

September 15th, 2009

Press Release

I – Company Description

- Al Arafa for Investment & Consultancies “AIVC” is one of the leading export oriented and integrated apparel and textiles manufacturers in Egypt and the Middle East, and a prominent apparel retailer and wholesaler in Egypt, the UK, Scandinavia & most recently Italy, through the acquisition of a 35% stake in Forall Group which owns the prestigious world renowned “PAL ZILERI” brand;
- The Company’s production include men’s formal and casual wear for some of the world’s largest retailers such as Marks & Spencer, GAP, JC Penny and Macy’s as well as globally recognized brands such as Valentino.
- The Company carries out its business via three key operational segments; the Textiles, Apparel & Tailoring and Retail. This vertically integrated business model represents the core of the Company’s competitive strength as it allows it to lower manufacturing costs, maximize economies of scale, expand its revenue base through cross selling products and services, and most importantly minimize operational risk via controlling part of its distribution channels;
- The three operational segments are further combined to function as three target market sectors allowing Al Arafa for Investment & Consultancies to have three fully integrated business lines each targeting a specific market sector: the Luxury sector, the Formal sector and the Casual sector

II – Financial Performance Year to Date

Despite of the difficult economic global conditions and the concurrent shrinkage in retail spending, AIVC has shown extreme resilience and was still able to post positive operating results. While operations are not immune to the effects of the economy, the strength of the company's vertically integrated model and soundness of its approach has enabled it to remain profitable, retain & expand its client base. AIVC continues to focus on managing operational expenses and investing in long-term opportunities to deliver value to all stakeholders.

Al Arafa for Investment & Consultancies (AIVC)
Group results
2nd quarter and 1st half ended 31st July 2009



AIVC posts net profit after minority interest of US\$ 5.5 million for the six month period ended 31 July 2009 vs. US\$ 15.9 million for the six month period ended 31 September 2008.

III – Market Update

- United States total imports declined by 30.4% during January/February 2009 compared to same period last year;
- Since November 2008, European garment imports as a whole have decreased by an average 4.5% and European retailers have reported margin losses as high as 30%;
- The UK market witnessed the steepest decline; 9.5%, followed by Italy 3.2%, Spain 2.8% and France 1.5%;
- In Egypt exports of ready made garments were hardest hit in the second quarter of 2009, declining in April by approximately 34% compared to same period last year and cumulatively 11% for the period January/April on a like for like basis;

It is noteworthy to mention that, AIVC is the leading exporter of garments in Egypt, accounting for almost 14.6% of Egypt's aggregate garment exports.

IV – Performance Analysis

Retail Operations

Seasonality in the retail segment has distorted the results for first half ended July 2009, vs 1st half ended September 2008 as the periods are incomparable. Retail net sales reached US\$ 117.7 million in first half ended July 31, 2009, a 21% decline from the first half ended September 30, 2008. At constant exchange rates, retail sales increased by 5% percent, reflecting the resilient position the company has shown in this difficult trading environment that has been undermined by the devaluation of both the GBP & EGP against the US\$ by 25% & 2.2% respectively.

Local retail sales, which account for approximately 11% of total retail sales, have shown a decline of 2%, in EGP terms, due to the closure of two franchise stores. Like for like retail sales in CONCRETE have remained flat over the period, reflecting its strong position in this difficult trading year. However, albeit decreasing by only 2% in EGP terms, local retail sales declined by 5% in US\$

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terms due to translation effect of the appreciation of the US\$ against the EGP during the period by 2.2%.

On the other hand, foreign retail operations have been dually affected by the recessionary state of the UK, coupled with an adverse currency movements, whereby average GBP has depreciated against the dollar by almost 25% during the period May – July 2009 resulting in a recorded decline in sales of 19%. However, in constant currency terms, foreign retail operations have registered a 5% increase in revenue when compared to last year figures.

To safeguard market share and the need to generate liquidity, abnormal discounts were an industry wide necessity which lead to depressed margins. Net losses on foreign retail operations for the first half was US\$ 8.9 million compared to a loss of US\$ 2.7 million for the period ended September 2008.

However, a continued focus on integrating recently acquired targets like Specialty Retail Group (SRG) & MELKA under the Baird Group has lead to cost efficiencies of approximately GBP 3 million.

Apparel & Tailoring Segment

Apparel & Tailoring net sales amounted to US\$ 57.7 million for the first half, a decline of 23% compared to the same period last year.

Swiss Garments Company's "SGC" revenue, which accounts for 83% of the segment, declined by 10.6% in US\$ terms, while volumes increased by 8% to 1,032,695 Suits Equivalent Units "SEU" from 955,000 SUE for the comparable period reflecting the synergies gained from the group vertical integration model. Owned retail operations fuel demand for formal wear consuming 22% of the total A&T volumes produced. Furthermore, Electronic Data Interchange & Continuity programs with major clients such as Macy's, JC Penny & GAP, has bonded SGC as an integrated part of such clients' supply chain & maintained the flow of casual wear business.

The decline in value of sales was driven by a decrease in the average selling prices per unit sold by 17% reflecting the GBP depreciation against the dollar noting that approximately 25% of Apparel & Tailoring revenue is originated in GBP.

Operating income for the first half was US\$ 10.6 million, reflecting an improvement in operating profit margin by 2.9% to reach 18.3% in first half

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compared to 15.5% for the prior year. The improvement came on the back of increased government export incentives during the six month period ended June 2009.

The Apparel & Tailoring segment reported net income of US\$ 10.2 million compared to 15.1 million in the previous year that included an FX gain of US\$ 2.8 million compared to US\$ 1.3 million in FX gains for the current year.

Textiles

Revenues from textiles segment amounted to US\$ 7.5 million during the first half a 36% decline in US\$ terms compared to the same period last year. The decline was mainly on the back of lower fabric sales volumes, which account for 86% of the segments turnover.

Profitability has however improved on the back of deflationary environment for raw materials that has enabled the company to lock in an incremental 5% in gross margins achieving an operating profit to sales of 26.1% during the period. Operating income and net income for the first half was US\$ 1.9 million and US\$ 0.9 million, reflecting an 18% decrease and a 2% increase, respectively, compared with the prior year.

For any further information please contact the undersigned

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