ITALTILE Limited

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

Italtile
The Style. The Passion.

CTM

INTERIM PROFIT ANNOUNCEMENT

Unaudited group results for the six months ended 31 December 2005

COMMENTARY

RESULTS

Trading in a competitive industry, Italtile Limited has delivered acceptable results for the six months ended 31 December 2005.

The group is represented by high profile brands, CTM and Italtile, and trades through a network of 99 stores in Southern Africa and Australia. Having accomplished its strategic evolution from niche tile merchant to specialist home enhancement fashion retailer, the group can lay claim to being the major multi-faceted retailer of both tile and bathware in South Africa. The brands cater for consumer aspirations across the spectrum, with CTM specialising in affordable, value for money and volume business requirements, whilst Italtile offers an exclusive, niche range of predominantly high value imported product to the premium end patron.

System wide turnover for the group improved 20% to R1,19 billion (2004: R997 million). Group-owned stores (including joint-ventured franchises) contributed R657 million (2004: R522 million), while franchised stores delivered income of R535 million (2004: R475 million) on which the group earns royalty income. This increase in turnover is particularly significant insofar as only one new store was opened during the review period, and average price increases were sub-inflationary.

Trading profit rose 27% to R153 million (2004: R120 million). Headline earnings per share improved 20% to 558,5 cents (2004: 466,8 cents), adversely affected by the reduction in the group's Treasury Shares by means of Share Incentive Scheme participants exercising a significant number of options during the reporting period, and the increased effective tax rate of 33,8%, resulting from the Secondary Taxation on Companies applied in the review period on the special dividend declared in August 2005.

Buoyant consumer spending experienced over the period benefited the group. Contributing strongly to the group's improved performance was the evident trend by consumers to buy-up as the range of available products is enhanced and becomes more accessible. Noteworthy growth in the group's bathware business also positively impacted results.

Ongoing investment in brands and responsiveness to increasingly cost conscious and discerning consumer needs remained a key focus during the review period. The group's programme of rolling store upgrades aimed at satisfying consumer expectations continues to be implemented across the network in response to the global trend which identifies aspirational suppliers as destination retailers offering an enhanced consumer experience.

Competition experienced in the industry at present is anticipated to continue, and management will be investing in further enhancing the group's offering. Continued attention will be paid to promoting the group's ethos of mentorship and entrepreneurship. Key to the group's philosophy is empowerment of individuals throughout the organisation, and this will be manifested through intensified training and recruitment of premium calibre staff and franchisees.

TRADING ENVIRONMENT

The new residential and renovation markets remained vigorous, the former driven by the massive growth in first-time property owners. Management is satisfied that the group is also well positioned to capitalise on a price deflationary market, when consumers renovate in favour of buying properties. The current surge in first-time homes will in due course also provide a renovation market.

Entrenched globally and locally as the wall and floor covering of choice, the ceramic tile industry continues to enjoy sustained growth. This trend, aided by low barriers to entry in South Africa, witnessed a significant increase in the number of new entrants, creating a highly competitive trading environment. Symptomatic of a buoyant industry was the evolution and proliferation of individual operators into small multi-branch businesses.

Shipping capacity improved over the period, although local suppliers have done well to meet demand created by import shortages. The strong local currency continues to favour imports, with China remaining the primary international supplier in this arena.

AFRICAN OPERATIONS

Italtile and CTM

The group is represented by eight Italtile stores in South Africa, 66 CTM stores in South Africa and a further 16 CTM stores situated in Botswana, Namibia, Swaziland, Lesotho, Malawi, Uganda, Tanzania and Zambia.

Several key developments contributed to the solid performance of both divisions. Significant inroads were made into markets with the continued extension of the group's offering in bathware and related products, following the groups integration back into its supply chain.

Complementing this development was the implementation in October 2005 of a R25 million logistics system aimed at enhancing just-in-time deliveries and restricting costs.

Management is of the opinion that the group's competitive edge will be sharpened by improving logistics and accessibility of the right product at the right price.

Results to date have been rewarding. The system will be extended to other suppliers in the group's chain, spearheading the group's ambition to achieve and exceed cost- and best-practice benchmarks.

Its long-standing reputation as a major global purchaser enables the group to leverage its position to secure price competitive advantages for consumers.

