PN-ACS-932

Ministry Of Agriculture & Land Reclamation
US Agency For Int. Development
Agricultural Policy Reform Program
Reform Design and Implementation

وزارة الزراعة واستصلاح الأراضي
الوكالة الأمريكية لتنمية الدولية
مشروع إصلاح السياسات الزراعية
وحدة تصميم وتنفيذ السياسات

APRP - RDI Unit

USAID CONTRACT No. 263-C-00-97-00005-00

Report No. 32

Preliminary Assessment of the Feasibility of a Majority ESOP for Sharkeya Rice Mills Company

by

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May 1998

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Table of Acronyms

Acronym	***Description***
COGS	Cost of Goods Sold
ESA	Employees Stockholders Association
ESOP	Employees Stock Ownership Program
HC	The Holding Company for Rice and Flour Mills
LTD	Long Term Debt
MTS	Ministry of Trade and Supply
NPAEI	Net Profit After Extraordinary Items
NPAT	Net Profit After Tax
ROS	Return on Sales
SG&A	Selling, General and Administrative Expenses
WI	Working Investment
P.A.	Per Annum
WC	Working Capital

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I. EXECUTIVE SUMMARY

1. The Company

Sharkeya Rice Mills Company (the Company) is one of three branches owned by the South Rice Mills Company and fully owned by the Rice and Flour mills HC. Its paid up capital as of 1997 amounted to LE 5.2 million. The Company originally operated rice milling facilities only. Later, its operations expanded to include other product lines, like macaroni production and animal feed. These activities provided the Company with a profit cushion against losses in the rice milling activity due to major changes since the liberalization of the rice sector in the early 1990s. One of the main characteristics of the post liberalization phase was the increase in paddy rice prices from LE 300 to LE 850 per ton between 1993 and 1997. Trade liberalization measures encouraged the active private sector investment in this market. Consequently, the public sector's market share dropped to less than 10% in favor of the several thousands of private mills which offered their milling services at competitive prices .

The four rice mills currently operating started production in 1971 with machinery imported from Eastern Germany. Some renovations and upgrading took place in 1985, which enhanced production efficiency. The production capacities of the mills are as follows :

Table 1
Milling Production Capacity (Tons/Day)

Production Unit	Maximum Capacity	Available Capacity
Faqous	155	125
Kafr Sakr	155	125
Zaqaziq	100	85
Fayoum	75	60
Ibrahimia	59	non-operational

The cattle feed mill started production in 1981 with a total capacity of 10 tons/hour or 100,000 tons p.a. It is the first non-traditional feed mill operated in Egypt using agricultural waste to produce feed locally instead of importing it. Consequently, Egypt's production of feed increased from 1 million to 3 million tons per annum. Sharkeya's feed operation has always been profitable despite competition from the private sector, but is currently losing its market share.

The pasta factory started operations in 1991. It has two production lines and has room for two additional lines. Its total capacity is 54 tons/day (36 tons of short and 18 tons of long macaroni). Pasta contributes highly to the profitability of Sharkeya.

2. Analysis

The analysis of Sharkeya's activities indicates that rice milling is the major contributor to the company's losses for the past couple of years. These losses could be attributed to the escalating costs of production that were not offset by comparable increases in selling prices.

The Company's key problem is the increase in operating costs due to its large wage bill amounting to approximately LE 6.5 million p.a. Competition from the private sector, specially in the rice market, has forced the company to reduce its operating capacity, but the problem of excess labor persists. If the latter problem is dealt with, Sharkeya could mill rice with prices comparable to the private sector. Other direct costs like energy and maintenance also contribute to the high cost of rice milling which by far exceeds that of private millers.

Competition from private feed millers that produce cheaper and lower quality products, depressed Sharkeya's market share. It is recommended that Sharkeya increases public awareness of the quality of their feed products (high protein content compared to that of the private sector).

Sharkeya's pasta activity is by far the best of the three in terms of its contribution to the operating profit margin.

The following table illustrates the contribution of each of the three product lines to the total sales, the operating profit per ton for each product and the percentage of COGS to sales for each activity in 1997 .

Table 2
Product Line Financial Indicators
1997

	Rice Milling	Cattle Feed	Pasta
Product Sales to Total Sales (%)	46	38	16
Operating Profitability per ton (LE)	(49)	35	56
COGS to Sales per product (%)	104	93	97

The following table 3 analyzes the milling cost of one ton of paddy rice - equivalent to producing 730 kg of white rice according to 1997 figures - for the four operating mills for the year 1997. Head office costs were excluded to determine the net operating costs per mill.

Table 3
Cost of Production Breakdown per Mill
1997

	Zaqazik	Kfr Skr	Faqous	Fayoum
Quantity of Paddy Rice Used (Ton)	4,543	11,784	6,919	2,361
Procurement Cost per Ton (LE)	745	774	770	722
% to Total Cost	68%	75%	71%	59%
Direct Wages/Ton (LE)	140	76	111	245
% to Total Cost	13%	7%	10%	20%
Total Direct Production Cost/Ton (LE)	998	935	983	1,109
% to Total Cost	91%	91%	87%	90%
Other Operating Expenses/ ton (LE)	96	88	97	118
% to Total Cost	9%	9%	9%	10%
Total Net Operating Cost/Ton (LE) *	348	249	310	505
% to Total Cost	32%	25%	29%	41%
Direct Wages/Total Net Operating Cost	40%	31%	36%	48%

* = excluding cost of procuring paddy rice

Table 3 indicates that the Fayoum mill has the highest net operating cost (excluding raw material cost) of the four mills. It amounts to LE 505/ton. Although the cost of procuring one ton of paddy rice at Fayoum is the lowest amongst the four mills, fixed high labor cost is the major contributor to the inflated total cost of production at this very modest rice volume.

By comparison, Kafr Sakr mill has the lowest milling cost/ton amounting to LE 249. The large quantity of paddy rice operated improves the fixed cost coverage of which labor is a major component.

The average operating cost for one ton of paddy rice for the four mills is LE 353 (excluding head office expenses) which amounts to LE 448 per ton of white rice produced. The figure is far higher than that of the private sector which recorded an average of LE 50 for producing one ton of white rice.

3. Valuation Findings

Discounted cash flow valuations were carried out to ascertain the value of Sharkeya as an ongoing concern. The valuation results represent two scenarios;

- a base "as-is" case which projects the company's current performance, without any changes in operating conditions, assets, labor, etc. and
- scenario1 - a restructuring scenario which assumes the reduction of direct wages, other direct overheads for the milling activities and the addition of two new activities (cattle fattening and packaging), the transfer of excess assets to the HC and the absorption of LE 6.8 million of Company long term debt by the HC.

The results of the two scenarios are presented in the following table :

Table 4
Valuation Results (LE 000)

	Base Case	Scenario 1
Shareholders Net Present Value	(13,366)	30,294

In calculating the shareholders value for the base case, we assumed:
- the addition of LE 4.5 million, being the market value of excess land.
- the deduction of the full amount of the long and short term debts.
- no provisions for early retirement compensations for the excess labor.

In calculating the shareholders value for scenario 1, we assumed:
- no change in fixed asset values as the excess land will be transferred to the HC under this scenario.
- the clean up of LE 6.8 million of long term debt by the HC.
- the deduction of the full amount of the short term debt.
- no provisions for early retirement compensations for the excess labor. However, labor wages reflect the reduced labor level.

Discussions with Sharkeya management revealed that negotiations are underway with the HC to sell a majority stake of the Company to the ESA. (Only applicable under the restructuring scenario.) We assumed that the ESA would buy 95% of the Company's shares. The ESA would pay the amount of

LE 28.8 million, which constitutes 95% of the Company's value through a 10-year loan payable on equal installments following a one-year grace period and at an interest rate of 8%. The equal annual installments would amount to LE 4.37 million annually. The cash in flow to the ESA from dividends reveals its ability to pay under the previous assumptions. The ESA will be able to finance this transaction. (See Section VIII).

4. Future Restructuring Plans

The Company's management is undertaking serious steps towards restructuring and improving performance. They have reached an agreement with the HC and the National Investment Bank to shift the long term debt on the balance sheet to the HC, thus cleaning the LE 6.8 million balance from the books. The Company would be left only with the overdraft, which amounts to LE 11.5 million. Furthermore, land not necessary for production, which is around half the total land area owned by Sharkeya with a market value of LE 4.5 million, will be transferred to the HC, and the proceeds mainly used to partially finance an early retirement scheme.

To implement the majority ESOP, labor reduction through an early retirement plan and cash flow improvements through reorganization of the production process flow are pre-requisites. To address the labor issue, the HC and the Social Fund have agreed on an early retirement scheme that would be financed 1/3 by the former and 2/3 by the latter. It was also agreed with the HC that some of the work force would be transferred to other affiliated companies. In addition, management has a number of suggestions to cut down the overhead costs by re-organizing the production lines and adding profitable activities. These new activities are summarized below:

Cattle fattening : This would require the investment of around LE 300,000 to adapt some of the open storage areas and a similar amount to purchase 200 heads. The fattening cost per head is LE 200. Phase I of the project would involve 800 heads per breeding season (2 seasons/year each). This project would absorb part of the excess labor and generate profits of LE 1.6 million per annum.

Packaging : the Company has 13 packing units that were originally used for rice packing during the period when rice was marketed by the GOE. The Company also used to pack 200 tons monthly for the MTS until the contract ended. Accordingly, a large part of these capacities is not currently being utilized. The management plans to purchase sugar, dried vegetables and flour, pack it and sell it or pack these products for others. Expected profits would be around LE 500,000 per annum. A marketing campaign is necessary for the success of this activity.

Production capacities for the milling activity will be reduced, the excess labor will be utilized in the new activities and the Company's profitability will increase.

