



First Quarter 2005 Results

Alexandria, 15 May, 2005 – Lecico Egypt (Stock symbols: LECIq.L; LECI LI; LCSW.CA; LECI EY) announces its consolidated results for the first quarter of 2005.

Highlights

- Sanitary ware revenue down 12% to LE 98.1 million, as weak demand in main markets reduced sales volumes 11% to 0.94 million pieces (63.2% exports)
- Tile revenues up 18% to LE 54.5 million, partially driven by a 7% growth in volumes to 3.77 million square meters
- Lecico revenues down 3% to LE 152.7 million (64.3% from sanitary ware)
- EBIT up 1% to LE 36.7 million, margin up 1.1 percentage points to 24.0%
- One off FX revaluation loss pushes net profit down 39% to LE 16.5 million, margin down 6.5 percentage points to 10.8%
- Excluding FX revaluation loss, recurring net profit is up 9.4% to LE 29.9 million, margin up 2.3 percentage points to 19.6%

Lecico Egypt Chairman and CEO, Gilbert Gargour, commented: “This is a creditable performance in a difficult period. Sales have been maintained in a quarter during which we suffered slowdowns in our major markets brought about by economic uncertainties in the UK and Egypt and political upheaval in Lebanon. Our profitability has improved and were it not for the exceptional FX loss, the bottom line would have shown growth of just below 10% year-on-year.

Preliminary data for April and May suggest demand in Egypt and Lebanon is recovering. In the UK the market remains slow but the end of product shortage gives us an opportunity to go after new customers and new markets. We continue to work hard on all fronts to increase market share and generate new business which, combined with the start up our frit plant and new sanitary ware kiln, should drive good growth this year and next as we bring in the new capacity of Borg El Arab.”

Elie Baroudi, Lecico Egypt MD, added, “The impact of softness in demand was visible in sanitary ware sales, but strong growth in tile revenues kept total sales stable. We were able to offset the small drop in top line with operating margin growth primarily by reducing the transport and warehousing costs of our exports. We view this year as a period of consolidation that will allow us to accelerate efforts in sales and marketing and bring forward plans to introduce new products.”

Lecico Revenue and Profitability

Profit and loss statement highlights			
(LE m)	1Q		%
	2005	2004	
Sanitary ware	98.1	111.6	88%
Tiles	54.5	46.1	118%
Net sales	152.7	157.7	97%
Sanitary ware/net sales (%)	64.3%	70.8%	(6.5%)
Cost of sales	(89.4)	(93.1)	96%
Cost of sales/net sales (%)	(58.6%)	(59.0%)	99%
Gross profit	63.3	64.6	98%
Gross profit margin (%)	41.4%	41.0%	0.5%
Distribution and administration (D&A)	(27.0)	(29.4)	92%
D&A/net sales (%)	(17.7%)	(18.6%)	0.9%
Net other operating income	0.5	1.0	46%
Net other operating income/net sales (%)	0.3%	0.6%	(0.3%)
EBIT	36.7	36.2	101%
EBIT margin (%)	24.0%	23.0%	1.1%
Net profit	16.5	27.3	61%
Net profit margin (%)	10.8%	17.3%	(6.5%)

1Q 2005: Sluggish demand offset by improved margins, FX loss hits bottom line

Revenue fell 3% year-on-year in the first quarter to reach LE 152.7 million primarily on the back of weak sanitary ware demand in Egypt and the UK.

Gross profit for the quarter fell by 2% year-on-year to reach LE 63.3 million, with the drop in net sales partially offset by a 0.5 percentage points rise in gross margin to 41.4%.

Distribution and administration (D&A) expenses fell by LE 2.4 million to LE27.0 million, and proportionally by 0.9 percentage points to 17.7% of net sales for the quarter. Overall export distribution expenses fell with sales volumes, but Lecico also realised significant cost savings by switching to direct sales from Egypt to our largest customer in France.

Net other operating income fell by 54% year-on-year to LE 0.5 million from LE 1.0 million in the same period last year, largely because tariff draw-backs on raw materials were collected in April this year. The income from these draw-backs will be seen in the second quarter.

Operating (EBIT) profit for the quarter rose by 1% year-on-year to reach LE 36.7 million, with the EBIT margin rising by 1.1 percentage points to 24.0%.

Net financing expenses benefitted from an improved post-offering balance sheet, with higher interest income and lower interest expenses reducing net interest expense by 58% to LE 3.5 million.

