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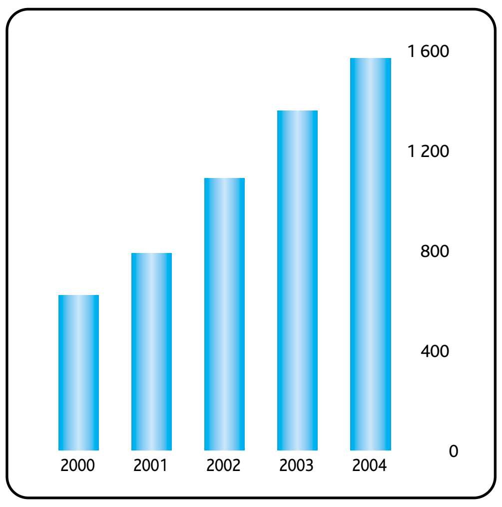
Preliminary Profit Announcement

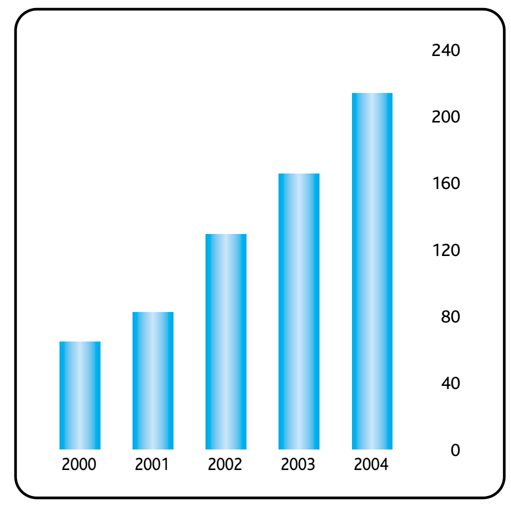
Reviewed Group Results for the year ended 30 June 2004



Group and franchise turnover – R MILLION

ITALTILE Limited

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



Profit from trading activities – R MILLION

Commentary

RESULTS

Italtile Limited, represented by leading national branded chains, CTM and Italtile, is South Africa's foremost retailer of ceramic tiles, bathware and related products. The group's offering caters for the full spectrum of consumer demand, ranging from the entry-level and DIY markets, to the niche, premium-end sector.

In its thirteenth consecutive year of real earnings improvement, the group has delivered a rewarding set of results, ahead of market forecasts. Total turnover improved 15,5% to R1,57 billion (2003: R1,36 billion), while trading profit grew 29% to R213,7 million (2003: R165,6 million). Headline earnings increased 24% to R151 million (2003: R122 million).

Contrary to conventional trading patterns, performance in the second six months of the review year outstripped that of the first, which traditionally encompasses the greatest amount of promotional activity. The group's strategy to maintain and grow market share through a meaningful reduction in average selling prices continues.

The upsurge in trading activity is a reflection of sustained consumer confidence, the anticipation that interest rates would remain low, the continued strong residential property boom, and the exponential growth of the renovation market as new property prices escalated.

A significant growth driver was the strong performance delivered by the group's empowered franchises, which now contribute more than 15% to turnover. The company's strategic imperative to increase black ownership comprises two elements: the need to transform the group to more accurately reflect the demographics of the country, and the opportunity to enhance market penetration by enjoying improved, informed insight into the markets it serves.

While inroads have been made into emerging markets in key urban areas and to some extent RDP housing, traditional high density mass markets have not as yet been tapped, and afford obvious growth potential. The role of the group's black partners cannot be underestimated in this regard.

TRADING ENVIRONMENT

The impact of buoyant consumer sentiment on industry performance was offset to some degree by significant product oversupply in the international ceramic tile market, which continued to exercise a dramatic impact locally in the form of the proliferation of new entrants and cheap imports, exerting downward pressure on prices.

Exacerbating this volatility is a shortage of available shipping capacity and an upward pressure on prices especially for heavy goods of low unit value.

These factors have vindicated the group's policy to continue to support local tried-and-tested suppliers as opposed to developing short-term opportunistic relationships. The long-term reliability of supply, and consistency of quality and price has, and will continue, to prove worthwhile for the group.

AFRICAN OPERATIONS

Italtile and CTM

In a market characterised by increased levels of competition and deflationary price pressures, the improved level of profitability delivered by both CTM and Italtile is a tribute to the strength of the group's brands, the resilience of the business model, and the ability to innovate. Leveraging its position as one of the world's major purchasers of tiles, the group's price competitiveness ensured that the company entrenched its leadership status in the country.