The study relied completely on the management of Sharkeya for input on these plans. If the company decides to pursue any or all of these potions, it should carry out the necessary detailed studies

4. **Conclusions and Recommendations**

- The Company - as it currently stands - is not a going concern

- The Company could be viable under the restructuring scenario: with the downsizing of the rice milling activities, the addition of other profitable activities, etc.

- The assumptions and figures used for the restructuring scenario were supplied by Sharkeya management. They were not verified by the study team.

- Based on the restructuring scenario, the ESA would purchase 95% of the shares through a loan payable over 10 years with a grace period of one year and an interest rate of 8%.

- The HC may decide to take over some of Sharkeya's assets and rent them back to the Company. This decision will reduce the asset base that the ESA will acquire from the HC.

II. Financial Analysis

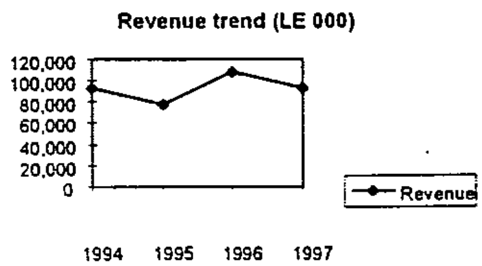
This section highlights the Company's financial performance from 1994 to 1997 and is based on audited financial statements. It covers issues of profitability, asset efficiency, liquidity and capital structure at a general level. Other issues of concern are further analyzed in the subsequent sections.

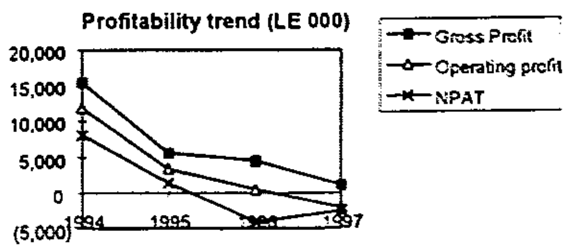
In brief, the Company's profitability has steeply declined as a result of increasing production costs. Asset efficiency indicators reflect a misleading favorable situation. Inventory has decreased over the years, thereby reducing the Company's financing burden. Receivable and payable accounts are very low, almost negligible. The Company depended on a moderate level of overdraft and dues to holding and sister companies for its external financing needs. Sharkeya is in a tight liquidity position and offers only a small cushion to current creditors who are mainly non-trade creditors. Its low leverage ratio only reflects its easy access to bank debt from public sector banks. The Company faced problems with interest coverage specially during 1996 and 1997. (See Annex 1).

1. Sales & Profitability

Table 5
Profitability Indicators
(% Except Where Indicated)

	1994	1995	1996	1997
Sales (LE 000)	92,910	78,069	107,382	92,669
Annual Change in Sales	N/A	(19)	27	(14)
Gross Profit Margin	17	7	4	1
Operating Profit Margin	13	4	0.3	(2.2)
NPAT (LE 000)	7,959	1,244	(3,995)	(2,523)
ROS	8.6	1.6	(3.7)	(2.7)
NPAEI/Sales	8.7	3.9	(4.2)	(2.8)





Preliminary Assessment of the Feasibility of a Majority ESOP for Sharkeya Rice Mills Company, The Reform Design and Implementation Unit of the Agricultural Policy Reform Project, May 21, 1998. This report is prepared for the Government of Egypt. Any other person should independently verify any information contained herein for their own purposes before relying on it.

Sales has shown changes, as presented in table 5, varying from a decline of 19 percent in 1995 to an increase of 27 and a decrease of 14 percent in 1996 and 1997 respectively.

Net profit after tax (NPAT) has severely declined from LE 7.9 million in 1994 to negative LE 2.5 million in 1997, reaching its lowest point of negative LE 4.5 million in 1996. The trend of NPAT does not correlate with the trend in sales but is affected by the increase in the cost of goods sold (COGS) as a percentage of sales. COGS/sales steadily increased from 80 percent in 1994 to 96 percent in 1997. This is evidenced by the declining gross profit margin. Other income and expenses items, including the selling, general and administrative expenses (SG&A), had only a minor effect on the income statement bottom line.

In general, the deteriorating sales growth and the increasing cost of production could be greatly attributed to the growing competition from the private sector that has access to more sophisticated technology and better management. These advantages allow for low production costs, and eventually better selling prices.

2. Asset Efficiency

Table 6
Asset Efficiency Indicators

	1994	1995	1996	1997
Inventory Turnover(times)	2.8	1.5	1.9	4.0
Inventory DOH (days)	128	237	187	90
Receivable Turnover(times)	57	52	36	47
Receivable DOH (days)	6.3	6.9	10	7.6
Payable DOH (days)	8.4	18.5	4.6	3.0
Working Investment (LE 000)	26,335	43,725	53,863	23,523
WI/Sales (%)	30	60	50	60
Debt/ Equity (:1)	**0.5:1**	**0.3:1**	**0.3:1**	**0.2:1**

A. **Inventory** represents the highest balance in current assets varying from 25 to 50 percent of total assets over the four-year period. In 1995 and 1996, it was even higher than the fixed assets. Inventory turnover improved, and in 1997, inventory reached its lowest balance of the four years, of LE 22 million, down from LE 52 million in 1996 and representing 31 percent of total assets. This factor, coupled with a decline in COGS due to decreased sales, led to a 100 percent increase of turnover from two to four times in 1996 and 1997 respectively. The increase is mainly a result of the decrease in the balance of finished goods in addition to raw material and packaging material. Finished goods represented 46 percent of total inventory in 1996 compared to 26 percent in 1997. Accordingly, its days on hand declined from 87 to 23 over the same period. Raw materials days on hand also declined from 64 to 43 days.

B. Receivable DOH have always been low at around eight days, reflecting the seasonal nature of the business and the Company's policy of cash sales. The financial statements are prepared on June 30, preceding the rice harvest period, and is the time when sales activities are at their lowest level. Moreover, all sales are on a cash basis.

C. Payable DOH are low at an average of five days , reflecting cash payments to farmers and local traders.

D. **Working Investment** has always shown a balance higher than the overdraft on the balance sheet, which indicates the Company's reliance on external finance to fund their operations. In 1996, dividends payable were LE 4.6 million, whereas other creditors in 1997 show a balance of LE 10.6 million of which LE 8.1 million are dues to the holding and sister companies.

3. Liquidity and Leverage

Table 7
Liquidity and Leverage Indicators

	1994	1995	1996	1997
Quick Ratio (:1)	0.5	0.1	0.2	0.3
Current Ratio (:1)	1.2	1.1	1.1	1.1
Working Capital-WC (LE 000)	7,905	4,073	5,718	2,042
WC/Current Assets (%)	17	8	9	7
Total Debt/ Equity (:1)	**0.5**	**0.8**	**1.5**	**0.7**

The Company's current assets and liabilities represented 41 and 38 percent of the total balance sheet footings in 1997. Inventory and overdraft make up the major portions on both sides of the balance sheet. Both current and quick ratios are considered low, averaging 1.1 and 0.3 times respectively over the four year period under review. These ratios provide a very small cushion to creditors and put the Company in a difficult liquidity position as demonstrated by the low WC/current assets ratio.

The total debt to equity ratio in 1997 stands at the misleading favorable level of 0.7:1.

III. SALES ANALYSIS

The Company's main product lines are rice, cattle feed and pasta. The rice revenue, which constitutes the bulk of total sales, has fluctuated in monetary value over the four years ending June 1997, ranging from a low of LE 27.3 million to a high of LE 51.3 million. Moreover, the rice revenue represented an average of 48 percent of total revenues over the period under study, except in 1995. That year marked the strong entrance of private sector competitors to the market, where rice sales recorded only 33 percent of total revenues, thus, affecting the total figure. (See Annex 2).

Cattle feed and pasta products, on the other hand, experienced a steady growth in sales throughout the period except for 1997 where there was a decline in the revenue generated from the cattle feed business. These products represented, on average, 37 and 16 percent of total sales respectively.

Table 8
Product Lines Sales

	1994		1995		1996		1997	
	LE Million	%	LE Million	%	LE Million	%	LE Million	%
Rice	48.6	50	27.3	33	51.3	47	41.9	46
Cattle Feed	35.2	36	40.4	49	43.5	39	36.7	38
Pasta	12.9	14	13.9	18	14.2	14	15.5	16
Total	**96.7**	**100**	**81.6**	**100**	**109.0**	**100**	**94.1**	**100**

Trend in Product Lines Sales

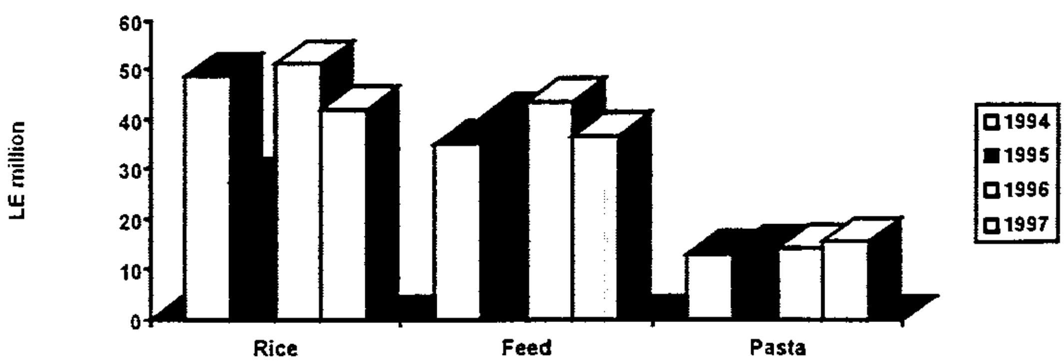
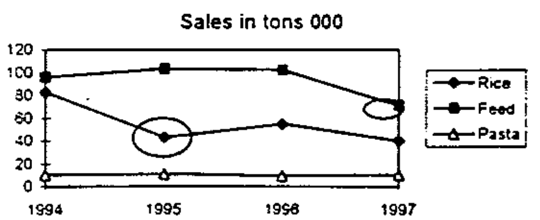
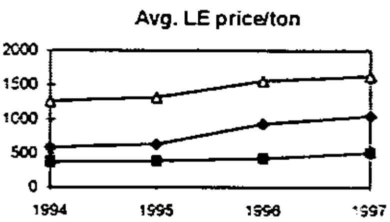


Table 9
Sales Volume and Average Selling Price per Ton

	1994		1995		1996		1997	
	Tons 000	LE	Tons 000	LE	Tons 000	LE	Tons 000	LE
Rice	83	585	43*	634	55	931	40	1,046
Cattle Feed	96	366	103	390	102	425	71	515
Pasta	10	1,258	11	1,320	9	1,562	10	1,625

***includes transfer of rice to pasta factory of 18 tons at LE 4.7 million**





A. **Pasta** quantities sold and average product unit prices experienced acceptable trends throughout the period under review. Between 1995 to 1997, prices per ton grew by 5, 18 and 4 percent, whereas the quantity sold ranged between 9,000 and 11,000 tons per year.

