ITALTILE Limited

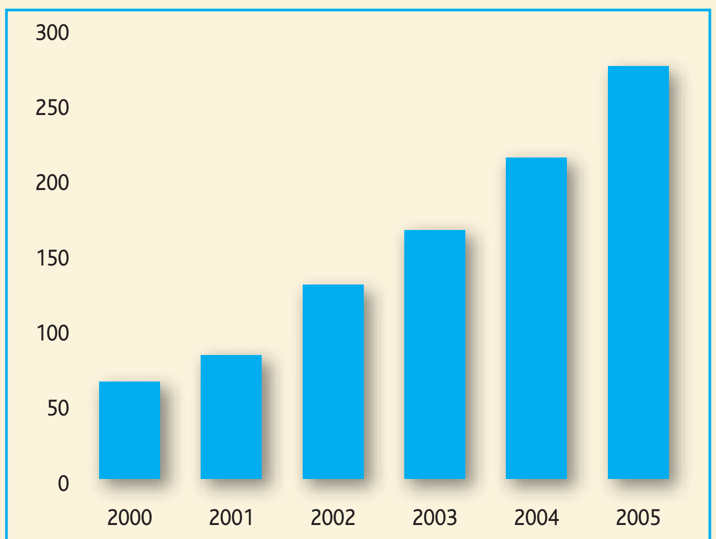
("Italtile" or "the Group")
Share code: ITE
ISIN: ZAE000003679
Reg. no.: 1955/000558/06
Incorporated in the
Republic of South Africa

Italtile
The Style. The Passion.

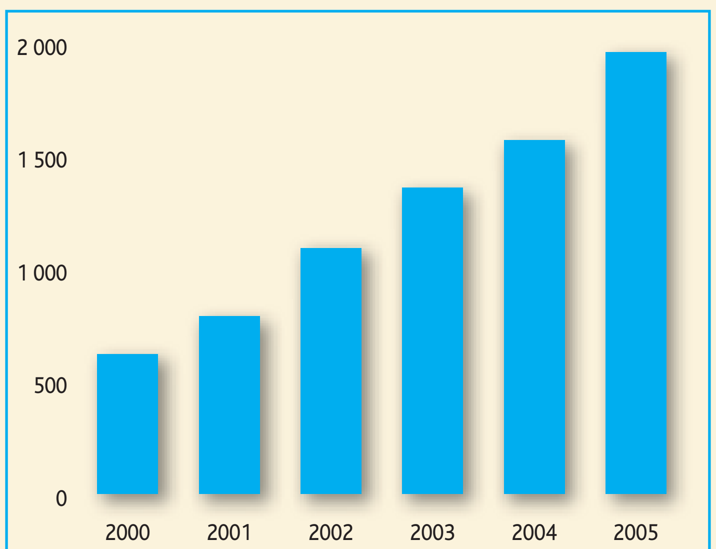
THE BIG TILE BUYER – WORLDWIDE
CTM

PRELIMINARY PROFIT ANNOUNCEMENT

Reviewed Group Results for the year ended 30 June 2005



Trading profit – R MILLION



System wide turnover – R MILLION

COMMENTARY

RESULTS

Italtile Limited, South Africa's pre-eminent retailer of ceramic tiles, bathware and related products, is represented by category leading brands, CTM and Italtile. The group's comprehensive product offering has broad consumer appeal, ranging from entry level and DIY markets to the niche, premium-end sector. The company trades through a network of 101 stores in Southern Africa and Australia.

Favoured by the buoyant trading environment, the group delivered strong results in line with market expectations.

In its fourteenth consecutive year of real earnings improvement, total system wide turnover improved 25% to R1,96 billion (2004: R1,57 billion), while trading profit increased 28% to R274,5 million (2004: R213,7 million). Headline earnings grew 26% to R190,0 million (2004: R151,1 million).

In the prior reporting period, the group outlined its strategic intent to hone competitive advantage by upgrading its product and service offering to consumers. Allied to this was the imperative to evolve the group's profile from niche tile merchant to specialist home-enhancement fashion retailer, offering a comprehensive suite of both tiling and bathware products and an enhanced shopping experience. These results are a reflection of the group's success in achieving that ambition, as growth was simultaneously driven by increased volumes out of existing stores, and the emerging trend by consumers as they graduate across the group's product offering to buy a wider range of higher priced commodities. No price increases were implemented during the review period and no new stores were opened.

