper manufacturers. Under this agreement, both parties have the right to terminate this agreement after the end of 2006, after giving six months notice. In the event of termination, Sanitec's purchase obligations would be gradually reduced by 50% and 75% in the first year and second year, respectively following the notice of termination..

Lecico provided Sanitec with approx. 600,000pcs in 2005 (as of June 06: 400,000 pcs), which represent around 30% of export sales. Management anticipates an increase in the level of volumes supplied to Sanitec to approximately 800,000 pcs for the full year 2006.

Highly Exposed to Construction Sector Volatility; Nonetheless, the Geographical Spread Helps Stabilizing the Group Performance

The group's activities are linked to the cyclicality of the construction sector; its broad geographical mix has mitigated the effect of this threat. The macroeconomic conditions have improved in Egypt over the last two years. Moreover, the recovery in the real estate sector as a result of the injection of cash flow in green field investments (for example, EMMAR Projects, San Stefano, Porto Marina …etc) and the implementation of the mortgage law, has its positive impact on the overall business climate. Nonetheless, the recent increase in energy prices obviously will drive the inflation rate to higher trends; accordingly, it will constrain the consumers' purchase power.

Financial Analysis:

Another Tough Year For the Group

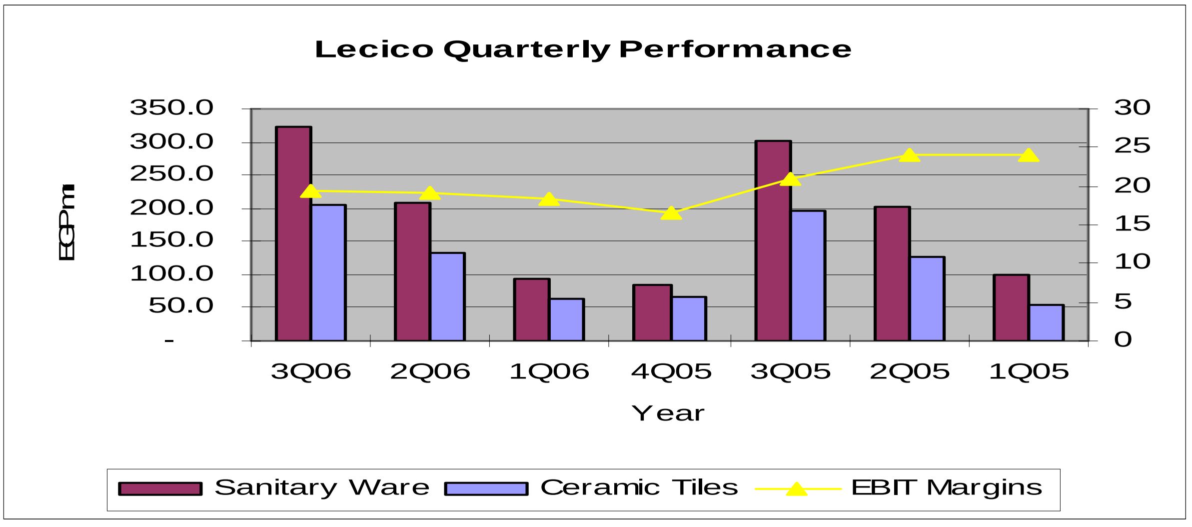
Over the last two years, the group's financial performance measured by turnover and EBITDA has shown negative growth rates due to a number of factors: the slowdown in demand in the traditional UK market, challenges in the Lebanese market, coupled by the appreciation of the Egyptian pound, which negatively affected export proceeds.

Revenue & Profitability

Figures in EGP mn	3Q06	FY05	FY04	FY03
Revenue	526.9	652.4	696.8	559.3
Revenue Growth (%)	(2.4)*	(6.0)	25.0	46.0
EBIT	99.8	139.7	187.6	107.8
EBITDA	129.8	177.4	213.9	123.6
EBITDA Margin (%)	24.6	27.2	30.7	22.1
EBIT Margin (%)	18.9	21.4	26.9	19.3
Interest Expense	(38.4)	(32.5)	(39.2)	(35.4)
Interest Income	17.3	16.0	4.0	3.9
Net Income	61.1	89.0	136.1	87.6
Net Income Margin (%)	11.6	13.6	19.5	15.7

* Y- o -Y basis

As the below graph illustrates, the third quarter has shown some signs of recovery on a quarter-to-quarter basis, especially in both the local and export sales. Despite the fact that year 2006 is projected to be another tough year for Lecico, the overall performance is foreseen to be relieved – to some extent – beginning next year, backed by a number of initiatives which management has undertaken, namely; amending/reviewing the sales and distribution strategy, targeting new export markets, an ambitious expansion plan, in addition to re-engineering the group's corporate and organizational structure, which is anticipated to be reflected positively on the efficiency and yields.