II. **Cattle Feed** showed a decline in sales as a result of decreased quantities during 1997 due to increased competition from the private sector. According to the Company, the private sector sells a ton LE 30 to LE 50 cheaper than Sharkeya. This low price is associated with lower product quality (low protein content). The market is price sensitive, with very low awareness of quality. Price increase over the three years stated were 7, 9 and 21 percent per annum. Quantities sold, on the other hand, dropped from an average of 100 tons per year, during the period from 1994 to 1996, to 71 tons in 1997.

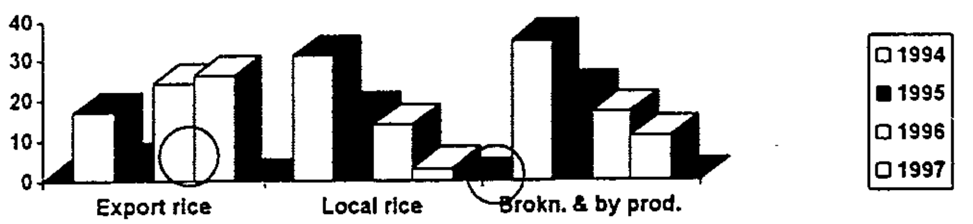
C. Rice quantities sold reflect a fluctuating trend, whereas price increases jumped in 1995 as a result of market liberalization. Prices increased from 1995 to 1997 by 8, 47 and 12 percent respectively. The following section presents a detailed analysis of rice sales broken into export, local, broken and by-products as illustrated in table 10:

Table 10
Breakdown of Rice Sales

	1994	1995	1996	1997
Export Rice				
Qty. Sold (Ton 000)	17	4	24	26
Sales Value (LE 000)	15,091	4,105	29,879	34,408
Avg. Price/Ton (LE)	887	1,026	1,245	1,323
Local Rice				
Qty. Sold (Ton 000)	31	17	14	3
Sales Value (LE 000)	25,889	16,112	15,461	3,704
Avg. Price/Ton (LE)	835	948	1,104	1,235
Broken & By- Products				
Qty. Sold (Ton 000)	35	22	17	11
Sales Value (LE 000)	7,655	7,052	6,033	3,881
Avg. Price/Ton (LE)	218	320	355	353

Note : Quantities are approximate

Rice Quantity Sold by Type in 000 Tons



C.1.

Export Rice dropped severely in 1995 as a result of competition from the USA exporting rice to the same markets as Sharkeya's at lower prices and on better credit terms. During 1996 and 1997, rice production in Asia, specially Japan, dropped, allowing Sharkeya to increase its export sales.

C.2. Local Rice sales were hit in 1995 due to the beginning of competition from the private sector. According to Sharkeya, the private sector has access to cheaper and better technology which is less labor intensive, allowing the private sector to sell at lower prices. In 1995, both the export and local rice markets were invaded by competition. Strong local competition continued in 1996 as seen in the declining local sales, but the export sales to the Asian markets consumed most of Sharkeya's inventory remaining from 1995's depressed sales. Asian export markets remained open through 1997, allowing the Company to increase its export sales but with the growing competition from private traders and the Company policy to reduce inventory, local sales dropped to their lowest level in four years.

C.3. Broken and By-Products declining trend is explained by the overall declining trend in rice tonnage sales.

Price Tend per Ton for Rice Broken down into Three Categories (LE)

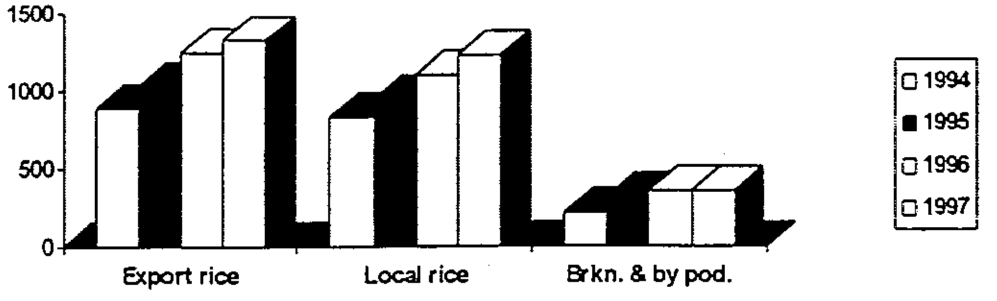


Table 11
Percentage Change in Price for the three categories (%)

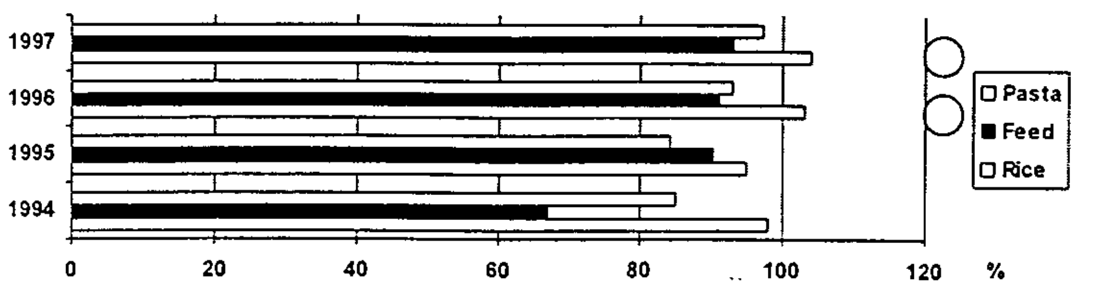
	1995	1996	1997
Export Rice	16.0	21.0	6.3
Local Rice	13.5	16.5	12.0
Brkn. & By-Prods.	46.8	11.0	0

IV. COST OF GOODS SOLD (COGS) ANALYSIS

Table 12 presents the COGS/sales for each product line. On average, cattle feed has the most favorable contribution to the gross profit margin, followed by pasta and then rice.
(See Annex 3).

Table 12
COGS/Sales per Product Group (%)

	1994	1995	1996	1997	Average
Rice	98	95	103	104	100
Cattle feed	67	90	91	93	85
Pasta	85	84	93	97	90



The cost of rice product sales increased to over 100 percent of rice sales in 1996 and 1997. Pasta and cattle feed costs steadily increased over the three years stated, and pasta costs grew at a faster rate, over the same period, indicating a trend that could follow the same pattern as the rice products.

The main cost components for the goods produced are presented in the following table as a percentage of the total cost of goods produced. Sharkeya provided detailed information on the cost of goods produced rather than on the cost of goods sold and so the analysis was carried out on the cost of production.

The pasta factory was newly installed and started operations in 1993, thus the depreciation expenses are relatively high compared to the old mills. Depreciation expenses for the rice and cattle feed activities averaged 2% of the cost of goods produced. To illustrate, the depreciation expenses for the pasta item are presented below. (See Annex 4).

Table 13
Main Cost Items in Values and Percentages of the Cost of Goods Produced

	1994		1995		1996		1997	
	LE 000	%	LE 000	%	LE 000	%	LE 000	%
Rice	**33,366**		**50,907**		**57,485**		**29,636**	
Salaries	4,826	14.5	4,442	8.7	5,086	8.8	4,934	16.6
Raw material	20,968	63.0	39,059	76.7	41,815	72.6	19,277	65.0
Cattle Feed	**32,006**		**33,428**		**36,779**		**35,548**	
Salaries	1,169	3.7	1,228	3.7	1,374	3.7	1,282	3.5
Raw material	26,942	84.2	28,888	86.4	31,495	85.6	31,316	85.1
Pasta	**12,484**		**13,243**		**15,012**		**15,361**	
Salaries	363	2.9	376	2.8	424	2.8	410	2.7
Raw material	7,601	60.9	8,594	64.8	10,686	71.0	11,740	76.1
Depreciation	1,551	12.4	1,554	11.7	1,552	10.3	1,491	9.7

The wages in the above table are not related to the respective activities only, but are inflated by the head office wages. In 1997, total wages were as follows:

Table 14
Wages (LE 000)

	A*	**B****	**difference in %**
Rice	4,934	3,222	32
Cattle feed	1,282	827	35
Pasta	410	296	28

*** = Total wages allocated to activity (including head office wages)**
**** = Actual wages of activity**

V. PROFITABILITY

This section addresses the profitability of the different product groups. As illustrated in the previous table, the head office wages inflate the overall cost of the different product lines. The analysis presented below does not take into consideration the head office costs (See Annex 2).

