



Third Quarter 2005 Results

Alexandria, 14 November, 2005 – Lecico Egypt (Stock symbols: LECIq.L; LECI LI; LCSW.CA; LECI EY) announces its consolidated results for the third quarter of 2005.

Highlights

3Q 2005

- Lecico revenue down 9% to LE 170.5 million (58.7% from sanitary ware)
- Sanitary ware revenue down 17% to LE 100.1 million, driven by 9% drop in volumes to 1.03 million pieces (53.2% exports)
- Tile revenue up 6% to LE 70.4 million, driven by an 11% growth in volumes to 4.84 million square meters
- EBIT down 37% to LE 34.9 million, margin down 8.9 percentage pts to 20.5%
- Net profit down 35% to LE 26.5 million, margin down 6.1 percent pts to 15.5%

9m 2005

- Lecico revenue down 3% to LE 500.7 million (60.6% from sanitary ware)
- Sanitary ware revenue down 13% to LE 303.2 million, driven by 9% drop in volumes to 2.98 million pieces (57.9% exports)
- Tile revenue up 18% to LE 197.5 million, driven by a 15% growth in volumes to 13.27 million square meters
- EBIT down 23% to LE 114.4 million, margin down 5.8 percentage pts to 22.8%
- Large one-off 1Q FX further weakened the bottom line, resulting in a 28% drop in reported net profit to LE 77.7 million, margin down 5.3 percent pts to 15.5%
- Excluding FX loss, recurring net profit is down 10% at LE 95.3 million, margin down 1.5 percentage points to 19.0%

“I regret I cannot bring much better news at the end of this third quarter of the year compared to a very strong period in 2004” comments Gilbert Gargour, Lecico Egypt’s Chairman and CEO. “The weakness in the UK, our most profitable market, seems to have stabilized at these levels. Still, despite optimism among industry analysts, we do not yet see signs of a turnaround. Our focus therefore remains on improving current market share and entering new markets and sectors. So far we have been rewarded with a good degree

of success; exports outside England are up and continue to climb, though not enough to offset the UK's decline. Our average price has thus suffered as a result of the proportional shift away from the higher-priced UK market. This decline in average prices has been amplified by Euro and Sterling weakness against the Egyptian pound.

“Local sanitary ware markets also continue to be disappointing, although this is somewhat offset by strong tile demand. However, macro economic indicators are becoming quite positive, especially in Egypt. Oil prices, buoyant tourism numbers and a pick up in confidence created by increased efficiency and a credible reform program in the government augur well for a period of strong growth. Indications in cement, steel and real estate are that this growth has begun, although this has yet to be witnessed in our business which typically lags lead construction indicators.

“In summary, despite lackluster news and numbers, we remain confident of Lecico's potential for substantial and sustained growth. The roll-out of additional capacity remains on target and we have new projects in tiles and fired clay. This year is a difficult one, but we remain confident that our marketing efforts will be rewarded in due course because they are based on sound economics and vigilant strategy.”

Elie Baroudi, Lecico Egypt MD, added, “While our main focus continues to be on generating sanitary ware sales, we also have new investment plans in tiles and fired clay. These investments are being made in response to demand from the market place and should provide another revenue driver in the coming years.

“These investments should add around 5 million square meters in tile capacity (just over 25% capacity increase) and could increase our fired clay capacity to as much as 200,000 pieces, although the scope of our fired clay investment will depend on how demand for those products continues to develop. We hope our fired clay investment will be the first step in a longer-term development of that business. In any case, these investments should be another revenue driver in the coming years.

“In our regular sanitary ware business, we are continuing to push exports into many markets (particularly in the Middle East and Africa) with considerable success. In 2006 and 2007 our focus will be on penetrating new markets in Europe, the Middle East and Africa and increasing our footprint in existing markets by offering new products and securing new customers. Our business is likely to continue to be under pressure in the short term, but we intend to continue growing Lecico over the medium-term through this strategy.”