On the other hand, margins have been narrowed by the increase in cost of production (FY04: EGP 55/piece, FY05: EGP 58.2/piece, 3Q06: EGP 56.7/piece), coupled by the decline in sanitary ware selling prices, part of which was associated with the negative effect of the appreciation of the local currency. This is in combination with the shift in the sales mix towards tiles segment with lower profitability margins, in addition to the reposition in sanitary ware export sales toward the DIY business, with relatively lower margins, as well. However, as mentioned earlier, the frit plant which started operation in June 2005, and is anticipated to reach total capacity by mid 2007, will have a positive impact on the operating cost and accordingly profitability margin. This will mitigate to a certain extent the pressure imposed on profitability margins and the harmful implication of the increase in energy cost. As per management assumptions, EBITDA margins will be maintained within the 20's range.

Sanitary Ware is Considered a Key Driver for the Group's Growth

Despite the fact that the sanitary ware segment is the group's growth driver, it has shown some fluctuation over the last two years, due to the slowdown in Lecico's main export markets, the UK. According to management, sanitary ware will continue to be the group's focal driver, capitalizing on its broader profitability margin compared to tiles. Although these margins have moved slightly towards the tiles business during the last two years, the sanitary ware segment remained stronger (40% compared to 30%).

On the net income side, figures show a notable drop in FY05, reporting negative growth rates by approx. 35%, driven by EGP 20.1mn, one-off FX losses as a result of the Egyptian pound appreciation against the group's principal foreign currency holdings, particularly US$ holdings, associated with the GDRs proceeds. Going forward, **MERIS** anticipates that the bottom line will continue its downturn in FY06, which was attributable to the factors highlighted earlier, coupled with the increase in interest expenses.

Cash Flow & Coverages

Figures in EGP mn	3Q06	FY05	FY04	FY03
EBITDA	129.8	177.4	213.9	123.6
Chan. in Working Capital	(165.6)	(161.7)	(56.6)	(92.7)
Tax	(13.4)	(7.0)	(10.9)	(3.3)
Interest Paid	(38.4)	(32.5)	(39.2)	(35.4)
CAPEX	(111.7)	(166.3)	(121.7)	(46.5)
Dividends Paid	(65.3)	(65.8)	(48.1)	(8.7)
Net Free Cash Flow	(264.6)	(256.0)	(62.6)	(63.0)
Retained Cash Flow	99.5	120.7	169.3	91.3
Revenue/Capex (X)	4.7	3.9	5.7	12.0
Cash & C. Equivalent /STD (%)	37.4	58.8	189.1	56.6
EBITDA / Interest Exp. (*X*)	3.4	5.5	5.5	3.5
Dividend Payout Ratio (*%*)	73.0	48.0	55.0	20.0

Challenges Imposed on the Group's Cash Generating Ability

As we discussed earlier, EBITDA figures have dropped over the last two years. The company was unable to produce positive free cash flow over the last years, as a result of the very high dividends payout policy and the aggressive expansion plan. On the contrary, capex will start trending downward by the beginning of 2007 following the inauguration of Borg 3 & 4. Another element which adversely hampered the group's cash flow was the negative changes in working capital. It is worth mentioning that management is cognizant of the need to closely control its working capital, as such, it has recently established a "Credit Control Unit" to closely monitor the inventory and receivables. **MERIS** considers this as a positive step, although the time is still too short (two months) to test the success of this committee.

In terms of coverage ratios, EBITDA to interest expenses ratio, although it has been squeezed in 3Q06, due to the drop EBITDA figures and the increase in interest expenses, it remained healthy.

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

Around 80% of the combined raw material (approx in 3Q06: EGP 107mn, FY05: EGP 96mn) is imported, in addition to other expenses including interest expense, management fees and experts' salaries which in the aggregate are around US$ 8mn annually. Nonetheless, Lecico has never experienced any shortage of foreign exchange resources, thanks to export sales (1H06: EGP 147 mn, FY05: EGP 247 mn), which are considered sufficient to cover the company's foreign currency obligations. In **MERIS** view, the recent appreciation in local currency has had an adverse impact on export returns.