Table 15
Product Profitability per Ton (LE)

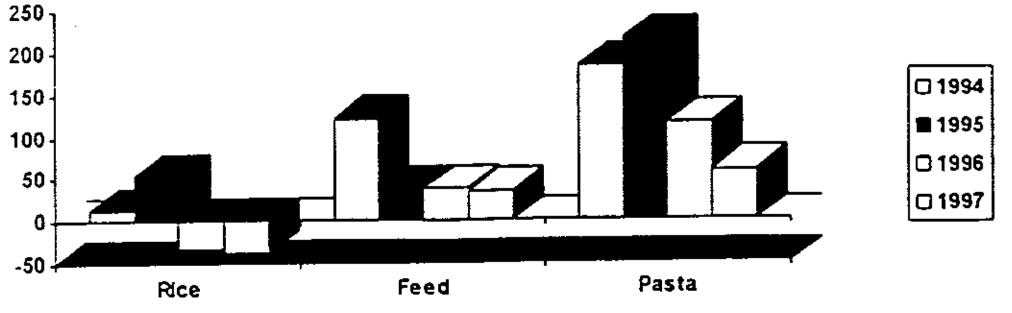
	1994	1995	1996	1997
Rice				
Sales	585	634	931	1,046
Gross Profit	12	31	(33)	(39)
Operating Profit	7	25	(36)	(49)
Net Profit	4.9	(8.8)	(101)	(69)
Feed				
Sales	366	390	425	515
Gross Profit	122	38	39	35
Operating Profit	121	37	38	35
Net Profit	116	39	40	34
Pasta				
Sales	1,258	1,320	1,562	1,625
Gross Profit	183	214	116	59
Operating Profit	182	195	106	56
Net Profit	19.5	81	12	39

Product gross profit per ton, over the four years, is indicated in the following graph. The main reason for the reduced gross profit figures is the increase in production costs that were not offset by an increase in selling prices due to the advent of private competition.

The declining gross and operating profit trends versus the increasing trend in sales confirms the Company's operating and costing problems. High operating costs have the greatest impact on Sharkeya's profitability, as SG&A had a very minor impact.

Net profit, on the other hand, was calculated based on the allocation of interest expense to the different product lines (as given by Sharkeya). However, the net profit figures are not actual indicators of the profitability of the product groups, as debt financing could be changed under different management concepts.

Gross Profit per Ton



At this stage the rice milling activity has the highest negative impact on the company's profitability. This factor calls for detailed analysis of each mill's cost structure.

VI. MILLING ACTIVITY ANALYSIS

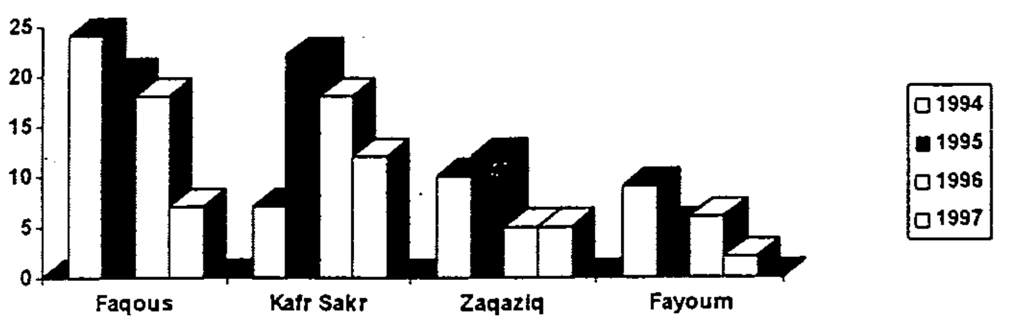
The Company owns and operates five rice milling facilities, mainly in the Sharkeya Governorate, one of which has not been operational for some time, that is, the Ibrahimia mill (See Annex 4).

In order to analyze the production cost per unit, the quantity of paddy rice used in production during a financial year was used as the basis for analysis.

Table 16
Quantity of Paddy Rice Used in Each Mill (Tons)

Year	1994	1995	1996	1997
Faqous	23,604	20,109	17,853	6,919
Kafr Sakr	6,823	22,333	17,710	11,784
Ibrahimia	2,375	67	2	0
Zaqaziq	9,925	12,150	5,247	4,543
Fayoum	8,609	5,411	5,851	2,361
Total	**51,336**	**60,070**	**46,663**	**25,607**

Quantity of Paddy Rice Used in 000 Tons



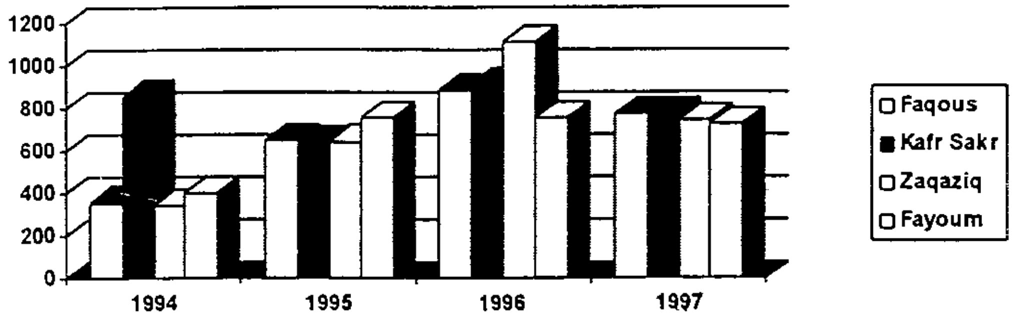
The quantity of direct material used, as presented in the above graph, shows a declining trend in all milling facilities. The trend reached its minimum in 1997, except for Kafr Sakr which shows lower amounts in 1994. This drop reflects the shrinkage in operations. It implies a tremendous under utilization of capacity, confirms the increasing fixed operating costs of the mills and calls for a study of the local market and export potential for rice products. Sharkeya has several plans to reform its activities, none of which are concrete. One plan, already mentioned before, is the sale of 95% of the shares of Sharkeya to its ESA after some restructuring that could turn the Company into profitability entity. (See Section VIII).
The following table 17 analyses the average price of direct material used in production. It mainly consists of paddy rice and to a lesser extent

transportation costs and mediators' commissions, which vary from one mill to another. This variation is specially true for Kafr Sakr in 1994 and Zaqaziq in 1996. The high costs were due to an increase in transportation costs. In 1997, however, cost per ton of direct material was very similar across the board.

Table 17
Cost of Direct Material per Ton (LE)

Year	1994	1995	1996	1997
Faqous	356	648	884	770
Kafr Sakr	852	635	918	774
Zaqaziq	343	644	1,116	745
Fayoum	398	756	751	722

Cost of Direct Material per Ton

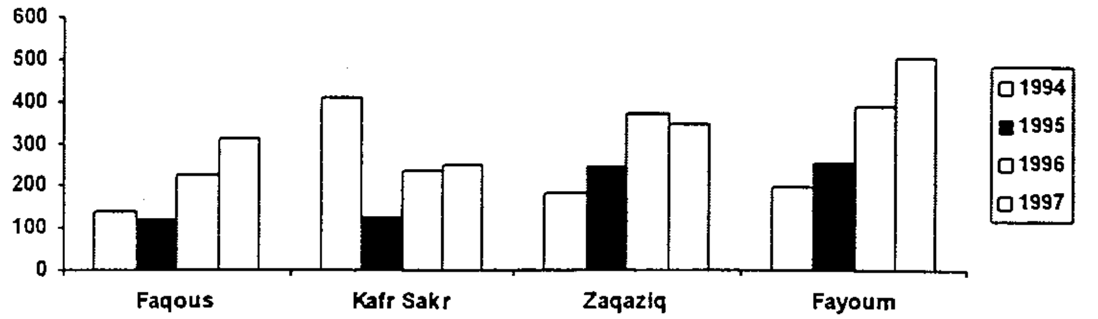


The total cost of operating one ton of paddy rice in 1997 was calculated for each mill, excluding the head office cost and wages, and excluding the cost of procuring the paddy rice itself. Included in the cost are direct wages and commodity inputs like fuel and utilities, the SG&A and depreciation as well as the interest expenses for each mill. The results are indicated in table 18. This analysis can assist in determining the efficiency of each mill.

Table 18
Cost of Operating one Ton of Paddy Rice
Excluding Head Office Costs and Raw Material (LE)

Year	1994	1995	1996	1997
Faqous	140	120	228	310
Kafr Sakr	407	123	233	249
Zaqaziq	183	245	371	348
Fayoum	198	256	389	505

Cost of Operating One Ton of Paddy Rice(LE)



The trends in the above graph are, to an extent, incomparable and alarming. However, one shared characteristic is the increasing cost for operating one ton of paddy rice, except for the odd year, 1994, at Kafr Sakr mill.

Cost has been divided into direct and indirect material, wages and overheads for each mill, in an attempt to determine the main affecting factors and their trends. (See Annex 4).

The single largest item in the cost of operating one ton of paddy rice is wages. It is followed by administrative expenses, spare parts and depreciation. Administrative expenses constitute between 8 and 15 percent of the total cost per ton in 1997, whereas spare parts and depreciation are around 9 percent each. Interest expense contribution to cost was at its highest in 1996, varying from an exceptionally low 20 percent of cost to 35 and 37 percent among the different mills. It dropped down to an average of 10 percent in 1997.

Table 19
Direct Wages as % to Total Cost per Ton (%)

	1994	1995	1996	1997
Faqous				
Production Labor	7	6	10	11
Production Service Labor	18	20	7	25
Total	25	26	17	36
Kafr Sakr				
Production Labor	8	3	10	8
Production Service Labor	20	21	6	22
Total	28	24	16	30
Zaqaziq				
Production Labor	6	10	17	12
Production Service Labor	26	9	12	28
Total	32	19	29	40
Fayoum				
Production Labor	12	4	15	16
Production Service Labor	22	35	9	33
Total	34	39	24	49

VII. VALUATION

1. Base Case : As Is Case

This section calculates the value of Sharkeya as a going concern with its current operating set up using the discounted cash flow method. Under this scenario the Company maintains its employees, debts and excess assets. The projection assumptions on the expenses side are based on the historical operating trends and norms of Sharkeya, while the revenue is based on the expected yearly increase in volume and selling prices of the different product items.