Contributing to the growth of the bathware component of the business was the integration of recent acquisitions, International Tap Distributors and Earlyworks, distributors of taps and tiling tools respectively. The group is confident that this sector affords encouraging growth opportunities.

The company's strategic imperative to increase black ownership of the business continued to reap rewards. The group's empowered franchises delivered a strong performance, attributable to the franchisees' understanding of and affinity for the communities which they serve. The group's empowered partners will continue to play an integral role in penetrating major growth markets afforded by the emerging middle class.

TRADING ENVIRONMENT

Retail trading conditions remained extremely positive, facilitating the sustained growth surge of the new residential and renovation sectors. In response to this favorable climate and in the face of low barriers to entry, a host of opportunistic entrants have emerged, including competitors from non-traditional sectors such as hardware retailers and allied industry players.

Restrained shipping capacity continued to impact regular delivery of high mass low value commodities, while the sanitaryware shortage persisted unabated. The group was fortunate to benefit from its symbiotic relationships with traditional long-standing suppliers, which ensured consistency of quality and price, and certainty of supply.

AFRICAN OPERATIONS

Italtile and CTM

The aggressively competitive trading environment demands that the group continuously re-energise its operations to retain its category leadership position. Focus on core competencies must be complemented by the pursuit of innovation and responsiveness to ensure continued appeal to existing and new consumers. Management forecasts sustained growth potential of the tile and bathware markets, but recognises that in order to capitalise on growing demand for the product the group's challenge will be to further enhance its product and service offering.

Tile consumption trends in South Africa indicate that the product is now well entrenched as the preferred wall and floor cladding. With this as a given, retailers are being challenged to provide a value added service to increasingly cost conscious and discerning customers.

In this regard the group has elected to complement its ongoing programme of store upgrades and cost competitive policy with the introduction of a highly sophisticated computer warehousing system which will underpin and augment the franchise model. Some R25 million has been invested in a cutting-edge logistics system designed to improve distribution systems by eliminating logistics-related costs and inefficiencies and facilitating just-in-time deliveries. Implementation of the program is scheduled for September 2005. It is anticipated that in due course, this system will be extended to a wide range of suppliers, thereby enhancing the group's strategy of backwardly integrating its supply chain.

The group's store-wide network comprises 81 CTM stores and eight Italtile stores. Management is on target to meet its stated commitment of converting its remaining three group owned stores to franchises by the end of 2005, which decision is based on the proven track record of franchised businesses.

The group is represented through 16 CTM outlets in Botswana, Namibia, Swaziland, Lesotho, Malawi, Uganda, Tanzania and Zambia. A new site has been acquired in Kenya, with the store scheduled for opening by the end of 2005.

Further expansion in Africa is currently constrained by logistical and infrastructural obstacles. Given the brand's strong acceptance and the suitability of the model, management recognises that in order to capitalise on the robust demand for the product, the group will need to make strategic investments in fixed property, and where appropriate, facilitate distribution, aimed at improving trading platforms and promoting performance of local franchises.

INTERNATIONAL OPERATIONS

The company has a total complement of 12 stores in Australia, situated in Queensland, New South Wales and Victoria.

The current recessionary trading environment experienced in Australia continued to impact the group's operations in that country, although the three recently opened new-generation stores delivered improved performances, illustrating acceptance by consumers of the extended product range and customer-friendly showroom facilities.

It is anticipated that the prevailing adverse conditions will continue to restrict the contribution from this operation, with no major improvement anticipated in the short term.

PROPERTY PORTFOLIO

A further R100 million was invested in property during the review period, bringing the carrying value of the combined South African and Australian portfolios to some R400 million. Continued investment in property remains a core tactical strategy based on the strong returns derived, which are in line with the group's trading operations. In addition, a significant competitive advantage is afforded the franchises by ensuring that trading outlets are situated in prominent, prime locations, which support the group's positioning as a destination retailer offering an enhanced retail experience.

Management is cognisant that increasingly the emerging middle class will be a substantial contributor to the success of the business. Hence investment will be made in desirable locations which are accessible and conveniently situated for these consumers.

BLACK ECONOMIC EMPOWERMENT

Good progress has been made in terms of the group's internal component of Black Economic Empowerment ("BEE"). As evidence of its commitment to transformation the group has stipulated that a future condition of franchise will be the incorporation of a BEE element in all contracts. This applies to all new franchisees and existing franchise agreements when they become eligible for renewal.

