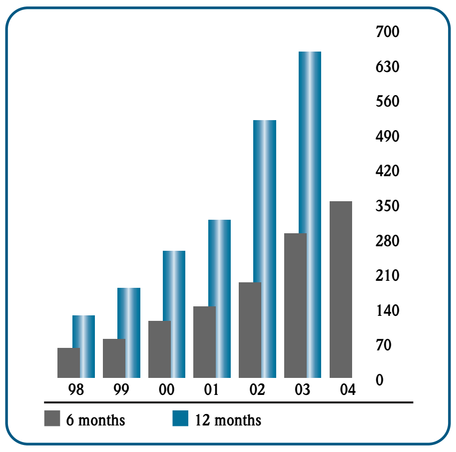
Interim Profit Announcement

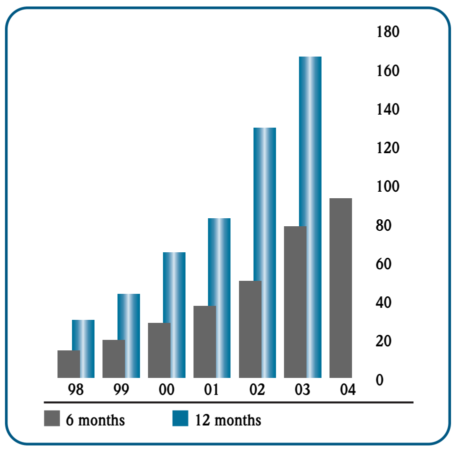
Unaudited Group Results for the six months ended 31 December 2003



Headline earnings per share – CENTS

ITALTILE Limited

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



Trading profit – R MILLION

COMMENTARY

Results

Italtile Limited, comprising national branded retail chains, CTM, servicing the value-for-money market, and Italtile, catering for the premium-end market, is South Africa's leading retailer of ceramic tiles, sanitaryware, bathroom accessories and other related products. The group is one of the major purchasers of tiles globally.

For the six months ended 31 December 2003, turnover for the group was R775 million, an improvement of 7% (2002: R725 million), on the back of volume growth of 12% in ceramic tiles and 25% in taps, sanitaryware and related products. In response to the strong local currency which gave rise to increased competition, management employed an aggressive campaign to maintain and grow market share by implementing a meaningful reduction in average selling prices, the benefit of which was passed on to consumers. This tactic was fostered by the company's leverage to source and buy superior quality product at competitive prices.

In line with market expectations, trading profit improved 20% to R93,8 million (2002: R78,1 million), while headline earnings per share increased 22% to 355 cents (2002: 291 cents). This strong performance in the light of the deflation-linked decline in turnover is a reflection of the group's resilience and strategic focus on margins, cash management and inventory.

Trading environment

The period under review featured volatility in the global ceramic tile market. As a result of US$ weakness, the American market retreated substantially, creating a short term oversupply of product in Europe. Traditional suppliers to that market, including Turkey and Brazil, were pressured to establish new markets and in many cases restricted or froze price increases in the immediate term. This global trend has had significant ramifications for the South African market, where the strengthening of the local currency to unanticipated levels has promoted the entry of a multitude of new players and significantly reduced selling prices. Given the short term instability of this environment and long term issues of quality and reputation, the group elected to maintain strategic links with its tried-and-tested established suppliers at the expense of opportunistic relationships.

Management is satisfied that growth in tile consumption is sustainable for several reasons, including South Africa's comparatively low per capita consumption, the current mini-boom in the residential market, strong DIY growth potential, and the development of emerging markets based on improved consumer education, and accessibility and affordability of the product.

In anticipation of low to flat inflation, the group reduced stock levels dramatically. This had the spin-off of ensuring greater flexibility and responsiveness to consumer demand, improved store control and enhanced cash reserves. The company exited the period with cash and cash equivalents of R159 million and optimal stock levels. Future group expansion will be funded via these cash reserves.

Despite the testing trading conditions, the group maintained its leadership in the ceramic tile market and was successful in progressing its strategy of forging inroads into the high growth potential tap and sanitaryware market. In line with efforts to afford consumers an enhanced shopping experience, existing stores have been and will continue to be upgraded and new stores will be designed to include a dedicated bathroom division to enhance the tile offering.