Management fee reduced for 2005: Intage and Sanitec have always been committed to align their management fee to the interests of all the shareholders. As a consequence they have decided that for the third quarter of 2005, the Egyptian management fee will continue to be reduced by 25% commensurate with the drop in net profits year-to-date.

Lecico Revenue and Profitability

Profit and loss statement highlights						
(LE m)	3Q		%	9m		%
	2005	2004	05/04	2005	2004	05/04
Sanitary ware	100.1	120.9	83%	303.2	348.9	87%
Tiles	70.4	66.6	106%	197.5	167.1	118%
Net sales	170.5	187.5	91%	500.7	516.0	97%
Sanitary ware/net sales (%)	58.7%	64.5%	(5.8%)	60.6%	67.6%	(7.1%)
Cost of sales	(111.2)	(106.1)	105%	(309.5)	(290.6)	107%
Cost of sales/net sales (%)	(65.3%)	(56.6%)	115%	(61.8%)	(56.3%)	110%
Gross profit	59.2	81.3	73%	191.2	225.4	85%
Gross profit margin (%)	34.7%	43.4%	(8.6%)	38.2%	43.7%	(5.5%)
Distribution and administration (D&A)	(25.6)	(26.9)	95%	(80.1)	(81.3)	99%
D&A/net sales (%)	(15.0%)	(14.4%)	(0.6%)	(16.0%)	(15.8%)	(0.2%)
Net other operating income	1.2	0.7	173%	3.3	3.7	90%
Net other operating income/net sales (%)	0.7%	0.4%	0.3%	0.7%	0.7%	(0.1%)
EBIT	34.9	55.1	63%	114.4	147.8	77%
EBIT margin (%)	20.5%	29.4%	(8.9%)	22.8%	28.6%	(5.8%)
Net profit	26.5	40.5	65%	77.7	107.5	72%
Net profit margin (%)	15.5%	21.6%	(6.1%)	15.5%	20.8%	(5.3%)

3Q 2005: Continued slowdown in sanitary ware sales impacts margins

Revenue fell 9% year-on-year in the third quarter to reach LE 170.5 million as a result of continued weakness in Lecico's key sanitary ware markets.

Gross profit fell 27% year-on-year to reach LE 59.2 million, due to both weaker sales and an 8.6 percentage point drop in gross margins to reach 34.7%. Lower production volumes, a strengthening Egyptian pound and a shifting business mix all contributed to weaker selling prices and margins in the sanitary ware division this quarter.

Distribution and administration (D&A) expenses were down 5% year-on-year at LE 25.6 million. However, D&A expenses as a proportion of sales rose by 0.6 percentage points to 15.0% of net sales as a result of the reduction in revenues.

Net other operating income rose to LE 1.2 million, compared to LE 0.7 million in the same period last year.

EBIT fell by 37% year-on-year to reach LE 34.9 million for the third quarter of 2005, with the EBIT margin down 8.9 percentage points at 20.5%.

Net financing expenses continued to benefit from an improved post-offering balance sheet, with higher interest income reducing net interest expense for the quarter by 28% year-on-year to LE 5.9 million.

Lecico incurred FX losses of LE 0.8 million in the quarter. These losses are the result of Egyptian pound strength against Lecico's major trading currencies – the euro and the sterling.

Lecico benefited from a lower tax rate and lower minority interest charges year-on-year. Despite this, net profit fell by 35% year-on-year to reach LE 26.5 million, with the net profit margin falling 6.1 percentage points to 15.5%, compared with 21.6% net profit margin in the third quarter of 2004.

9m 2005: Strong tile results overshadowed by sanitary ware weakness and FX losses

The softness in demand for sanitary ware in Egypt and the UK continued to be the driving force behind results for the year – as sales volumes, average prices and margins have all suffered. Revenues for the first nine months were down 3% year-on-year at LE 500.7 million.