However, the proceeds from the offering were also responsible for a one off LE 13.3 million foreign currency exchange difference expense as a result of restating the Egyptian pound value of those dollar proceeds following the appreciation of the pound.

Income tax provisions rose by 326% year-on-year to reach LE 3.3 million, an effective tax rate of 16.3%. However, the effective tax rate provisioned for in the quarter was inflated by the fact that the FX revaluation loss is not tax deductible and management expects to report a significantly lower effective tax rate in coming quarters.

Net profit for the quarter fell by 39% year-on-year to reach LE 16.5 million, with the net profit margin falling 6.5 percentage points to 10.8%. However, it is worth noting that if the foreign exchange revaluation loss were stripped out, Lecico would have reported 9.4% year-on-year growth in recurring net profits and an 2.3 percentage points growth in recurring net profit margins to 19.6%.

Segmental analysis

Sanitary ware

Sanitary ware segmental analysis			
(LE m)	1Q		%
	2005	2004	
Sanitary ware volumes (000 pcs)			
Egypt (000 pcs)	322	395	82%
Lebanon (000 pcs)	24	38	65%
Export (000 pcs)	596	626	95%
Total sanitary ware volumes (000 pcs)	943	1,059	89%
Exports/total sales volume (%)	63.2%	59.1%	4.1%
Sanitary ware revenue	98.1	111.6	88%
Average selling price (LE/pc)	104	105	99%
Average cost per piece (LE pc)	51.3	55.7	92%
Sanitary ware cost of sales	(48.4)	(59.0)	82%
Sanitary ware gross profit	49.7	52.6	94%
Sanitary ware gross profit margin (%)	50.7%	47.2%	3.5%

Sanitary ware sales volumes fell by 115,000 pieces or 11% year-on-year in the first quarter due to sluggish demand in the company's main markets, with most of the drop in volumes coming from Egypt and the UK. The drop in volumes in Lebanon, while the largest proportionally, had relatively little impact on sales volumes.

Average sanitary ware prices were stable, falling 1% year-on-year to LE 104 per piece. Average export prices were marginally weaker year-on-year, due the shift in sales from the UK to lower-priced markets, particularly in the Middle East and Africa. However, this drop was offset by price growth in Egypt.

Average sanitary ware gross margin improved by 3.5 percentage points year-on-year to reach 50.7%, marginally higher than the average for 2004. The improvement in margins came from switching to direct sales from Lecico Egypt to our largest French customer, which significantly reduced export warehousing and logistics costs.

Tiles

Tile segmental analysis			
(LE m)	1Q		%
	2005	2004	
Tile volumes (000 sqm)			
Egypt (000 sqm)	3,161	3,023	105%
Lebanon (000 sqm)	181	194	93%
Export (000 sqm)	428	305	140%
Total tile volumes (000 sqm)	3,770	3,521	107%
Exports/total sales volume (%)	11.4%	8.7%	2.7%
Tile revenue	54.5	46.1	118%
Average selling price (LE/sqm)	14	13	110%
Average cost per sqm (LE/sqm)	11	10	112%
Tile cost of sales	(41.0)	(34.1)	120%
Tile gross profit	13.5	12.0	113%
Tile gross profit margin (%)	24.8%	25.9%	(1.1%)

Tile sales volumes grew by 7% year-on-year in the first quarter to reach 3.77 million square meters as a result of added capacity from our new tile line, which was launched in the middle of last year. Average net prices rose 10% year-on-year to LE 14 per square meter, both as a result of greater exports and the price increases done over the course of the last year.

In the first quarter, the gross margin for Lecico's tile segment fell 1.1 percentage points year-on-year to reach 24.8%. The margins in the tile segment were squeezed by the impact of Egyptian pound strength on export margins and the slow-down in Lebanon. Management believes that tile margins should pick up over the rest of the year, particularly with the launch of the frit plant by the end of the second quarter.

Financial position

The value of Lecico's assets fell by 2% over the quarter to reach LE 1,082.5 million, with cash outflows going to reduce debt and payables and fund increases in inventory and receivables.

Total liabilities fell 8% to LE 365.1 million as payables and other non-interest earning liabilities fell 42% to LE 104.9 million. The slowdown in demand also put upward pressure on both inventory and receivables, each of which grew by 7% over the quarter. As a result of these changes, net working capital increased 14% to LE 304.5 million from LE 266.3 million at the end of 2004.