The CTM brand enjoys widespread appeal amongst its target audience, including the emerging middle class. Furthering the group's strategy to improve access to the product a store will be opened in an exclusively black residential area in February 2006. The franchise will be a joint venture with a local businessman, and early indications regarding prospects are positive. It is anticipated that a further six stores will be opened by the end of the current calendar year in other predominantly black markets.

The group has introduced a range of laminated flooring in a select number of CTM stores based in Gauteng, which will be rolled out nationwide in due course. Response to this value-added offering has been positive, and supports the logic to complement the group's existing home enhancement solutions. The product line may in time become a significant contributor to turnover.

Whilst demand for the group's product in sub-Saharan Africa is robust, expansion has traditionally been impeded by logistical and infrastructural deficiencies. In response to this, the group will be opening a central bulk storage and distribution warehouse in east Africa, similar to the group's existing facility in Durban. The rationale is based on reducing inland transport costs and improving availability of product in order to support trading platforms of local franchises. It is anticipated that the centre will be opened in conjunction with a new franchised store, scheduled for June 2006.

INTERNATIONAL OPERATIONS

The group's Australian operation currently comprises nine stores across three states. During the review period three stores were closed in line with the group's ongoing strategy to adapt the trading formula to comprise only new generation stores offering an extended product range and customer-friendly showroom facilities. The positive response to these stores has vindicated this strategy and an additional new generation store will be opened in the forthcoming period.

Whilst the operation made a nominal contribution to profit, it is anticipated that the prevailing trading environment will continue to restrict growth of this business.

PROPERTY PORTFOLIO

Pursuant to the group's strategic policy, a further R52 million was invested in the combined South African and Australian property portfolio during the review period, bringing the carrying value to R463 million. Continued investment will be made based on the dual validation of the strong returns achieved, which are in line with the group's trading operations, and the competitive advantage derived by franchises located on prime sites, aligned to the group's positioning as a destination retailer.

BLACK ECONOMIC EMPOWERMENT

The group has made sound progress with regard to its Black Economic Empowerment initiatives and should be in a position to provide further detail on the structure of the planned empowerment partnership before the end of the current financial year.

PROSPECTS

Stable interest rates, fiscal stimulation of the economy and positive retail sentiment will continue to drive growth of the industry, whilst simultaneously promoting intense competition between suppliers.

Cognisant of this, and of increasingly sophisticated consumer demand, management is mindful of the need to add value to the retail experience. Entrenching and growing market share will be dependent on aggressive pursuit of that goal. Enhancements in logistics, product range, service and price will remain focus areas in the forthcoming period. In line with the group's ethos of mentorship to promote entrepreneurship, significant investment will be made in attracting, nurturing and retaining high calibre personnel.

The Board is satisfied that the current earnings growth trend will be maintained over the forthcoming six months.

DIVIDEND

An interim dividend of 140 cents per share has been declared, an improvement of 27,3% (2004: 110 cents).

DIVIDEND ANNOUNCEMENT

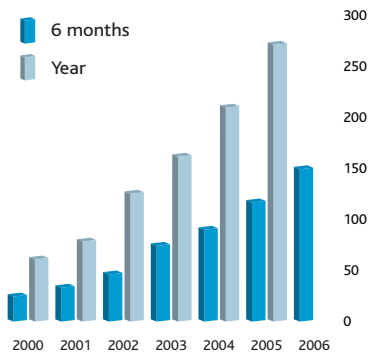
The Board has declared an interim dividend (number 79) of 140 cents per share to all shareholders recorded in the books of Italtile Limited. The last day to trade *cum* the dividend will be Thursday, 23 February 2006. The shares of Italtile Limited will commence trading *ex* dividend from the commencement of business on Friday, 24 February 2006 and the record date will be Friday, 3 March 2006. Payment will be made on Monday, 6 March 2006. Share certificates may not be rematerialised or dematerialised between Friday, 24 February 2006 and Friday, 3 March 2006, both days inclusive.

For and on behalf of the Board

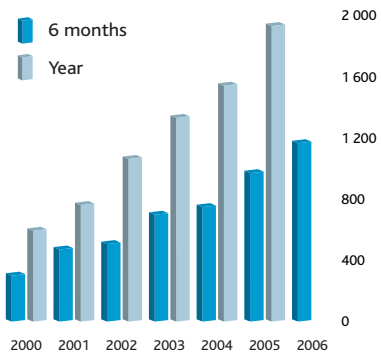
G A M Ravazzotti
Chief Executive Officer

P D Swatton
Chief Financial Officer

8 February 2006



TRADING PROFITS – R million



SYSTEM WIDE TURNOVER – R million

BASIS OF PREPARATION

In terms of the listing requirements of the JSE Limited, the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as from 1 July 2005.