Dividend Policy:

Historically, Lecico had an aggressive dividend policy, distributing profit after deducting legal and statutory reserves, even in periods of lower earnings growth. Payout ratios have been in 50's% to 70's% range for the last three year. Management aims to maintain the same policy in the near future.

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

Financial Leverage

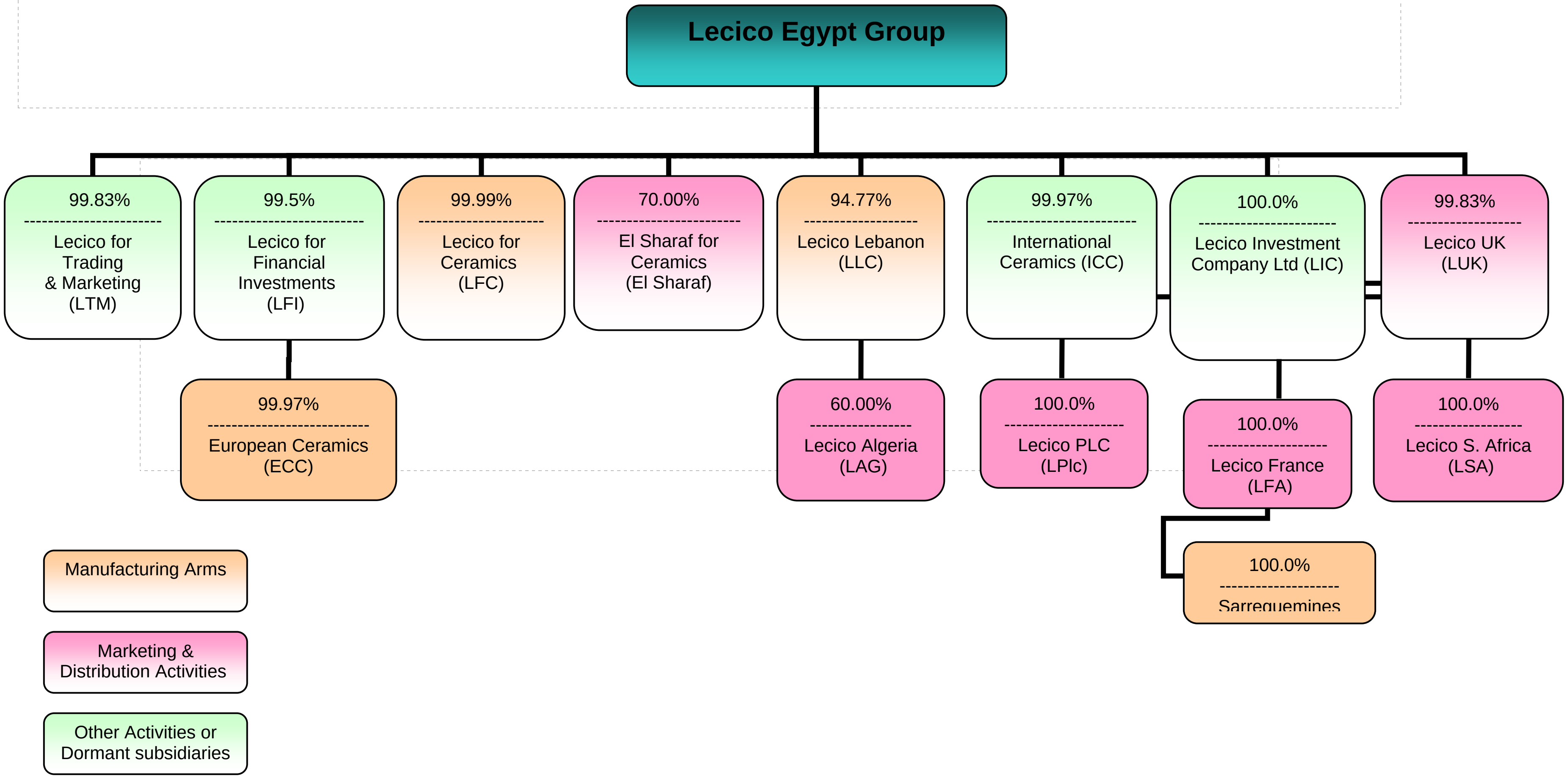
Figures in EGP mn	3Q06	FY05	FY04	FY03
Short-term Debt	574.1	441.3	139.7	248.4
Long-term Debt	141.2	49.1	83.3	83.8
Other Financial Obligations	15.0	13.5	16.9	15.7
Total Financial Debt	730.3	503.9	239.9	347.9
Cash and Cash Equivalents	(214.7)	(259.6)	(264.2)	(140.6)
Net Financial Debt	515.6	244.3	(24.3)	207.3
Net Worth	675.4	716.0	700.7	303.9
Gross Debt /EBITDA (*X*)	5.6	2.8	1.1	2.8
Adjusted Debt / Adj. Capitalization *(%)*	51.6	41.0	25.3	51.4
FFO/ Interest Expense *(x)*	3.0	4.1	4.0	4.1