Recent developments and outlook

The rest of the year is likely to be shaped by Lecico's capacity expansion and capital investment programs, which should be the principal drivers of growth in revenue and profitability for the company, particularly in the second half of the year. Demand and sales volumes in most markets should recover, although the UK remains weak and it is impossible to predict the duration or severity of any demand slump.

Capacity expansion and capital investment: Production capacity in both sanitary ware and tiles is expected grow year-on-year over the rest of 2005. Already in the first quarter, we saw some of the benefit from last years tile expansion at Khorshid, which raised capacity 3.6 million square meters to 18.1 million square meters per annum and began production in early July 2004. Tile sales in the first quarter were above capacity for the same period in 2004 and production in the quarter was significantly higher.

Lecico is also planning to begin producing frit, the major imported raw material for tiles, by mid-2005. Indeed, the first trial runs on the frit plant are scheduled to commence within a few weeks of the publication of these results. When the frit plant is fully operational in 2006, it should generate significant cost reductions for the tile division.

Lecico is also adding a new kiln for sanitary ware; which should be operational by the end of June and boost capacity by 0.5 million pieces per annum to 5.1 million pieces.

The company is also be extremely busy preparing for the launch of two new sanitary ware lines in Borg El Arab in 2006. These expansions will increase annual capacity to 7.1 million pieces, which should satisfy the demand of existing clients and allow Lecico to target new clients and markets.

Slow demand in main markets: First quarter sales were negatively impacted by softness in demand in Lecico's three major markets: the UK; Egypt and Lebanon. In the UK we saw a weakness in demand start in the fourth quarter of last year. This may be the beginning of a cyclical slowdown, and the company is working hard to try and tap new

clients in the UK and grow market share more aggressively. Preliminary sales figures for April and May suggest demand in the UK market remains weak beyond the first quarter.

In Egypt, we believe the sluggish demand we seen in the first quarter will not be long lasting as the government is focused and committed to delivering to faster economic growth. Anecdotal evidence and preliminary sales figures for April and May suggest that demand is rapidly recovering in the second quarter.

The slowdown in Lebanon is the result of recent political upheavals which severely curtailed spending. Lecico Lebanon is aggressively pursuing new export markets to offset any domestic sales loss. Furthermore, preliminary sales figures for April and May suggest that the slowdown may be shortlived as demand is already rapidly recovering.

As expected, the softness in demand in the first quarter did impact financial performance as the company stocked inventory and reconfigured its sales plans and production allocations for the year. Overall, given the historic shortage of capacity and early indications of a recovery in Egypt and Lebanon, management still do not expect this softness in demand to impact sales volumes for the year and believe it will allow Lecico to provide better service to existing clients and expand our market share.

Waiving Lecico Lebanon management fee: As a gesture of solidarity with Lecico Lebanon for the negative impact of the unforeseen political upheavals seen so far this year, CMS – the joint management company of Intage and Sanitec – has decided to waive its management fee to Lecico Lebanon this year. The management fee is 2% of gross sales and in 2004 was around LE 2.5 million. At the consolidated group level, this effect of waiving this management fee will be a reduction in administration expenses for the year and a write-back of provisions for management fees from the first quarter.

About Lecico

Lecico (Stock symbols: LECIq.L; LECI LI; LCSW.CA; LECI EY) is a leading producer of export-quality sanitary ware in the Middle East and one of the largest tile producers in Egypt and Lebanon, with over 45 years of experience in the industry and decades of experience as an exporter to developed markets.

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

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

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Forward-looking statements

This release may contain certain "forward-looking statements", relating to the Company's business, which can be identified by the use of forward-looking terminology such as "will", "planned", "expectations", "forecast" or similar expressions, or by discussions of strategy, plans or intentions. Such statements may include descriptions of investments planned or currently under development by the company and the anticipated impact of these investments. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results that may be expressed or implied by such forward-looking statements.