Gross profits fell 15% to LE 191.2 million with the gross margin falling 5.5 percentage points to 38.2%.

D&A expenses fell 1% year-on-year to LE 80.1 million. Proportional D&A expenses were up 0.2 percentage point year-on-year at 16.0% of sales.

Net other operating income fell 10% year-on-year to LE 3.3 million, compared to LE 3.7 million for the same period last year.

EBIT fell 23% year-on-year to reach LE 114.4 million, with the EBIT margin falling 5.8 percentage points to 22.8%.

Lecico's improved financing position and lower tax and minority charges for the year to date just offset the company's high FX revaluation losses. Excluding the FX losses, non-operational expenses (everything below the EBIT line) fell from LE 41.7 million in the first nine months of 2004 to LE 19.1 million for the same period this year.

Net profit fell 28% year-on-year to reach LE 77.7 million, with margins for the period down 5.3 percentage points from the same period last year to reach 15.5%.

If the LE 17.6 million in foreign exchange losses were stripped out, Lecico would have reported net profits of LE 95.3 million for the first nine months of the year, a drop of only 10% year-on-year in recurring net profits.

Segmental analysis

Sanitary ware

3Q: Sanitary ware sales volumes fell 106,462 pieces or 9% year-on-year in the third quarter due primarily to continued softening in demand in Egypt and the UK. However, Lecico delivered strong growth in exports to the Middle East, Sub-Saharan Africa and certain European markets (Ireland in particular).

Average sanitary ware prices were weaker year-on-year, falling 9% to LE 97 per piece. The drop in prices reflects weaker average export prices, due the shift in sales from the UK to lower-priced markets and the impact of Egyptian pound currency strength. The appreciation of Egyptian pound, against Lecico's main trading currencies, the euro and the sterling, in the third quarter reduced average prices by over 4% (in LE terms).

Sanitary ware gross profit margin fell by 12.1 percentage points year-on-year in the third quarter of 2005 to reach 36.3% and gross profits fell 48% to LE 36.3 million for the period.

The drop in profitability was the result of lower prices and higher costs. Average sanitary ware costs primarily rose on the back of slower production inflating per unit costs. Production volumes were around 10% lower year-on-year and capacity utilization fell below 90% for the first time in three years resulting in an increase in fixed costs per piece.

Sanitary ware segmental analysis						
(LE m)	3Q		%	9m		%
	2005	2004	05/04	2005	2004	05/04
Sanitary ware volumes (000 pcs)						
Egypt (000 pcs)	403	481	84%	1,099	1,250	88%
Lebanon (000 pcs)	78	79	99%	157	185	85%
Export (000 pcs)	548	576	95%	1,725	1,832	94%
Total sanitary ware volumes (000 pcs)	1,029	1,136	91%	2,981	3,267	91%
Exports/total sales volume (%)	53.2%	50.7%	2.5%	57.9%	56.1%	1.8%
Sanitary ware revenue	100.1	120.9	83%	303.2	348.9	87%
Average selling price (LE/pc)	97	106	91%	102	107	95%
Average cost per piece (LE/pc)	62	55	113%	58	53	108%
Sanitary ware cost of sales	(63.8)	(62.4)	102%	(171.7)	(174.1)	99%
Sanitary ware gross profit	36.3	58.5	62%	131.5	174.8	75%
Sanitary ware gross profit margin (%)	36.3%	48.4%	(12.1%)	43.4%	50.1%	(6.7%)

9m: Sanitary ware sales volumes fell 286,800 pieces or 9% year-on-year in the first nine months of 2005, due primarily to continued softening in demand in Egypt and the UK. Average sanitary ware prices were down 5% at LE 102 per piece for the first nine months of 2005. As a result, sanitary ware revenues were down 13% year-on-year at LE 303.2 million.

Demand, pricing and margins all suffered as a result of the sustained weakness in the UK, Egypt and Lebanon. This softness in demand combined with Egyptian currency strength, have driven a reduction in average prices with exports going to lower price and margin markets. At the same time, the slowdown in production volumes has put additional upward pressure on costs.