The interim results have been prepared in accordance with IFRS and IAS34 – Interim Financial Reporting. Previously the Group reported in terms of South African Statements of Generally Accepted Accounting Practice.

The opening balance sheets at 1 July 2004 and 1 July 2005 have been restated accordingly. The comparative income statement for the six months to December 2004 and the balance sheet at that date have also been restated. The effect of the transition from South African Statements of Generally Accepted Accounting Practice to IFRS on the group's financial position, financial performance and cash flows are summarised below.

As IFRS are implemented internationally, evolving practices with regard to the interpretation and application of standards under IFRS could impact future reported results and disclosure.

IFRS2 – SHARE BASED PAYMENTS

The group has elected not to apply the provisions of IFRS 2 to share options granted before 7th November 2002. The fair value of share options granted after that date has been charged against income over the relevant option vesting periods adjusted for expected levels of vesting.

IAS16 – PROPERTY, PLANT AND EQUIPMENT

The useful lives and residual values of the group's major assets have been reassessed and where applicable the depreciation charge has been adjusted.

IFRS IMPACT ON PROFIT FOR THE YEAR

(Rand 000's unless otherwise stated)

	Six months to 31 December 2004	Year to 30 June 2005
As previously reported	86 247	197 027
Effect of IAS16 and IFRS2	526	844
	86 773	197 871

IFRS IMPACT ON SHAREHOLDERS' EQUITY

	30 June 2004	31 December 2004	30 June 2005
As previously reported	499 673	546 096	631 962
Effect of IAS16 and IFRS2	1 056	2 089	2 838
Reallocation of minority interest	14 663	26 237	29 333
	515 392	574 422	664 133

SYSTEM WIDE TURNOVER ANALYSIS

For the period ended 31 December 2005 (Rand 000's unless otherwise stated)

	% Increase	**Unaudited six months to 31 December 2005**	Unaudited six months to 31 December 2004	Audited year to 30 June 2005
GROUP AND FRANCHISED TURNOVER				
– By group-owned stores		**657 443**	522 296	1 036 678
– By franchise-owned stores (unaudited)		**535 194**	474 546	921 830
Total	20	**1 192 637**	996 842	1 958 508

ABRIDGED GROUP INCOME STATEMENTS

For the period ended 31 December 2005 (Rand 000's unless otherwise stated)

	% Increase	**Unaudited six months to 31 December 2005**	Unaudited six months to 31 December 2004	Unaudited year to 30 June 2005
Trading profit before depreciation		**162 406**	130 505	294 682
Depreciation		**(9 072)**	(9 782)	(19 346)
Trading profit	27	**153 334**	120 723	275 336
Investment income		**6 897**	5 976	12 047
Profit before interest paid	26	**160 231**	126 699	287 383
Interest paid		**(377)**	(454)	(1 249)
Profit before taxation	27	**159 854**	126 245	286 134
Taxation		**(54 049)**	(39 472)	(88 263)
Profit for the year	22	**105 805**	86 773	197 871
Attributable to:				
Equity holders of the parent		**100 718**	83 483	191 486
Minority interests		**5 087**	3 290	6 385
		105 805	86 773	197 871
Number of shares in issue (000's)		**18 101**	17 860	17 771
Earnings per share (cents)	19	**556,4**	467,4	1 077,5
Headline earnings per share (cents)	20	**558,5**	466,8	1 073,9
Diluted earnings per share (cents)	19	**550,3**	460,9	1 031,1
Dividends per share (cents)		**140,0**	110,0	340,0
Special dividend				600,0
RECONCILIATION OF HEADLINE EARNINGS				
Earnings attributable to ordinary shareholders		**100 718**	83 483	191 486
(Profit)/Loss on sale of property, plant and equipment		**383**	(110)	(646)
Headline earnings		**101 101**	83 373	190 840
RECONCILIATION OF SHARES IN ISSUE				
Total number of shares issued		**18 677**	18 677	18 677
Share Incentive Trust shares		**577**	817	906
Shares in issue to external parties		**18 100**	17 860	17 771

ABRIDGED GROUP BALANCE SHEETS

at 31 December 2005 (Rand 000's unless otherwise stated)