Projections start in 1998 and continue for five years, based on nominal terms.

1.1 Assumptions and Projected Figures

I. Income Statement

Sales are projected in terms of the anticipated quantity of sales for each product line and price per unit. Projected quantities and prices for the different product groups are based either on historical averages* or 1997 performance with annual percentage increase as foreseen by Sharkeya management.

Table 20
Historical Sales Volume (Tons)

	1994	1995	1996	1997	Average
Export Rice	17,051	4,449	23,848	25,904	17,813
Yearly Increase		-74%	436%	9%	124%
Local Rice	30,875	16,606	14,115	2,965	16,140
Yearly Increase		-46%	-15%	-79%	-47%
Brkn Rice & By-Prdcts	35,433	4,318	17,165	11,200	17,029
% to Total Rice	74%	21%	45%	39%	35%
Cattle feed	96,233	103,462	102,242	71,282	100,646
Yearly Increase		8%	-1%	-30%	-8%
Pasta	10,292	10,538	9,100	9,523	9,977
Yearly Increase		2%	-14%	5%	-6%

* The figures in boxes are used to produce the averages.

Sales Volume

Export Rice: is projected based on a 5% increase in 1998 and then an 11% increase until 2002 as anticipated by Sharkeya.

Preliminary Assessment of the Feasibility of a Majority ESOP for Sharkeya Rice Mills Company, The Reform Design and Implementation Unit of the Agricultural Policy Reform Project, May 21, 1998. This report is prepared for the Government of Egypt. Any other person should independently verify any information contained herein for their own purposes before relying on it.

Local Rice: is based on a four-year average with an adjusted reduction to reflect the current market situation. The four-year average amounts to 16,000 tons, but in 1998 the sales volume is assumed at 12,000 tons followed by a 10% annual increase.

Broken Rice and By-Products: is projected as a percentage of total tonnage for both export and local rice. The historical percentage decreased from 74% in 1994 to 39% in 1997 due to increased efficiency in production techniques. The percentage used during the projection years is further decreased and kept constant at 27% .

Cattle Feed: had a decreasing trend from 1994 to 1997 and is projected based on the average of 1995 to 1996 (excluding 1997 as it was exceptionally low). The yearly volume is projected on a declining trend of 1% annually.

Pasta: is projected based on the average volume for the same years, with an increasing trend of 4% annually.

Table 21
Projected Sales Volume - Base Case (Tons)

	1998	1999	2000	2001	2002
Export Rice	27,329	30,335	33,672	37,376	41,487
Local Rice	12,000	13,200	14,520	15,972	17,569
Brkn Rice & By Prdcts	10,500	11,623	12,866	14,243	15,767
Cattle feed	99,802	98,582	97,362	96,142	94,922
Pasta	9,946	10,369	10,792	11,215	11,638

Sales Prices

Export Rice: price increase from 1994 to 1997 averaged 14%, but is anticipated to increase by 11% annually.

Local Rice: a decreasing annual price increase trend over the same period and is projected to decrease further at 11% in 1998 and to gradually decrease further to reach 8% in 2002.

Broken Rice: is projected to increase annually by 5% based on Sharkeya's anticipation.

Cattle Feed: is projected to increase by 6% p.a..

Pasta: is projected to increase by 6% p.a..

Table 22
Projected Sales Prices - Base Case(LE/Ton)

	1998	1999	2000	2001	2002
Export Rice	1,462	1,615	1,785	1,972	2,180
Local Rice	1,370	1,505	1,641	1,776	1,912
Brkn Rice & By Prdcts	369	385	403	421	440
Cattle feed	546	579	613	650	689
Pasta	1,723	1,826	1,935	2,052	2,175

Total Sales:
The following table presents the annual projected sales for each product line.

Table 23
Projected Sales - Base Case (LE 000)

	1998	1999	2000	2001	2002
Export Rice	39,952	49,003	60,105	73,722	90,424
Local Rice	16,434	19,867	23,823	28,371	33,590
Brkn Rice & By-Prdcts	3,873	4,480	5,183	5,996	6,936
Total Rice	**60,259**	**73,351**	**89,111**	**108,089**	**130,950**
Cattle feed	54,482	57,044	59,719	62,509	65,419
Pasta	17,132	18,932	20,887	23,008	25,308
Total Sales	**131,873**	**149,327**	**169,717**	**193,606**	**221,677**

Cost of Goods Sold:
COGS are estimated as a percentage of sales. Although it reached high levels in 1997, projections are based on the lower average of the years from 1994 to 1997.

Rice: COGS/sales in 1997 is 104 percent. The lower average of 1994 to 1997 amounts to 100% and is used in projections.

Cattle Feed: the average percentage for the same four years of 85% is used in projections.

Pasta : The average for the same four-year period of 89% is used in projections.

COGS projections are presented in the following table:

Table 24
Cost of Goods Sold Projections - Base Case (LE 000)

	1998	1999	2000	2001	2002
Rice	60,259	73,352	89,111	108,089	130,950
Cattle feed	46,309	48,488	50,761	53,133	55,606
Pasta	15,247	16,849	18,589	20,477	22,524
Total COGS	**121,815**	**138,689**	**158,461**	**181,699**	**209,080**

Depreciation is projected on the basis of the historical average relationships of depreciation to net fixed assets. It ranges between 7.09 and 7.44 percent from 1994 to 1997, yielding an average of 7.3 percent.

Taxes are calculated at 32 percent of operating profit.

No capital expenditure is estimated.

The Projected Income Statement is illustrated in following table :

Table 25
Projected Income Statement - Base Case (LE 000)

	1998	1999	2000	2001	2002
Revenue	131,873	149,328	169,717	193,606	221,677
COGS	121,817	138,689	158,462	181,699	209,081
Gross Profit	10,056	10,639	11,255	11,907	12,596
SG&A	3,257	3,370	3,487	3,608	3,733
Operating Profit	6,800	7,269	7,768	8,299	8,863
NPBT	6,800	7,269	7,768	8,299	8,863
Income Tax Provision	2,176	2,326	2,486	2,656	2,836
NPAT	**4,624**	**4,943**	**5,282**	**5,643**	**6,027**

B. Working Investment

The main item of working investment is inventory, which is projected at 80 days and based on Sharkeya's decreasing inventory policy. In table 26, accounts receivable and accounts payable are projected at eight and three days respectively, the same as 1997 levels. Historically, over the years 1994-97, they have ranged from 6.3 and 10 days and 3 and 18 days respectively.

Table 26 illustrates the projected change in working investment.

Table 26
Projected Working Investment - Base Case (LE 000)

	DOH	1998	1999	2000	2001	2002
Current Assets :						
Accounts Receivable	8	2,890	3,273	3,720	4,243	4,859
Inventory	80	26,700	30,398	34,731	39,824	45,826
Total Trading Assets		*29,590*	*33,671*	*38,451*	*44,067*	*50,685*
Current Liabilities :						
Accounts Payable (Suppliers)	3	1,001	1,140	1,302	1,493	1,718
Total Spontaneous Finance		*1,001*	*1,140*	*1,302*	*1,493*	*1,718*
Projected Working Investment		28,589	32,531	37,149	42,574	48,966
Change in Working Investment		5,066	3,942	4,618	5,426	6,392

C. The Free Cash Flow

The free cash flow is prepared to derive the value of the Company as a going concern. The cash flow projections mainly present the operating profit and change in working investment. Depreciation and taxes are also calculated, but no capital expenditure is assumed. Projected free cash flow is given in table 27.

Table 27
Projected Free Cash Flow - Base Case (LE 000)

	1998	1999	2000	2001	2002
Operating Profit	6,800	7,269	7,768	8,299	8,863
Less: Taxes	2,176	2,326	2,486	2,656	2,836
Add : Depreciation	2,315	2,146	1,989	1,844	1,709
Less : Change in W I	5,066	3,942	4,618	5,426	6,392
Less : Capital Expenditure					
Cash Flow from Operations	**1,873**	**3,147**	**2,653**	**2,061**	**1,344**

1.2 Sharkeya Rice Mills Discounted Cash Flow

The cash flow, when discounted at a nominal discount rate of 18 percent, results in a **Corporate Value of LE 10.4 million** as illustrated in table 28.

Table 28
Corporate Present Value - Base Case (LE 000)

Nominal Discount Rate	16%	17%	18%	19%	20%
Present Cash Flow Value	7,432	7,270	7,113	6,962	6,816
Add: Residual Value	4,246	3,744	3,321	2,960	2,649
Corporate Present Value	11,678	11,014	10,434	9,922	9,465

After adding other assets and deducting liabilities not accounted for in the cash flow, the shareholders' value becomes **negative LE 13.366 million** as illustrated in table 29.

Table 29
Shareholders Net Present Value - Base Case (LE 000)

Corporate Present Value	10,434		
Add :		**Less :**	
Excess Assets	4,500	Long Term Debt	6,819
Excess Cash	2,715	Short Term Debt	11,481
Marketable Securities	0	Other Liabilities	14,996
Other Current Assets	2,281		
Shareholders Value	(13,366)		

2. Scenario 1 : Restructuring Scenario

The value of Sharkeya is assessed under a possible restructuring plan which entails the reduction of labor, the addition of two new activities which are cattle fattening and packaging and the transfer of excess land to the HC and the absorption of LE 6.8 million of long term debt by the HC.

This scenario is based upon Sharkeya management ideas and is built on the assumption of reducing the rice milling daily capacity from 485 to 200 tons. This reduction would, in turn, reduce the associated production expenses (mainly labor costs) resulting in the reduction of milling costs to around 88% of rice sales.