The group is also currently exploring opportunities to invest in property in communities it traditionally has not served, as well as investigating a credit model for consumers which will reduce barriers to purchase.

With regard to the introduction of a BEE shareholder for the group, the Board has been mandated to urgently pursue appropriate black empowerment partnership opportunities.

PROSPECTS

It is anticipated that growth in the new residential and renovation markets will continue to be buoyed by the favourable trading environment. Stable interest rates, consumer confidence and the significant economic impact of the emerging middle class will continue to drive the expansion of this industry. Equally, these conducive conditions will continue to spawn new competitors and the group recognises that it will need to be vigilant against complacency to ensure it retains its leadership status in this highly competitive market.

Traditional focus on cash flow management, inventory and leveraging purchasing power will be complemented by enhanced levels of service, further investment in group brands and aggressive pursuit of market share.

It is anticipated that growth will be achieved across the group's businesses, with an increasingly enhanced contribution derived from the bathware component.

ACCOUNTING POLICY

This report has been prepared using the same principles as contained in accounting statement AC127 – Interim Financial Reporting. The principles adopted herein are consistent, in all material respects, with those applied in the most recently published annual financial statements, and comply with the requirements of South African Statements of Generally Accepted Accounting Practice. In the next financial year the company will be presenting its annual financial statements in accordance with International Financial Reporting Standards.

DIVIDEND

The board has declared a final ordinary dividend of 160 cents per share, which together with the interim ordinary dividend of 110 cents per share produces a total ordinary dividend of 270 cents declared for the year (2004: 160 cents), an improvement of 69%. The increased dividend is a reflection of the board's decision, taken after the interim period, to reduce dividend cover from 5 times to 4 times.

The group remains a strong cash generator and continues to accumulate cash reserves in excess of operational requirements. As a consequence a special dividend of 330 cents per share will be paid to shareholders.

Further special dividends will be considered in the future should the need arise.

DIVIDEND ANNOUNCEMENT

The directors have declared a final ordinary dividend (number 78) of 160 cents per share and a special dividend (number 2) of 330 cents per share to all shareholders recorded in the books of Italtile Limited. The last day to trade CUM the dividend will be Friday, 2 September 2005. The shares of Italtile Limited will commence trading EX dividend from the commencement of business on Monday, 5 September 2005 and the record date will be Friday, 9 September 2005. Payment will be made on Monday, 12 September 2005. Share certificates may not be dematerialised or rematerialised between Monday, 5 September 2005 and Friday, 9 September 2005, both days inclusive.

For and on behalf of the Board

G A M Ravazzotti — *Chief Executive Officer*
P D Swatton — *Chief Financial Officer*
15 August 2005

These results have been reviewed by Ernst & Young and their review opinion is available on request from the company secretary at the company's registered office.

ABRIDGED GROUP INCOME STATEMENT

For the year ended 30 June 2005 *(Rand 000's unless otherwise stated)*

	% Increase	Reviewed year to 30 June 2005	Audited year to 30 June 2004
Trading profit before depreciation		**294 036**	229 293
Depreciation		**(20 190)**	(15 395)
Profit/(Loss) on sale of fixed assets		**646**	(241)
Trading profit	28	**274 492**	213 657
Interest received		**7 017**	6 814
Dividends received		**5 030**	2 877
Goodwill amortised			(64)
Interest paid		**(1 249)**	(1 482)
Profit before taxation	29	**285 290**	221 802
Taxation		**(88 263)**	(66 888)
Profit after taxation	27	**197 027**	154 914
Outside shareholders' interest		**(6 385)**	(4 119)
Earnings attributable to ordinary shareholders	26	**190 642**	150 795
Number of shares in issue (000's)		**17 771**	17 646
Earnings per share (cents)	26	**1 072,8**	854,6
Headline earnings per share (cents)	25	**1 069,1**	856,3
Dividends per share (cents)		**270,0**	160,0
Special dividend		**330,0**	140,0
RECONCILIATION OF HEADLINE EARNINGS			
Earnings attributable to ordinary shareholders		**190 642**	150 795
(Profit)/Loss on sale of fixed assets		**(646)**	241
Goodwill amortised			64
Headline earnings		**189 996**	151 100
RECONCILIATION OF SHARES IN ISSUE			
Total number of shares issued		**18 677**	18 677
Share Incentive Trust shares		**906**	1 031
Shares in issue to external parties		**17 771**	17 646