	Unaudited six months to 31 December 2005	Unaudited six months to 31 December 2004	Unaudited year to 30 June 2005
ASSETS			
Non-current assets	**499 424**	385 214	444 516
Property, plant and equipment	**488 230**	379 783	433 355
Other long-term assets	**8 448**	5 431	8 499
Deferred tax	**2 746**		2 662
Current assets	**503 780**	424 989	519 589
Inventories	**142 187**	127 854	153 563
Trade and other receivables	**75 359**	76 366	65 453
Cash and cash equivalents	**286 234**	220 769	300 573
Total assets	**1 003 204**	810 203	964 105
EQUITY AND LIABILITIES			
Capital and reserves	**678 731**	574 422	664 133
Stated capital	**27 175**	27 175	27 175
Treasury shares	**(46 800)**	(42 944)	(54 581)
Translation reserve	**4 171**	1 887	11 345
Share option reserve	**2 095**	1 392	1 823
Retained profit	**660 984**	560 675	649 038
Minority interest	**31 106**	26 237	29 333
Non-current liabilities	**8 803**	8 830	9 677
Deferred tax		425	
Long-term liabilities	**8 803**	8 405	9 677
Current liabilities	**315 670**	226 951	290 295
Trade and other payables	**255 310**	174 828	262 935
Taxation	**60 360**	52 123	27 360
	1 003 204	810 203	964 105
Net asset value per share (cents)	**3 750**	3 216	3 737

CASH FLOW STATEMENT

For the period ended 31 December 2005 (Rand 000's unless otherwise stated)

	Unaudited six months to 31 December 2005	Unaudited six months to 31 December 2004	Unaudited year to 30 June 2005
Cash flow from operating activities	**43 733**	49 865	206 091
Cash flow from investing activities	**(53 884)**	(60 407)	(138 101)
Cash flow from financing activities	**(4 188)**	8 459	9 731
Net movement in cash and cash equivalents	**(14 339)**	(2 083)	77 721
Cash and cash equivalents at beginning of period	**300 573**	222 852	222 852
Cash and cash equivalents at end of period	**286 234**	220 769	300 573

STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2005

R000's Group	**Stated Capital**	**Non-distributable reserves**	**Treasury shares**	**Minority interest**	**Retained profit**	**Total**
Balance at 30 June 2004 restated	27 175	1 602	(46 032)	14 663	517 984	**515 392**
Net profit for the period				6 385	191 486	**197 871**
Dividends paid					(60 432)	**(60 432)**
Currency translation difference		10 628				**10 628**
Unallocated shares in share trust			(6 559)			**(6 559)**
Accumulated surplus in share trust			(1 990)			**(1 990)**
Share option costs		938				**938**
Subsidiary share capital increase				8 285		**8 285**
Balance at 30 June 2005	27 175	13 168	(54 581)	29 333	649 038	**664 133**
Net profit for the period				5 087	100 718	**105 805**
Dividends paid					(88 772)	**(88 772)**
Currency translation difference		(7 174)				**(7 174)**
Unallocated shares in share trust			10 921			**10 921**
Accumulated surplus in share trust			(3 140)			**(3 140)**
Share option costs		272				**272**
Dividends of subsidiaries				(3 314)		**(3 314)**
	27 175	6 266	(46 800)	31 106	660 984	**678 731**

SEGMENTAL REPORTING

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

	Retail	Franchising	Properties	Supply and support services	Inter group	Group
Unaudited period to December 2005						
Revenue	558 765	66 948	52 145	274 713	(207 719)	744 852
Segment results	39 241	63 613	43 550	6 930	—	153 334
Unaudited period to December 2004						
Revenue	457 056	56 704	43 586	189 403	(146 781)	599 968
Segment results	27 590	53 481	34 190	5 462	—	120 723

NOTES:

- There are no material contingent liabilities or assets at 31 December 2005
- Capital commitments at 31 December 2005

	R000's
Contracted	23 144
Authorised, not contracted	53 300
	76 777

- 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, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107)
Directors: D H Rabin (Chairman), G A M Ravazzotti (Chief Executive Officer), P D Swatton** (Chief Financial Officer), J Couzis*, S I Gama, C Trumpelmann, G P Ravazzotti (*Greek ** British)
Refer to Italtile's corporate website: www.italtile.com

BASTION GRAPHICS