2.1. Income Statement

Sales projections are assumed the same as in the base case scenario for the three product lines.

Rice:

Sales are assumed the same as in the base case scenario.

COGS:

Sharkeya estimates that the reduction of labor possible in meeting the reduced rice production capacity, from 150 to 50 workers/mill would result in a total reduction of around 500 workers, which would in turn reduce total direct salaries by 40%. Other adjustments in the direct overheads like fuel and spare parts could also reduce direct operating costs by 40%.

The average direct cost (direct labor and overheads only - without direct material) of producing one ton of rice across the four mills (including head office costs) amounts to LE 459 per ton or LE 18.380 million for the total tonnage produced. This cost could be reduced by 40% (with labor and overheads reductions) resulting in a 12% reduction in total rice COGS/rice sales. Thus under this scenario, rice COGS are calculated at 88% of rice sales.

Cattle Feed, Pasta Sales and COGS are maintained as in the base case scenario.

The new activities are cattle fattening and packaging:

Cattle Fattening: Sharkeya management estimates sales at LE 23.8 million with an annual increase of 5%. COGS are estimated at LE 22.2 million with an annual increase of 5%.

Packaging : Estimated Sales for 1998 are LE 800,000 with an annual increase of 5% and COGS are LE 500,000 in 1998 with an annual increase of 5%.

Table 30
Sales Projections - Scenario 1 (LE 000)

	1998	1999	2000	2001	2002
Total Rice	60,259	73,351	89,111	108,088	130,950
Cattle feed	54,481	57,045	59,719	62,509	65,419
Pasta	17,132	18,932	20,886	23,007	25,308
Cattle Fattening	23,800	24,990	26,239	27,551	28,929
Packaging	800	840	882	926	972
Total Sales	**156,473**	**175,158**	**196,837**	**222,081**	**251,578**

Table 31
COGS Projections - Scenario 1 (LE 000)

	1998	1999	2000	2001	2002
Rice	53,028	64,549	78,418	95,118	115,236
Cattle feed	46,310	48,488	50,761	53,133	55,606
Pasta	15,247	16,850	18,589	20,477	22,524
Cattle Fattening	22,200	23,310	24,475	25,699	26,984
Packaging	500	525	551	578	608
Total COGS	**137,285**	**153,722**	**172,794**	**195,005**	**220,958**

The SG&A expenses are maintained at the historical average of 4% of sales.

Depreciation expenses are calculated at an average of 15% of assets in 1998 to account for the additional capital expenditure on machinery.

Taxes are calculated at 32 percent of operating profit.

Table 32 presents the projected income statements.

Table 32
Projected Income Statement – Scenario 1 (LE 000)

	1998	1999	2000	2001	2002
Revenue	156,473	175,158	196,839	222,083	251,579
COGS	137,286	153,722	172,795	195,006	220,959
Gross Profit	19,188	21,436	24,044	27,077	30,620
SG&A	6,259	7,006	7,874	8,883	10,063
Operating Profit	12,929	14,430	16,170	18,194	20,557
NPBT	12,929	14,430	16,170	18,194	20,557
Income Tax Provision	4,137	4,618	5,174	5,822	6,578
NPAT	8,792	9,812	10,996	12,372	13,979

3.2 Free Cash Flow

The free cash flow is calculated for the restructuring scenario. The cash flow projections mainly present the operating profit and change in working investment (using the same assumptions as the Base Case Scenario). Depreciation and taxes are also calculated. Capital expenditure includes Sharkeya's estimate of the new machinery required for the cattle fattening as well as the new machine for the milling activity.

Table 33
Projected Free Cash Flow – Scenario 1 (LE 000)

	1998	1999	2000	2001	2002
Sales	156,473	175,158	196,839	222,083	251,579
COGS	137,286	153,722	172,795	195,006	220,959
Gross Profit	19,188	21,436	24,044	27,077	30,620
SG&A	6,259	7,006	7,874	8,883	10,063
Operating Profit	12,929	14,430	16,170	18,194	20,557
Less: Taxes	4,137	4,618	5,174	5,822	6,578
Add : Depreciation	4,907	4,171	3,545	3,013	2,561
Less : Change in W I	8,868	3,877	4,499	5,239	6,121
Less : Capital Expenditure	1,000	500			
Cash Flow from Operations	3,831	9,606	10,042	10,147	10,419

2.1 Sharkeya Rice Mills Discounted Cash Flow

The cash flow, when discounted at a nominal discount rate of 18 percent, results in a **Corporate Value of LE 51.7 million**, as illustrated in the following table :

Table 34
Corporate Present Value - Scenario 1 (LE 000)

Nominal Discount Rate	16%	17%	18%	19%	20%
Present Value from Cash Flow	27,439	26,729	26,045	25,388	24,755
Add: Residual Value	32,895	29,012	25,730	22,931	20,525
Corporate Present Value	60,334	55,741	51,775	48,319	45,280

After adding other assets and deducting liabilities not accounted for in the cash flow, and considering the assets to be transferred to the HC and the long term debt to be absorbed by the books by the HC, the shareholders' value becomes **LE 30.297 million** as illustrated in table 35.

Table 35
Shareholders Net Present Value - Scenario 1 (LE 000)

Corporate Present Value	51,775		
Add :		**Less:**	
Excess Assets			
Excess Cash	2,715	Long Term Debt	
Marketable Securities	0	Short Term Debt	11,481
Other Current Assets	2,281	Other Liabilities	14,996
Shareholders Value	30,297		

VIII . The ESOP

The Company management has discussed a possible sale of the Company under the restructuring scenario through an ESOP. The ESA would purchase 95% of the company through a loan payable to the HC.

1. The ESOP Loan

The ESA would acquire 95% of the Company, which amounts to LE 28.7 million. This figure represents the ESA's loan from the HC, which is assumed to be amortized over 10 years with a grace period of one year and an interest rate of 8% as illustrated in table 36.

Table 36
ESOP Loan Breakdown (LE 000)

Loan Amount	**28,779**
Interest Rate	8%
Terms in years	10
Payments per year	1
Grace Period in years	1
Amount of Yearly Payment	2,878

Years	Starting Balance	Current Portion	Closing Balance	Interest Expense	Equal Annual Interest and Loan Installments
1	28,779		28,779	2,302	
2	28,779	2,878	25,901	2,302	4,374
3	25,901	2,878	23,023	2,072	4,374
4	23,023	2,878	20,146	1,842	4,374
5	20,145	2,878	17,268	1,612	4,374
6	17,268	2,878	14,390	1,381	4,374
7	14,390	2,878	11,512	1,151	4,374
8	11,512	2,878	8,634	921	4,374
9	8,634	2,878	5,756	691	4,374
10	5,756	2,878	2,878	460	4,374
11	2,878	2,878	0	230	4,374

The interest expense over the 11 years totals LE 14.96 million and the total current portion amounts to LE 28.77 million, bringing the loan and the interest over the 11 years to LE 43.7 million. To reduce the burden on the ESA's cash flow in earlier years, equal interest and repayment installments were assumed.

Table 37 shows that the cash flow generated from the restructuring scenario under the previously listed assumptions is sufficient to cover the financial obligations due to the HC. We did not examine whether or not the dividends ESA would be sufficient to cover payments to departing ESA members.

Cash dividends to the ESA were projected on the basis of 95% ownership by the ESA. A dividend pay-out ratio of 30% in 1998 and 60% for the years 1999-2003 is assumed.

Table 37
ESOP Comprehensive Cash Flow (LE 000)

	1998	1999	2000	2001	2002
Sources:					
ESA Dividends	2,505	5,593	6,267	7,052	7,968
Major Uses:					
Financial Payments to HC		4,374	4,374	4,374	4,374

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Figure Disclaimer

Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers presented in this report have been rounded to the nearest tenth. Thus, these figures may be subject to small rounding errors in some cases.

ANNEX 1

Sharkeya Rice Company

Balance Sheet (LE000)	1994	1995	1996	1997
Assets				
Current Assets				
Cash	15,357	1,652	1,932	2,715
Gross Receivable	1,616	1,491	2,991	1,961
Provision for doubtful debt				
Net Receivables	1,616	1,491	2,991	1,961
Inventory	26,455	45,823	52,144	22,296
Other Current Assets	4,089	2,151	3,282	2,281
Total Current Assets	**47,517**	**51,117**	**60,349**	**29,253**
Non Current Assets				
Fixed Assets	39,412	38,562	36,344	34,249
Depreciation				
Net Fixed Assets	39,412	38,562	36,344	34,249
Investments	2,429	2,429	2,370	2,370
Other Assets	14,154	12,708	5,186	5,712
Total Non Current Assets	**55,995**	**53,699**	**43,900**	**42,331**
Total Assets	**103,512**	**104,816**	**104,249**	**71,584**

Liabilities and Networth				
Current Liabilities				
Accounts Payables	1,736	3,589	1,272	734
Short Term Debt	0	15,560	35,777	11,481
Other Current Liabilities	37,876	27,895	17,582	14,996
Total Current Liabilities	**39,612**	**47,044**	**54,631**	**27,211**
Long Term Debt	16,978	10,640	8,729	6,819
Other Liabilities				
Total Liabilities	**56,590**	**57,684**	**63,360**	**34,030**
Provisions	15,303	12,617	10,400	9,835
Total Liabilities and Provisions	**71,893**	**70,301**	**73,760**	**43,865**
Net Worth				
Paid in Capital	5,200	5,200	5,200	5,200
Reserves	26,419	29,315	27,781	28,178
Retained Earnings (Loss)			2,492-	5,659-
Total Net Worth	**31,619**	**34,515**	**30,489**	**27,719**
Total Liabilities and Networth	**103,512**	**104,816**	**104,249**	**71,584**