Sanitary ware gross profit margin fell by 6.7 percentage points year-on-year in the first nine months of 2005 to reach 43.4% and gross profits fell 25% to LE 131.5 million for the period.

Tiles

3Q: Tile sales volumes grew by 11% year-on-year in the third quarter. Average prices fell 4% year-on-year to reach LE 15 per square meter, largely as a result of the effect of the strengthening of the Egyptian pound on exports and some additional discount provisions in the local market.

Although margins continued to improve quarter-on-quarter as a result of the roll out of Lecico's frit plant, the segment's margin fell 1.7 percentage points year-on-year to reach 32.5%. Tile margins in 3Q 2004 were unusually high, accordingly gross profits were only marginally higher year-on-year at LE 22.9 million.

Tile segmental analysis						
(LE m)	3Q		%	9m		%
	2005	2004	05/04	2005	2004	05/04
Tile volumes (000 sqm)						
Egypt (000 sqm)	3,484	3,605	97%	10,205	9,598	106%
Lebanon (000 sqm)	231	287	81%	755	749	101%
Export (000 sqm)	1,124	480	234%	2,312	1,179	196%
Total tile volumes (000 sqm)	4,838	4,372	111%	13,272	11,526	115%
Exports/total sales volume (%)	23.2%	11.0%	12.2%	17.4%	10.2%	7.2%
Tile revenue	70.4	66.6	106%	197.5	167.1	118%
Average selling price (LE/sqm)	15	15	96%	15	15	103%
Average cost per sqm (LE/sqm)	10	10	98%	10	10	103%
Tile cost of sales	(47.5)	(43.8)	109%	(137.8)	(116.5)	118%
Tile gross profit	22.9	22.8	100%	59.7	50.6	118%
Tile gross profit margin (%)	32.5%	34.3%	(1.7%)	30.2%	30.3%	(0.1%)

9m: Tile sales volumes grew by 15% year-on-year in the first nine months of 2005 to reach 13.27 million square meters. Demand growth came primarily from Egypt and Lecico's export markets. Exports accounted for 17.4% of total sales volumes, compared with 10.2% in the same period last year.

Average tile prices for the period rose 3% year-on-year to reach LE 15 per square meter. The tile segment's gross margin were flat year-on-year at 30.2% for the first nine months of 2005 and gross profits rose 18% to reach LE 59.7 million.

Financial position

The value of Lecico's assets rose 19% since the beginning of the year to reach LE 1,315.0 million, driven primarily by continued investments in capacity growth and an increase in receivables and inventories. However, operating current assets have been largely flat over the third quarter – due to improved collection of receivables and a slower growth rate in inventories - with most of growth in assets over the quarter coming from increased capital investment.

Total liabilities grew 51% to LE 597.7 million, primarily on the back of increasing debt over the period, net debt to equity for the period reached 0.23x.

Recent developments and outlook

Outlook for 2005: Third quarter numbers continued to be negatively impacted by softness in demand in Egypt and the UK. In the UK we expect this weakness to continue in the fourth quarter of this year, impacting both Lecico's direct sales to the UK and OEM sales to Sanitec a large proportion of which also target the UK market.

In Egypt, while tiles continued to grow, sanitary ware volumes remained weak. Initial indications suggest the market will remain weak over the fourth quarter.

Lecico Lebanon - which suffered from weak demand over the first half – recovered reasonably well in the third quarter. Initial indications suggest Lecico Lebanon may continue to show some improvement year-on-year in the fourth quarter.

New and ongoing capital investment plans: In addition to ongoing investment plans, Lecico is announcing new projects in tiles and Fired Clay sanitary ware. In tiles, Lecico is planning a new 5 million square meter per annum factory. The factory is expected to cost around USD 13 million and be operational by the end of 2007.