Property portfolio

A further R40 million was invested in the company's property portfolio in South Africa and Australia, bringing the value of this asset to some R281 million. Group policy to operate owned- and franchised stores out of purpose built company owned premises situated in prominent, prime locations appropriate to target markets continues to enhance trading performance and will thus remain a core investment strategy.

African operations

Italtile and CTM

Market conditions proved more challenging than anticipated and the solid performances delivered by both the CTM and Italtile divisions are a reflection of prudent management control and the strength of the brands.

The consolidation of Italtile's presence in strategically targeted major urban areas has firmly positioned the division as a destination retailer catering to the niche premium-end market.

In addition to leadership in its traditional DIY value-for-money market, CTM is enjoying increasing dominance in the entry-level market, where there is a dearth of sustainable competition. Notable success is being achieved with the introduction of customised product baskets for the RDP housing sector. The group forecasts solid growth potential in this segment and is currently considering opening customised stores in high density, traditional black markets. Implementation will be determined by success in sourcing suitable franchise partners.

CTM extended its footprint into the sub-Saharan region with the opening of a store in Kampala, Uganda. The brand's reach outside of South Africa extends to Botswana, Namibia, Swaziland, Lesotho, Malawi, Tanzania and Zambia. Management is exploring the opportunity of entering Kenya, a market with high growth potential. Notwithstanding logistical constraints, the group is confident that the region affords important expansion opportunities.

International operations

Represented by nine CTM stores across Queensland, New South Wales and Victoria, the group's Australian operation contributed 10% of turnover. While the business grew in Australian terms, adverse currency conditions reversed any gains made.

Management is satisfied with this operation's performance and has identified and invested in potential sites for future expansion.

The group's Italian operation delivered a solid performance and continues to make a useful contribution to group turnover.

Prospects

Sustained rand strength will continue to foster the proliferation of new entrants and short-term oversupply of imported product. This competitive environment, exacerbated by the current deflationary trend will result in consolidation in the industry and impact operating tactics in the medium term. Conditions are expected to remain testing over the forthcoming six to 12 months and management's focus will be on building on its proven strategy of maintaining optimal stock levels, a strong cash position and leveraging the group's price competitiveness. It is anticipated that these trading conditions may be alleviated to some extent by an improvement in consumer spending as the impact of interest rate cuts filters through. The group expects to maintain current growth levels.

Accounting policies

The financial information has been presented in accordance with South African Statements of Generally Accepted Accounting Practice. The accounting policies applied are consistent with those of the prior reporting period.

Dividend

The Board has declared an interim dividend of 70 cents, an improvement of 40% (2002: 50 cents). The Group will maintain its dividend cover at approximately five times.

Dividend announcement

The directors have declared an interim dividend (number 75) of 70 cents per share to all shareholders recorded in the books of Italtile Limited. The last day to trade CUM the dividend in order to participate in the dividend will be Friday, 27 February 2004. The shares of Italtile Limited will commence trading EX dividend from the commencement of business on Monday, 1 March 2004 and the record date will be Friday, 5 March 2004. Payment will be made on Monday, 8 March 2004. Share certificates may not be dematerialised or rematerialised between Monday, 1 March 2004 and Friday, 5 March 2004, both days inclusive.

For and on behalf of the Board

G A M Ravazzotti
Executive Chairman

P D Swatton
Chief Financial Officer

9 February 2004

Abridged group income statements

(Rand 000's unless otherwise stated)

	% Increase	**Unaudited six months to 31 December 2003**	Unaudited six months to 31 December 2002	Audited year to 30 June 2003
TURNOVER				
– By group-owned stores		**391 006**	407 324	749 150
– By franchise-owned stores		**383 747**	317 389	608 779
TOTAL	6,9	**774 753**	724 713	1 357 929
Trading profit before depreciation		**99 538**	84 568	189 393
Depreciation		**(5 654)**	(6 396)	(17 017)
Impairment of fixed assets		**—**	—	(6 189)
Trading profit	20,1	**93 884**	78 172	166 187
Net investment income		**4 325**	2 117	5 606
Profit/(Loss) on sale of property, plant and equipment		**45**	—	(612)
Share incentive trust reversal		**—**	—	2 700
Profit before taxation	22,4	**98 254**	80 289	173 881
Taxation		**(29 848)**	(25 475)	(53 935)
Profit after taxation	24,8	**68 406**	54 814	119 946
Outside shareholders' interest		**(2 136)**	(1 293)	(2 336)
Earnings attributable to ordinary shareholders	23,8	**66 270**	53 521	117 610
Weighted average number of shares in issue (000's)		**18 677**	18 396	18 536
Earnings per share (cents)	22,0	**354,8**	290,9	634,5
Headline earnings per share (cents)	21,9	**354,6**	290,9	656,5
Dividends declared per share (cents)	40,0	**70,0**	50,0	130,0
RECONCILIATION OF HEADLINE EARNINGS				
Earnings attributable to ordinary shareholders		**66 270**	53 521	117 610
Impairment of property, plant and equipment		**—**	—	6 189
Share incentive trust reversal		**—**	—	(2 700)
(Profit)/Loss on sale of property, plant and equipment		**(45)**	—	612
Headline earnings	23,7	**66 225**	53 521	121 711