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Sharkeya Rice Company

Balance Sheet *(Common Size)*	1994	1995	1996	1997
Assets				
Current Assets				
Cash	14.84%	1.58%	1.85%	3.79%
Gross Receivable	1.56%	1.42%	2.87%	2.74%
Provision for doubtful debt	0.00%	0.00%	0.00%	0.00%
Net Receivables	1.56%	1.42%	2.87%	2.74%
Inventory	25.56%	43.72%	50.02%	31.15%
Other Current Assets	3.95%	2.05%	3.15%	3.19%
Total Current Assets	**45.90%**	**48.77%**	**57.89%**	**40.87%**
Non Current Assets				
Fixed Assets	38.07%	36.79%	34.86%	47.84%
Depreciation	0.00%	0.00%	0.00%	0.00%
Net Fixed Assets	38.07%	36.79%	34.86%	47.84%
Investments	2.35%	2.32%	2.27%	3.31%
Other Assets	13.67%	12.12%	4.97%	7.98%
Total Non Current Assets	**54.10%**	**51.23%**	**42.11%**	**59.13%**
Total Assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Liabilities and Networth				
Current Liabilities				
Accounts Payables	1.68%	3.42%	1.22%	1.03%
Short Term Debt	0.00%	14.85%	34.32%	16.04%
Other Current Liabilities	36.59%	26.61%	16.87%	20.95%
Total Current Liabilities	**38.27%**	**44.88%**	**52.40%**	**38.01%**
Long Term Debt	16.40%	10.15%	8.37%	9.53%
Other Liabilities	0.00%	0.00%	0.00%	0.00%
Total Liabilities	**54.67%**	**55.03%**	**60.78%**	**47.54%**
Provisions	14.78%	12.04%	9.98%	13.74%
Total Liabilities and Provisions	**69.45%**	**67.07%**	**70.75%**	**61.28%**
Net Worth				
Paid in Capital	5.02%	4.96%	4.99%	7.26%
Reserves	25.52%	27.97%	26.65%	39.36%
Retained Earnings (Loss)	0.00%	0.00%	-2.39%	-7.91%
Total Net Worth	**30.55%**	**32.93%**	**29.25%**	**38.72%**
Total Liabilities and Networth	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Sharkeya Rice Company				
Income Statement *(LE000)*	1994	1995	1996	1997
Revenue	**92,910**	**78,069**	#######	**92,669**
COGS	74,610	69,658	100,298	89,037
Depreciation	2,862	2,733	2,705	2,536
Gross Profit	**15,438**	**5,678**	**4,379**	**1,096**
SG&A	3,503	2,276	4,063	3,148
Total Operating Expenses	**3,503**	**2,276**	**4,063**	**3,148**
Operating Profit	**11,935**	**3,402**	**316**	**2,052-**
Interest Expense	2,234-	2,934-	4,671-	981-
Interest Income	502	490	44	36
Investment Income	338	143	95	135
Sundry Income	111	188	583	795
Sundry Expense	434-	45-	256-	254-
Foreign Currency Fluctuations	124			
Provisions			106-	202-
NPBT	**10,342**	**1,244**	**3,995-**	**2,523-**
Provisions for Income Tax	2,383			
NPAT	**7,959**	**1,244**	**3,995-**	**2,523-**
Extraordinary Items				
Capital Gain				
Prior Year Income	297	2,696	1,000	128
Prior Year Expense	188-	898-	1,474-	178-
NPAEI	**8,068**	**3,042**	**4,469-**	**2,573-**

Sharkeya Rice Company

Income Statement	1994	1995	1996	1997
Revenue	100.00%	100.00%	100.00%	100.00%
COGS	80.30%	89.23%	93.40%	96.08%
Depreciation	3.08%	3.50%	2.52%	2.74%
Gross Profit	**16.62%**	**7.27%**	**4.08%**	**1.18%**
SG&A	3.77%	2.92%	3.78%	3.40%
Total Operating Expens	**3.77%**	**2.92%**	**3.78%**	**3.40%**
Operating Profit	**12.85%**	**4.36%**	**0.29%**	**-2.21%**
Interest Expense	-2.40%	-3.76%	-4.35%	-1.06%
Interest Income	0.54%	0.63%	0.04%	0.04%
Investment Income	0.36%	0.18%	0.09%	0.15%
Sundry Income	0.12%	0.24%	0.54%	0.86%
Sundry Expense	-0.47%	-0.06%	-0.24%	-0.27%
Foreign Currency Fluctu	0.13%	0.00%	0.00%	0.00%
Provisions	0.00%	0.00%	-0.10%	-0.22%
NPBT	**11.13%**	**1.59%**	**-3.72%**	**-2.72%**
Provisions for Income Ta	2.56%	0.00%	0.00%	0.00%
NPAT	**8.57%**	**1.59%**	**-3.72%**	**-2.72%**
Extraordinary Items				
Capital Gain	0.00%	0.00%	0.00%	0.00%
Prior Year Income	0.32%	3.45%	0.93%	0.14%
Prior Year Expense	-0.20%	-1.15%	-1.37%	-0.19%
NPAEI	**8.68%**	**3.90%**	**-4.16%**	**-2.78%**

Sharkeya Rice Company

Financial Ratios	1994	1995	1996	1997
General Indicators				
ROE	0.252	0.036	(0.131)	(0.091)
ROS	0.086	0.016	(0.037)	(0.027)
ATO	0.898	0.745	1.030	1.295
ALEV	3.274	3.037	3.419	2.582
Profitability				
Sales	92,910	78,069	107,382	92,669
Change in Sales		(0.190)	0.273	(0.159)
Gross Profit Margin	0.166	0.073	0.041	0.012
Gross Profit / Sales	0.166	0.073	0.041	0.012
Net Operating Profit	0.128	0.044	0.003	(0.022)
N. Oper. Profit / Sales	0.128	0.044	0.003	(0.022)
NPAT / Sales	0.086	0.016	(0.037)	(0.027)
NPAUI / Sales	0.087	0.039	(0.042)	(0.028)
Liquidity				
Quick	0.532	0.113	0.150	0.256
Current	1.200	1.087	1.105	1.075
Working Capital (WC)	7,905	4,073	5,718	2,042
WC/Current Assets	0.166	0.080	0.095	0.070
Asset Management				
Inventory Turnover	2.820	1.520	1.923	3.993
Receivable Turnover	57.494	52.360	35.902	47.256
Receivable DOH	6.262	6.875	10.027	7.618
Payable DOH	8.376	18.548	4.566	2.968
Inventory DOH	127.6	236.8	187.2	90.149
Working Investment (WI)	26,335	43,725	53,863	23,523
WI/sales	28.3%	56.0%	50.2%	25.4%
Debt Ratios				
Total Debt : Equity	0.537	0.759	1.460	0.660
LT Liabilities : Equity	1.021	0.674	0.627	0.601
Debt Equity	0.537	0.308	0.286	0.246

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ANNEX 2

Cost Break Down

(LE 000)	1994	1995	1996	1997
Rice				
COGS & Dep.	47,804	25,949	53,111	43,494
SG&A	387	264	165	400
Operating Exp.	**48,191**	**26,213**	**53,276**	**43,894**
Interest expense	158	1,465	3,609	824
Cattle Feed				
COGS & Dep.	23,524	36,476	39,512	34,240
SG&A	89	112	63	8
Operating Exp.	**23,613**	**36,588**	**39,575**	**34,248**
Interest expense	403	277	214	-
Pasta				
COGS & Dep.	11,066	11,658	13,152	14,913
SG&A	10	199	99	36
Operating Exp.	**11,076**	**11,857**	**13,251**	**14,949**
Interest expense	1,673	1,192	848	156
Total COGS & Dep.	**82,394**	**74,083**	#######	**92,647**
Total SG&A	**486**	**575**	**327**	**444**
Total Operating Expenses	**82,880**	**74,658**	#######	**93,091**
	(2,234)			

Cost Break Down Per Ton

LE	1994	1995	1996	1997
Rice				
COGS & Dep.	573	603	963	1,085
SG&A	5	6	3	10
Operating Exp.	**578**	**609**	**966**	**1,095**
Income Expense	1.9	34.0	65.5	20.6
Cattle Feed				
COGS & Dep.	244	353	386	480
SG&A	1	1	1	0
Operating Exp.	**245**	**354**	**387**	**480**
Income Expense	4.2	2.7	2.1	-
Pasta				
COGS & Dep.	1,075	1,106	1,445	1,566
SG&A	1	19	11	4
Operating Exp.	**1,076**	**1,125**	**1,456**	**1,570**
Income Expense	162.6	113.1	93.2	16.4
Total COGS & Dep.	**1,893**	**2,061**	**2,795**	**3,132**
Total SG&A	**7**	**26**	**14**	**14**
Total Operating Expenses	**1,900**	**2,088**	**2,810**	**3,146**
	0.89			

Sales Analysis

(LE 000)	1994	1995	1996	1997
Rice	48,775	27,298	51,315	41,932
Cattle Feed	35,230	40,389	43,475	36,723
Pasta	12,950	13,911	14,212	15,478
Total Revenue	96,955	81,598	109,002	94,133

Sales Volume

Tons	1994	1995	1996	1997
Rice	83,359	43,063	55,128	40,069
Cattle Feed	96,233	103,462	102,242	71,282
Pasta	10,292	10,538	9,100	9,523

Average Selling Price Per Ton

LE	1994	1995	1996	1997
Rice	585	634	931	1,046
Cattle Feed	366	390	425	515
Pasta	1,258	1,320	1,562	1,625