The group's debt structure has increased dramatically during year 2006, on both the long and short term fronts. With regard to the short term debt, it represents more than 75% of the debt profile as of September 06, the majority of which was bank overdrafts (EGP 521mn out of EGP 580mn). According to management, this jump in overdrafts is a temporary phase, taking into consideration that part of this increase is associated with the trading cycle. In other words, this trend will reverse – to a certain extent – to its normal levels by the end of the period, following collections received from the DIY business, which will come shortly.

At the same time, long tern debts have also increased, backed by the US$ 13mn loan, which was taken from the IFC and CIB to cover the expansion plan. The eight-year loan (including a two year grace period), carries 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 (ECC). 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. In light of management strategy to better manage the group's resources and reduce cost of debts – through the "Treasury & Debt Committee" - management has undertaken three new loans. These debts were sourced from the CIB to replace existing short term debts and overdrafts by a medium term debt. The debts in combined are equivalent to US$ 11mn. As of September 2006, the company is in compliance with the above mentioned covenants. It is worth mentioning that, 65% of the long term debt will mature over the coming three years, while the remaining amount will be extended till year 2012. With equal note, more than 88% of the group's long term debts are undertaken on the parents' company level, while remaining bank obligation is related to LLC. According to management none of subsidiaries debts have recourse to the parent company.

As the above table illustrates, the groups' leverage measured by gross debt/EBITDA and adjusted debt to capitalization, has reported downturn; nonetheless, it has been maintained healthy. In other words, the deterioration in Lecico's credit metrics, is not yet material enough to justify a change in the rating grade

Annex 1: Background and Group Structure



Annex 2: Financial Summary – Lecico Egypt Group S.A.E. (Lecico)

(EGP mn)	30/9/2006	31/12/2005	31/12/2004	31/12/2003
Income Statement				
Turnover	526.9	652.4	696.8	559.3
Gross Profit Margin (%)	35.4	37.2	43.1	39.7
EBITDA	129.8	177.4	213.9	123.4
EBIT	99.8	139.7	187.7	107.8
Interest Income	17.3	16.0	4.0	3.9
Net Income	61.1	89.0	136.1	87.6
Balance Sheet				
Cash and Equivalents	214.7	259.6	264.2	140.6
Total Assets	1,596.8	1,364.6	1,102.4	798.0
Short-Term Bank Debt	574.1	441.3	139.7	248.4
Long-Term Bank Debt	141.2	49.1	83.3	83.8
Other Financial Obligations	15.0	13.5	16.9	15.7
Total Debt	730.4	503.9	239.9	347.9
Common Equity	100.0	100.0	100.0	84.0
Net Worth	675.4	716.0	700.7	303.9
Profitability Ratios				
Average Return on Assets (%)	4.1	7.2	14.3	12.2
Average Return on Equity (%)	8.8	12.6	27.1	33.2
EBIT Margin (%)	18.9	21.4	26.9	19.3
Net Profit Margin (%)	11.6	13.6	19.5	15.7
Liquidity Ratio				
Cash & Equivalents / Total Assets (%)	13.4	19.0	24.0	17.6
Cash & Equivalents / Short T. Debt (%)	37.4	58.8	189.1	56.6
Coverage Ratios				
EBITDA/Interest Expense (x)	3.4	5.5	5.5	3.5
Net Debt/EBITDA (x)	4.0	1.4	(0.1)	1.7
Net Debt/Equity (%)	76.3	34.1	(3.5)	68.2

Annex 3: Rating Scale

Quality of credit	Long	Short	
Gilt edged	AAA		
Very high	AA+ AA AA-	Prime 1	
Upper-medium	A+ A A-	Prime 2	Investment Grade
Medium grade	BBB+ BBB BBB-	Prime 3	
Questionable	BB+ BB BB-		
Poor quality	B+ B B-	Not Prime	Speculative Grade
Very poor	CCC+ CCC CCC- CC C		