



Board issues 4Q trading update and calls for bonus issue

Weaker sanitary ware sales, lower tile profitability and insurance and receivables provisions negatively impact 4Q 2010 results. Approval sought for 1:3 bonus issue

Alexandria, 24th February 2011 – Lecico Egypt's Board of Directors has approved the submission of the unaudited financial statements to the auditors for their review and issuance of the auditor's report thereon. The Board also agreed to seek both regulatory and shareholder approval for 1:3 bonus share issue.

In advance of the publication of its audited 2010 financials on the 10th of March, Lecico Egypt would like to advise investors of the situation at year-end in light of continued weakness in sanitary ware sales volumes and management's decision to book exceptional provisions against its insurance claims relating to custom duties on imported products destroyed by the fire of its export ware house in June 2010. Accordingly please find below highlights and details of our preliminary, unaudited 2010 results.

FY 2010 unaudited results highlights:

- Consolidated net revenues of LE 1,015.8 million for 2010, down 3.8% compared to LE 1,055.3 million in 2009
- Consolidated operating profit of LE 187.2 million for 2010, up 2.5% compared to LE 182.6 million in 2009
- Consolidated net profit of LE 94.4 million for 2010, down 14.3% compared to LE 110.2 million in 2009
- Consolidated shareholders' equity of LE 871.2 million for 2010, up 5.1% compared to LE 838.5 million in 2009
- Consolidated total assets of LE 1,847.7 million for 2010, up 17.6% compared to LE 1,571.5 million in 2009

4Q 2010 unaudited results highlights:

- Lecico revenue down 11% to LE 236.6 million (54% from sanitary ware)
- Sanitary ware revenue down 21% to LE 128 million, driven by a 25% decrease in volumes to 1.07 million pieces (63.5% exports)
- Tile revenue up 1% to LE 107.1 million, driven by a 1% increase in volumes to 5.6 million square meters (19.2% exports)
- EBIT down 15% to LE 39.2 million, margin down 0.4 percentage pts to 16.6% after provisions. EBIT excluding provisions up 2.9% to LE 46.7 million
- Net profit down 61% to LE 11.1 million, margin down 6.1 percentage pts to 4.7%

Commenting on the preliminary 4Q 2010 results, Lecico Egypt Chairman and CEO, Gilbert Gargour, stated: "The fourth quarter proved to be a challenging one operationally, with weaker demand in our European export markets due in part to the risks of contagion within the Eurozone as a result of the Greek and Irish crisis. The local market was also somewhat weaker but this was in large part a voluntary restriction on quantities delivered to wholesalers in order to encourage better price discipline in the market place. This led to a squeeze on our sales volumes and gross margins in the quarter. I believe we should expect continued weakness in 2011 with European demand slower recovery and Egyptian sales probably very weak until we see political progress.

"Despite weaker sales, we would have reported a growth in operating profits if we were not also negatively impacted by additional provisions and finance charges of LE 11.2 million which accounts for around 40% of our average quarterly net profits. I don't expect to see further one-off charges in the months ahead - indeed some of those taken in the quarter will be returned in future quarters - but the demand picture will doubtless be challenging given the uncertainty in the Egyptian market."

Sanitary ware sales volumes for the fourth quarter are down 25% year-on-year at around 1.07 million pieces. The drop in sanitary ware sales came from lower Egyptian and export sales, with sales volumes down 32% and 22% respectively. Egyptian sales were weaker primarily due to price pressure in the markets which forced the company to limit its supply to customers. Export sales were weaker due to continued demand weakness across Europe primarily in the UK and France, Lecico's largest export markets.

The drop in volumes has been partially offset by better average prices and margins. Average prices rose 6% year-on-year to LE 120.1 per piece. Sanitary ware revenues are expected to be LE 128 million, down 21% year-on-year. With improving margins, sanitary ware gross profits are expected to be LE 40.9 million for the quarter, down 19%.

Tile volumes and revenues are essentially flat year-on-year in the fourth quarter, but higher average costs due to mid-year energy price increases have led to a drop in gross profit margins to 40.2% and a 12% drop in segmental gross profits to LE 43.0 million.

Accordingly, Lecico Egypt expects consolidated revenues for the quarter to be down 11% year-on-year at LE 236.6 million. Gross profits are expected to reach LE 85 million, down 15%. Gross margins are expected to reach 35.9% down 1.4 percentage points year-on-year but broadly slightly higher than the average for 2010 as a whole.

With reduced commercial activity and a focus on cost control, Lecico was able to reduce net operating expenses and overheads for the quarter to around LE 38.4 million. As a result, net operating profit before provisions is LE 46.7 million with a margin of 19.7%.

Lecico management has taken an LE 7.5 million provision against a part of its insurance claim related to customs and penalties owed on complementary products imported for re-export and destroyed in our warehouse fire in June. The Customs Authority is asking the Company to pay waived customs fees on these products and pay a penalty for the period since they were imported. Lecico is contesting these fees and penalties, however, Lecico is provisioning against the risk that the company will be unable to claim this back.

Accordingly, earnings before interest and taxes (EBIT) for the quarter is expected to be around LE 39.2 million, down 14% year-on-year. EBIT profit margin for the quarter is expected to be 16.6%, down 0.4 percentage points on the same quarter last year.

Net profit was also negatively impacted by high net financial expenses and tax charges in the quarter. Net finance expenses reached LE 16.5 million due to an additional charge of LE 3.7 million which under IFRS must be deducted from our long-term receivables and returned as interest in future quarters until the receivables are collected.

In light of lower sanitary ware sales and the LE 11.2 million in exceptional provisions and interest charges, Lecico's anticipates net profits for the fourth quarter of LE 11.1 million, down 61% year-on-year. Anticipated net profit margins for the quarter is expected to be 4.7% down 6.1 percentage points year-on-year.

If we exclude the LE 11.2 million in exceptional provisions and interest charges, the net profit for the quarter should be around LE 22.3 million, down 22% year-on-year and the net profit margin would be 9.4% down 1.3 percentage points.

1:3 Bonus issue approved:

In light of the preliminary results, the board proposed the increase of the capital of the company by capitalizing retained earnings by means of the issuance of bonus shares to shareholders at the rate of one share for every three existing shares. The board authorized management to write to the capital Market Authority (CMA) to request their opinion and approval for this bonus share issue. The board will meet again at a later date to approve the audited financial statements and the response of the CMA in order to call for an Extraordinary Meeting of the Shareholders (EGM) to approve the necessary actions required for the bonus shares.

The Chairman indicated that after the approval of the CMA for the bonus shares an EGM will be called for with the following agenda:

- Distribution of bonus shares to the shareholders totaling 20,000,000 shares at a par value of LE5 per share at the rate of one share for every three existing shares and accordingly increasing the paid up capital of the company from LE300,000,000 to LE400,000,000 from retained earnings.
- Amending articles 6 and 7 of the articles of incorporation and by laws of the company to reflect the above increase in shares and capital.

The directors approved the above resolution.

The company will update investors on this bonus share issue once it has received a response from the CMA and is in a position to call for an EGM to seek shareholders' approval.

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.

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