Fired clay is a specialized form of sanitary ware used to make larger pieces without distortion, these pieces costs about twice as much as vitreous china sanitary ware to produce with correspondingly higher prices. Typical pieces include shower trays and kitchen sinks. Lecico currently has an annual capacity of around 60,000 fired clay pieces and this expansion could take fired clay capacity as high as 200,000 pieces per annum depending on the evolving demand picture. If fully realized, the investment would cost around USD 5 million and would necessitate a 300,000 piece reduction in vitreous china sanitary ware capacity. Lecico believes this investment will make it one of the largest low cost producers of fired clay and may open up opportunities for further future expansions.

In its ongoing capital investments, Lecico inaugurated its new 0.5 million piece capacity sanitary ware kiln at Khorshid at the end of the third quarter. Lecico also completed its current roll-out of casting shop expansions at the end of the third quarter, giving the company greater production flexibility and alleviating some of the specific capacity bottlenecks. Lecico is continuing to prepare for the launch of two new 1 million piece per annum sanitary ware lines in Borg El Arab in 2006. The first sanitary ware line is expected to begin operations in the second quarter of 2006.

Further reduction in management fee: To underline the commitment of Intage and Sanitec to all shareholders in Lecico in this difficult operating environment, CMS – the joint management company of Intage and Sanitec – has decided to waive 25% of its Egyptian management fee for the third quarter in line with the fall in net profits for all shareholders. In the third quarter this amounted to LE 0.83 million in addition to the waiving of all fees for Lebanon. CMS has also promised to waive all Lecico Lebanon management fee for the year. CMS' management fee is calculated at 2% of gross sales for all manufacturing entities and is part of Lecico's administrative expenses.

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 and investment costs resulting from its economies of scale and location in Egypt and Lebanon. Lecico's marketing strategy is to use its cost advantages 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

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Lecico Egypt consolidated income statement

Income statement						
(LE m)	3Q		%	9m		%
	2005	2004	05/04	2005	2004	05/04
Net sales	170.5	187.5	91%	500.7	516.0	97%
Cost of sales	(111.2)	(106.1)	105%	(309.5)	(290.6)	107%
Gross profit	59.2	81.3	73%	191.2	225.4	85%
Gross margin (%)	34.7%	43.4%	(8.6%)	38.2%	43.7%	(5.5%)
Distribution expenses	(10.3)	(8.1)	127%	(33.8)	(31.6)	107%
Administrative expenses	(15.3)	(18.8)	81%	(46.3)	(49.6)	93%
Other Operating income	1.3	0.8	178%	3.6	3.9	93%
Other Operating expenses	(0.1)	(0.0)	268%	(0.3)	(0.2)	146%
Operating profit (EBIT)	34.9	55.1	63%	114.4	147.8	77%
Operating (EBIT) margin (%)	20.5%	29.4%	(8.9%)	22.8%	28.6%	(5.8%)
Investment revenues	(0.0)	0.6	-	0.0	0.6	-
Gain on sale of investment	0.0	(0.5)	-	0.0	0.2	-
Interest revenues	5.0	0.9	557%	10.7	2.6	419%
Financing expenses	(10.9)	(9.1)	119%	(25.1)	(27.9)	90%
Foreign currencies exchange differences	(0.8)	0.8	-	(17.6)	1.4	-
Profits before tax and minority (PBTM)	28.2	47.8	59%	82.5	124.6	66%
PBTM margin (%)	16.6%	25.5%	(8.9%)	16.5%	24.2%	(7.7%)
Income tax	(1.5)	(5.1)	30%	(4.3)	(11.9)	36%
Net Profit after Tax	26.7	42.7	63%	78.2	112.7	69%
Minority interest	(0.3)	(2.2)	12%	(0.5)	(5.2)	10%
Net Profit	26.5	40.5	65%	77.7	107.5	72%
Net profit margin (%)	15.5%	21.6%	(6.1%)	15.5%	20.8%	(5.3%)