SYSTEM WIDE TURNOVER

For the year ended 30 June 2005 *(Rand 000's unless otherwise stated)*

	% Increase	30 June 2005	30 June 2004
Group and franchise turnover			
– By group owned stores		**1 036 678**	799 892
– By franchise owned stores		**921 830**	768 687
TOTAL	25	**1 958 508**	1 568 579

ABRIDGED GROUP BALANCE SHEET

As at 30 June 2005 *(Rand 000's unless otherwise stated)*

	Reviewed year to 30 June 2005	Audited year to 30 June 2004
ASSETS		
Non-current assets	**443 501**	329 686
Fixed assets	**432 340**	324 204
Other long-term assets	**8 499**	5 482
Deferred tax	**2 662**	—
Current assets	**519 589**	425 413
Inventories	**153 563**	134 179
Trade and other receivables	**65 453**	68 382
Cash and cash equivalents	**300 573**	222 852
Total assets	**963 090**	755 099
EQUITY AND LIABILITIES		
Capital and reserves	**631 962**	499 673
Stated capital	**27 175**	27 175
Non-distributable reserve	**11 345**	717
Treasury shares	**(54 581)**	(46 032)
Retained profit	**648 023**	517 813
Outside shareholders' interest	**29 333**	14 663
Non-current liabilities	**9 677**	8 674
Deferred tax	**—**	444
Long-term liabilities	**9 677**	8 230
Current liabilities	**292 118**	232 089
Trade and other payables	**264 758**	211 022
Taxation	**27 360**	21 067
	963 090	755 099
Net asset value per share (cents)	**3 721**	2 915

SEGMENTAL REPORTING

For the year ended 30 June 2005 *(Rand 000's unless otherwise stated)*

	Retail	Franchising	Properties	Supply and Support Services	Inter Group	Group
Reviewed year to June 2005						
Revenue	909 145	111 174	84 039	381 179	(290 051)	1 195 486
Segment results	57 353	56 891	64 473	95 775	—	274 492
Audited year to June 2004						
Revenue*	710 533	94 124	67 315	286 901	(224 502)	934 371
Segment results*	44 617	44 859	49 830	74 351	—	213 657

*Restated due to the definition of segments in the current year.

CASH FLOW STATEMENT

For the year ended 30 June 2005 *(Rand 000's unless otherwise stated)*

	Reviewed year to 30 June 2005	Audited year to 30 June 2004
Cash flow from operating activities	**205 247**	154 812
Cash flow from investing activities	**(137 257)**	(88 047)
Cash flow from financing activities	**9 731**	(1 468)
Net movement in cash and cash equivalents	**77 721**	65 297
Cash and cash equivalents at beginning of period	**222 852**	157 555
Cash and cash equivalents at end of period	**300 573**	222 852

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2005 *(Rand 000's unless otherwise stated)*

Group	Stated capital	Translation reserve	Treasury shares	Retained profit	Total
Balance at 30 June 2003 restated	27 175	7 059	(38 207)	393 432	389 459
Net profit for the period				150 795	150 795
Dividends paid				(26 414)	(26 414)
Currency translation difference		(6 342)			(6 342)
Unallocated shares in share trust			(8 050)		(8 050)
Accumulated surplus in share trust			225		225
Balance at 30 June 2004	27 175	717	(46 032)	517 813	499 673
Net profit for the period				190 642	190 642
Dividends paid				(60 432)	(60 432)
Currency translation difference		10 628			10 628
Unallocated shares in share trust			(6 559)		(6 559)
Accumulated deficit in share trust			(1 990)		(1 990)
Balance at 30 June 2005	**27 175**	**11 345**	**(54 581)**	**648 023**	**631 962**

Notes:

– There are no material contingent liabilities or assets at 30 June 2005.

– Capital commitments at 30 June 2005	R'000
Contracted	29 452
Authorised, not contracted	44 520
	73 972

– In terms of the Articles of Association, the company's borrowing facilities are unlimited.

Registered Office: The Italtile Building, cnr William Nicol Drive and Peter Place, Bryanston (PO Box 1689, Randburg 2125)
Transfer Secretaries: Computershare Investor Services 2004 (Pty) Limited, Edura, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107)
Directors: D H Rabin (Chairman), G A M Ravazzotti (CEO), P D Swatton** (CFO), J Couzis*, G F Cousins, S I Gama, C Trumpelmann, G P E Ravazzotti *Greek ** British

Refer to Italtile's corporate website:
www.italtile.com

BASTION GRAPHICS