Lecico Egypt consolidated income statement

Income statement			
(LE m)	1Q		% 05/04
	2005	2004	
Net sales	152.7	157.7	97%
Cost of sales	(89.4)	(93.1)	96%
Gross profit	63.3	64.6	98%
Gross margin (%)	41.4%	41.0%	0.5%
Distribution expenses	(12.3)	(14.6)	84%
Administrative expenses	(14.7)	(14.8)	99%
Other Operating income	0.6	1.2	49%
Other Operating expenses	(0.1)	(0.2)	67%
Operating profit (EBIT)	36.7	36.2	101%
Operating (EBIT) margin (%)	24.0%	23.0%	1.1%
Investment revenues	0.0	0.0	-
Gains on sale of investment	0.0	0.7	-
Interest revenues	1.5	0.6	242%
Financing expenses	(5.0)	(8.8)	56%
Foreign currencies exchange differences	(13.3)	0.9	-
Profits before tax and minority (PBTM)	19.9	29.6	67%
PBTM margin (%)	13.0%	18.8%	(5.7%)
Income tax	(3.3)	(1.0)	326%
Net Profit after Tax	16.7	28.6	58%
Minority interest	(0.1)	(1.3)	10%
Net Profit	16.5	27.3	61%
Net profit margin (%)	10.8%	17.3%	(6.5%)

Lecico Egypt consolidated balance sheet

Balance Sheet			
(LE m)	31-Mar-05	31-Dec-04	1Q 05/FY04 (%)
Cash and cash equivalents	192.6	264.2	73%
Trading investments	0.0	0.0	-
Inventory	243.1	226.8	107%
Receivables	163.0	151.9	107%
Related parties -debit balances	31.5	42.8	74%
Total current assets	630.2	685.7	92%
Net fixed assets	332.9	338.8	98%
Intangible assets	15.9	16.0	-
Prepaid long-term rent	0.8	0.8	-
Projects in progress	95.3	53.3	179%
Available for sale investments	4.5	4.7	95%
Long-term notes receivable	3.0	3.2	92%
Total non-current assets	452.3	416.7	109%
Total assets	1,082.5	1,102.5	98%
Banks overdraft	115.6	113.4	102%
Current portion of long-term liabilities	28.5	29.2	97%
Trade and notes payable	56.7	62.4	91%
Other current payable	51.7	66.9	77%
Related parties -credit balances	10.6	11.5	92%
Provisions	14.1	14.4	98%
Total current liabilities	277.1	297.8	93%
Long-term loans	74.1	83.3	89%
Other long-term liabilities	13.9	13.9	100%
Total non-current liabilities	87.9	97.2	90%
Total liabilities	365.1	395.0	92%
Minority interest	6.9	6.7	103%
Issued capital	100.0	100.0	100%
Treasury stock	(3.7)	0.0	-
Reserves	369.2	372.3	99%
Retained earnings	228.4	85.6	267%
Net profit for the year	16.5	142.8	12%
Total equity	710.5	700.7	101%
Total equity, minorities and liabilities	1,082.5	1,102.5	98%

Lecico Egypt consolidated cash flow statement

Cash flow statement			
(LE m)	1Q		%
	2005	2004	
Cash Flow from operating activities			
Net profit for the period	16.5	27.3	61%
Depreciation and translation differences	9.5	4.8	197%
Intangible assets amortisation	0.1	0.0	-
Prepaid rent expenses	0.0	0.0	100%
Gain on sale of investments	0.0	(0.7)	-
Capital gains	0.0	(0.0)	-
Provisions and translation differences	0.1	1.9	4%
Increase in minority interest	0.2	1.3	-
Increase in translation reserve	(3.1)	2.5	-
Adjusted operating profit	23.3	37.1	63%
Changes in working capital			
Increase in Inventory	(16.0)	(3.7)	433%
Increase in Receivables	1.6	(42.0)	-
Increase in Payables	(21.8)	19.8	-
Utilised Provisions	(2.1)	(0.5)	434%
Increase in Trading Investment	0.0	0.1	-
Net cash from operating activities	(15.0)	10.8	-
Cash flow from investing activities			
Additions to fixed assets and projects	(45.7)	(14.7)	311%
Increase in intangible assets	0.0	0.1	-
Net change in available for sale investments	0.2	1.2	19%
Proceeds from sales of fixed assets	0.1	2.3	3%
Decrease in long-term notes receivable	0.3	3.4	8%
Net cash used in investing activities	(45.1)	(7.8)	579%
Cash flow from financing activities			
Decrease in bank overdraft	2.2	14.3	15%
Increase in long-term loans	(10.0)	(1.0)	969%
Increase in other long-term liabilities	(0.1)	(0.8)	7%
Increase in treasury stock	(3.7)	(0.0)	-
Net cash used in financing activities	(11.5)	12.5	-
Net change in cash during the period	(71.6)	15.5	-
Cash at beginning of the period	264.2	140.6	188%
Cash at the end of the period	192.6	156.1	123%