Lecico Egypt consolidated balance sheet

Balance Sheet				
(LE m)	30-Sep-05	31-Dec-04	9m 05/FY04 (%)	
Cash in banks and on hand	281.1	264.2	106%	
Inventory	272.5	226.8	120%	
Receivables	200.6	151.9	132%	
Related parties -debit balances	33.5	42.8	78%	
Total current assets	787.7	685.7	115%	
Net fixed assets	353.1	338.8	104%	
Intangible assets	16.1	16.0	100%	
Prepaid long-term rent	0.7	0.8	90%	
Projects in progress	130.7	53.3	245%	
Available for sale investments	24.6	4.7	526%	
Long-term notes receivable	2.2	3.2	67%	
Total non-current assets	527.3	416.7	127%	
Total assets	1,315.0	1,102.5	119%	
Banks overdraft	360.9	113.4	318%	
Current portion of long-term liabilities	28.3	29.2	97%	
Trade and notes payable	52.6	62.4	84%	
Other current payable	61.2	66.9	91%	
Related parties - credit balances	8.5	11.5	74%	
Provisions	7.4	7.4	100%	
Total current liabilities	518.9	290.8	178%	
Long-term loans	59.6	83.3	72%	
Other long-term liabilities	12.6	13.9	90%	
Provisions	6.6	7.1	93%	
Total non-current liabilities	78.8	104.3	76%	
Total liabilities	597.7	395.0	151%	
Minority interest	7.1	6.7	106%	
Issued capital	100.0	100.0	100%	
Treasury stock	(3.7)	0.0	-	
Reserves	368.7	372.3	99%	
Retained earnings	167.6	85.6	196%	
Net profit for the period	77.7	142.8	54%	
Total equity	710.3	700.7	101%	
Total equity, minorities and liabilities	1,315.0	1,102.5	119%	

Lecico Egypt consolidated cash flow statement

Cash flow statement			
(LE m)	9m		%
	2005	2004	
Cash Flow from operating activities			
Net profit for the period	77.7	107.5	72%
Depreciation and translation differences	26.5	19.0	139%
Intangible assets amortisation	0.1	0.0	-
Income tax expense	4.3	0.0	-
Prepaid rent expenses	0.1	0.0	-
Gain on sale of investments	0.0	(0.0)	-
Capital gains	(0.1)	(0.1)	50%
Provisions and translation differences	(1.9)	0.8	-
Increase in minority interest	0.4	5.9	6%
Increase in translation reserve	(2.6)	0.8	-
Adjusted operating profit	104.4	134.0	78%
Changes in working capital			
Increase in inventory	(45.4)	(37.6)	121%
Increase in receivables	(37.9)	(33.5)	113%
Increase in payables	(20.7)	25.1	-
Utilised provisions	(0.4)	(0.9)	47%
Increase in trading investment	0.0	(0.4)	-
Net cash from operating activities	0.1	86.7	-
Cash flow from investing activities			
Additions to fixed assets and projects	(118.4)	(66.5)	178%
Increase in intangible assets	(0.2)	(0.0)	413%
Net change in available for sale investments	(19.9)	0.6	-
Proceeds from sales of fixed assets	0.2	0.1	149%
Decrease in long-term notes receivable	1.1	0.6	180%
Net cash used in investing activities	(137.3)	(65.2)	211%
Cash flow from financing activities			
Increase in bank overdraft	247.5	(16.9)	-
Increase in long-term loans	(23.7)	32.8	-
Increase in current portion of long-term liabilities	(0.9)	9.2	-
Increase in other long-term liabilities	(1.4)	0.5	-
Increase in treasury stock	(3.7)	4.4	-
Dividends paid	(63.8)	(46.7)	137%
Net cash used in financing activities	154.0	(16.6)	-
Net change in cash during the period	16.9	4.9	343%
Cash at beginning of the period	264.2	140.6	188%
Cash at the end of the period	281.1	145.5	193%