Abridged group balance sheets

(Rand 000's unless otherwise stated)

	Unaudited six months to 31 December 2003	Unaudited six months to 31 December 2002	Audited year to 30 June 2003
ASSETS			
Non-current assets	**347 812**	288 627	302 788
Fixed assets	**299 886**	251 042	259 740
Other long-term assets	**47 926**	37 585	43 048
Current assets	**323 711**	290 202	327 327
Inventories	**82 909**	117 272	99 892
Trade and other receivables	**81 458**	70 148	69 890
Cash and cash equivalents	**159 344**	102 782	157 545
Total assets	**671 523**	578 829	630 115
EQUITY AND LIABILITIES			
Capital and reserves	**478 413**	370 242	426 931
Stated capital	**27 175**	27 175	27 175
Non-distributable reserve	**7 213**	5 120	7 059
Retained profit	**444 025**	337 947	392 697
Outside shareholders' interest	**13 740**	9 950	10 774
Non-current liabilities	**12 949**	10 542	12 947
Deferred tax	**534**	1 403	535
Long-term liabilities	**9 472**	6 194	9 469
Provision for warranties	**2 943**	2 945	2 943
Current liabilities	**166 421**	188 095	179 463
Trade and other payables	**128 368**	176 863	160 889
Taxation	**38 053**	11 232	18 574
	671 523	578 829	630 115
Net asset value per share (cents)	**2 635**	2 067	2 361

Cash flow statements

(Rand 000's unless otherwise stated)

	Unaudited six months to 31 December 2003	Unaudited six months to 31 December 2002	Audited year to 30 June 2003
Cash flow from operating activities	**51 674**	41 223	125 410
Cash flow from investing activities	**(49 879)**	(37 935)	(67 038)
Cash flow from financing activities	**4**	7 716	7 395
Net movement in cash and cash equivalents	**1 799**	11 004	65 767
Cash and cash equivalents at beginning of period	**157 545**	91 778	91 778
Cash and cash equivalents at end of period	**159 344**	102 782	157 545

Statement of changes in equity

for the period ended 31 December 2003

(Rand 000's unless otherwise stated)

Group	Stated capital	Translation reserve	Retained profit	Total
Balance at 30 June 2002	18 457	11 168	296 328	**325 953**
New share issues	8 718			**8 718**
Net profit for the year			117 610	**117 610**
Dividends paid			(21 241)	**(21 241)**
Currency translation difference		(4 109)		**(4 109)**
Balance at 30 June 2003	27 175	7 059	392 697	**426 931**
Net profit for the period			66 270	**66 270**
Dividends paid			(14 942)	**(14 942)**
Currency translation difference		154		**154**
Balance at 31 December 2003	**27 175**	**7 213**	**444 025**	**478 413**

Segmental reporting

for the period ended 31 December 2003

(Rand 000's unless otherwise stated)

	Retail	Franchising	Properties	Corporate	Group
Period to December 2003					
Revenue	**391 006**	**383 747**	**—**	**—**	**774 753**
Segment results	**28 766**	**34 051**	**21 150**	**9 917**	**93 884**
Period to December 2002					
Revenue	407 324	317 389	—	—	724 713
Segment results	28 204	28 095	16 794	5 079	78 172

Notes

– There are no contingent liabilities or assets at 31 December 2003.

– Capital commitments at 31 December 2003

	Rm
Contracted	7 843
Authorised but not contracted	20 300
	28 143

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Sponsors: Nedbank Corporate **Directors:** G A M Ravazzotti *(Chairman)*, P D Swatton**, J Couzis*, G Cousins, D H Rabin *Greek **British **Refer to Italtile's corporate website: www.italtile.com**