Product Profitability Per Ton

LE	1994	1995	1996	1997
Rice				
Sales	585	634	931	1,046
Gross Profit	12	31	(33)	(39)
Operating Profit	7	25	(36)	(49)
Net Profit	4.99	8.82-	101.04-	69.53-
Cattle Feed				
Sales	366	390	425	515
Gross Profit	122	38	39	35
Operating Profit	121	37	38	35
Net Profit	116.44	39.42	40.24	34.72
Pasta				
Sales	1,258	1,320	1,562	1,625
Gross Profit	183	214	116	59
Operating Profit	182	195	106	56
Net Profit	19.53	81.80	12.42	39.17
	141.0	**112.4**	**(48.4)**	**4.4**

Profitability Per Product

LE	1994	1995	1996	1997
Rice				
Sales	48,765	27,298	51,315	41,932
Gross Profit	961	1,349	(1,796)	(1,562)
Operating Profit	574	1,085	(1,961)	(1,962)
Cattle Feed				
Sales	35,221	40,389	43,475	36,723
Gross Profit	11,697	3,913	3,963	2,483
Operating Profit	11,608	3,801	3,900	2,475
Pasta				
Sales	12,950	13,911	14,212	15,478
Gross Profit	1,884	2,253	1,060	563
Operating Profit	1,874	2,054	961	529

ANNEX 3

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Profit Analysis Per production Unit

1996/97

(000)

	Total	Zaqaziq Unit	Faqous Unit	Ibrahimia Unit	Kafr Sakr Unit	Fayoum Unit	Mills Total	Catel feed Factory	Pasta Factory	Total Factories	General Admin	Fleet Admin	central Workshop	Total
Net Sales	94,133	5,110	14,186	61	18,398	4,177	41,932	36,723	15,478	52,201	0	0	0	0
operation Revenue	706	100	131	207	94	152	684	0	22	22	0	0	0	0
Services Sold	315	5	13	2	22	37	79	7	7	14	8	214	0	222
Goods for resale net sales	295	0	0	0	0	0	0	247	0	247	48	0	0	48
Net Revenue from Operations	95,449	5,215	14,330	270	18,514	4,366	42,695	36,977	15,507	52,484	56	214	0	270
[illegible] Expenses	73,551	4,266	6,443	428	10,496	2,451	24,084	34,538	13,530	48,068	281	1,012	106	1,399
[illegible] change (by cost)	18,316-	821-	8,083-	14-	7,780-	2,206-	18,904-	526	62	588	0	0	0	0
[illegible]entory Change (by selling price)	878-	27-	369-	0	477-	69-	942-	120	56-	64	0	0	0	0
[illegible] inventory change for resale	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Scrap	50	3	7	2	1	1	14	21	6	27	0	9	0	9
Total COGS	91,817	5,084	14,519	440	18,275	4,656	42,974	33,991	13,462	47,453	281	1,003	106	1,390
Depreciation	2,536	116	136	31	146	91	520	249	1,451	1,700	23	250	43	316
Gross Profit	1,096	15	325-	201-	93	381-	799-	2,737	594	3,331	248-	1,039-	149-	1,436-
SG&A	3,148	59	98	92	68	83	400	8	36	44	2,219	485	0	2,70[illegible]
Operating profit	2,052-	44-	423-	293-	25	464-	1,199-	2,729	558	3,287	2,467-	1,524-	149-	4,1[illegible]
Intrest Expense	980	146	223	0	379	76	824	0	156	156	0	0	0	
Intrest income	36	0	0	0	0	0	0	0	0	0	36	0	0	
Securities	135	0	0	0	0	0	0	0	0	0	135	0	0	1[illegible]
Sundry Income	796	0	0	0	0	0	0	0	0	0	796	0	0	796
Sundry expense	215	0	0	0	0	0	0	0	0	0	215	0	0	215
FX	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions other than depreciation	221	0	0	0	0	0	0	0	0	0	221	0	0	221
Income tax	22	0	0	0	0	0	0	0	0	0	22	0	0	22
Prior year income	128	0	0	0	0	0	0	0	0	0	128	0	0	128
prior year expense	178	0	0	0	0	0	0	0	0	0	178	0	0	178
Net profit/loss	2,573-	190-	646-	293-	354-	540-	2,023-	2,729	402	3,131	2,008-	1,524-	149-	3,681

Profit Analysis Per production Unit

1995/96

(000)

	Total	Zaqaziq Unit	Faqous Unit	Ibrahimia Unit	Kafr Sakr Unit	Fayoum Unit	Mills Unit	Catel feed Factory	Pasta Factory	Total	general Admin	Fleet Admin	central Workshop	Total
Net Sales	109,002	11,184	18,201	6	18,100	3,824	51,315	43,475	14,212	57,678	0	0	0	0
operation Revenue	1,508	205	321	267	331	345	1,469	0	39	39	0	0	0	0
Services Sold	680	3	4	1	17	28	53	6	2	8	160	459	0	619
Goods for resale net sales	568	0	247	0	205	116	568	0	0	0	0	0	0	0
Net Revenue from Operations	111,758	11,392	18,773	274	18,653	4,313	53,405	43,481	14,253	57,734	160	459	0	619
COGS														
Cost & Expenses	101,108	6,889	17,433	619	17,922	5,408	48,271	39,049	12,336	51,385	337	1,026	89	1,452
FG Inventory change (by cost)	3,616-	4,739-	771-	10-	768	579	4,173-	96-	653	557	0	0	0	0
FG Inventory Change (by selling price)	947-	355-	338-	1-	250-	43-	987-	44-	84	40	0	0	0	0
Goods inventory change for resale	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Scrap	64	5	14	1	4	2	26	19	3	22	0	16	0	16
Total COGS	104,660	11,623	18,190	628	17,150	4,827	52,418	39,126	11,680	50,806	337	1,010	89	1,436
Depreciation	2,705	161	212	29	193	98	693	386	1,472	1,858	11	94	49	154
Gross Profit	4,393	392-	371	383-	1,310	612-	294	3,969	1,101	5,070	188-	645-	138-	971-
[illegible] A	4,077	25	45	6	59	30	165	63	99	162	2,982	768	0	3,750
[illegible] profit	316	417-	326	389-	1,251	642-	129	3,906	1,002	4,908	3,170-	1,413-	138-	4,721-
[illegible] ense	4,671	723	1,000	121	1,303	462	3,609	214	848	1,062	0	0	0	0
[illegible] income	44	2	4	21	2	1	30	4	2	6	7	1	0	8
Securities	95	0	0	0	0	0	0	0	0	0	95	0	0	95
Sundry Income	584	0	0	0	0	0	0	0	0	0	584	0	0	584
Sundry expense	235	0	0	0	0	0	0	0	0	0	235	0	0	235
FX	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions other than depreciation	106	0	0	0	0	0	0	106	0	0	0	0	0	0
Income tax	21	0	0	0	0	0	0	0	0	0	21	0	0	21
Prior year income	1,000	0	0	0	0	0	0	0	0	0	1,000	0	0	1,000
prior year expense	1,474	0	0	0	0	0	0	0	0	0	1,474	0	0	1,474
Net profit/loss	4,468-	1,138	670-	489-	,50-	1,103-	3,450-	3,590	156	3,746	3,214-	1,412-	138-	4,764-

Profit Analysis Per production Unit

1993/94

(000)

	Total	Zaqaziq Unit	Faqous Unit	Ibrahimia Unit	Kafr Sakr Unit	Fayoum Unit	Mills Total	Catel feed Factory	Pasta Factory	Total Factories	General Admin	Fleet Admin	central Workshop	Total
Net Sales	96,973	8.332	16,737	1.410	15.848	6,448	48,775	35,230	12.950	48.180	0	0	18	18
operation Revenue	1.359	232	365	11	751	0	1,359	0	0	0	0	0	0	0
Services Sold	556	9	10	5	10	35	69	175	79	254	228	5	0	233
Goods for resale net sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Revenue from Operations	98.888	8.573	17.112	1.426	16.609	6,483	50,203	35.405	13,029	48,434	228	5	18	251
Cost & Expenses	66.035	5,469	12,147	992	9,595	4,958	33.161	22.966	9,021	31.987	139	748	0	887
FG Inventory change (by cost)	14.593-	2.799-	3,433-	1,079-	5,600-	1,007-	13,918-	157-	518-	675-	0	0	0	0
FG Inventory Change (by selling price)	3,021-	677-	518-	229-	1,159-	330-	2,913-	18-	90-	108-	0	0	0	0
Goods inventory change for resale	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Scrap	41	0	0	0	0	0	0	0	0	0	41	0	0	41
Total COGS	80,587	8.268	15,580	2,071	15,195	5,965	47,079	23.123	9,539	32,662	98	748	0	846
Depreciation	2,862	149	224	62	190	100	725	401	1.527	1,928	0	140	69	209
Gross Profit	15,439	156	1,308	707-	1,224	418	2,399	11,881	1,963	13.844	130	883-	51-	804-
SG&A	3,502	70	89	74	104	50	387	89	10	99	2,082	934	0	3,016
Operating profit	11,937	86	1,219	781-	1,120	368	2,012	11,792	1,953	13,745	1,952-	1,817-	51-	3,820-
intrest Expense	2,234	53	51	0	33	21	158	403	1,673	2,076	0	0	0	0
intrest income	502	0	0	0	0	0	0	0	0	0	502	0	0	502
Securities	338	0	0	0	0	0	0	0	0	0	338	0	0	338
Sundry Income	234	0	0	0	0	0	0	0	0	0	234	0	0	234
Sundry expense	263	0	0	0	0	0	0	0	0	0	263	0	0	263
FX	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions other than depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[illegible] tax	2,554	0	0	0	0	0	0	0	0	0	2,554	0	0	2,554
[illegible]ncome	297	0	0	0	0	0	0	0	0	0	297	0	0	297
[illegible] expense	188	0	0	0	0	0	0	0	0	0	188	0	0	188
[illegible]ofit/loss	8.069	33	1,168	781-	1,087	347	1,854	11,389	280	11,669	3,586-	1,817-	51-	5,454-

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