The period under review featured ongoing improvements to both CTM and Italtile, with the former undergoing departmentalisation of its stores to include clearly defined tile and bathware sections, while the Italtile showrooms continued to be upgraded with improved finishes to elevate the level of sophistication of the offering. Pleasing gains in market share in the bathware market in both trading divisions have been achieved in the current year.

The group's store network, both franchised and group owned, comprises 64 CTM stores and 8 Italtile outlets.

In line with group strategy no new stores were opened during the current year. The group's strong results were achieved from its existing store base validating management's view that the market for tiles and bathware has significant, sustained growth potential. In support of this view, the group will expand many of its existing sites to enlarge each stores' footprint and enhance the shopping experience for consumers. Success in this regard has already been achieved at certain key node stores. In some instances stores will be transferred closer to their apposite markets.

Management has undertaken to ensure that by the end of 2005, all remaining group-owned stores will be franchised, either outright, or in joint ventures. The group recognises the positive impact entrepreneurship and empowerment, characteristic of owner-driven businesses, have on performance.

During the year, the group acquired a controlling interest in International Tap Distributors, a dedicated tap importer and distributor. This investment is key to supporting the group's penetration into the bathware market.

Initial performance has been positive with the company already contributing to group profits. It is anticipated that this business will become an important component of the group's activities in the future. This investment was funded through own resources.

AFRICA

Expansion of the group's presence in the African market remains a key strategic imperative, and investment in resources to promote further growth in the region has been made. Management is however realistic that whilst the CTM model is suited to the territories and demand for the product is significant, the potential for rapid expansion is constrained by infrastructural and logistical challenges. The brand is represented in Botswana, Namibia, Swaziland, Lesotho, Malawi, Uganda, Tanzania and Zambia, with further opportunities being explored.

INTERNATIONAL OPERATIONS

Further to the half year report, the first of three new stores commenced trading in New South Wales during July. A further two stores, situated in Queensland and New South Wales, are scheduled for opening during the fourth quarter of 2004. This will complement the existing nine stores in Australia.

The latest store epitomises an evolved trading formula which has seen the modification of the traditional warehouse concept to include a customer-friendly showroom facility. This enhancement will result in the model being rolled out into all existing stores and further new stores. Following on from successful implementation in the South African market, the group plans to extend its basket of products to include sanitaryware and taps.

A strong local currency will continue to restrict this operation's contribution to turnover and profits to below 10%, but management is satisfied that sustained growth in Australian dollar terms is achievable.

PROPERTY PORTFOLIO

Continued investment in the company's property portfolio remains a core strategy, with a further R69 million invested this year, bringing the carrying value of the South African and Australian property portfolios to some R309 million.

The group believes that the shopping experience is enhanced by placing its trading outlets in purpose built premises situated in prominent, prime locations adjacent to target markets, and is a key component of its retail strategy. The returns achieved on this portfolio are in line with the contribution from the group's trading operations.

DIRECTORATE

On 8th April 2004, Siyabonga Gama was appointed to the Board as an independent Non Executive Director. Mr Gama is the Chief Executive Officer of the National Ports Authority of South Africa and Chairman of the Port Management Association of Eastern and Southern Africa. The Directors welcome Mr Gama and look forward to their association with him.

PROSPECTS

Sustained Rand strength will continue to foster new entrants into the market with a resultant short term over-supply of imported product. The competitive landscape will thus be characterised by deflationary price pressures for the foreseeable future.

The group will continue to focus its energies on maintaining price competitiveness, a low overhead base, a strong cash position and optimal working capital levels. Current growth levels are expected to be maintained.

ACCOUNTING POLICIES

The financial information has been presented in accordance with South African Statements of Generally Accepted Accounting Practice.

The accounting policies are consistent in all material respects with those applied in the previous year except for the consolidation of the Share Incentive Trust.

SHARE INCENTIVE TRUST

In order to conform with the requirements of the JSE Securities Exchange South Africa, the Group now consolidates its Share Incentive Trust. The major effect of this change is to decrease the number of shares in issue by 1 031 000 shares (2003: 932 000). The relevant prior year figures have been restated. Had the shares held by the Share Incentive Trust been included in the earnings per share and headline earnings per share calculations, the former would have amounted to 807,4 cents (2003: 634,5 cents) and the latter 809,0 cents (2003: 656,6 cents).

DIVIDEND

The Board has declared a final ordinary dividend of 90 cents per share, which together with the interim ordinary dividend of 70 cents produces a total ordinary dividend declared for the year of 160 cents (2003: 130 cents), an improvement of 23%.

Italtile remains a strong cash generator. Management is satisfied that current cash resources coupled with projected net cash inflows are in excess of operating requirements and planned capital expenditure. As a result, an additional special dividend of 140 cents per share will be paid to shareholders.

Management is of the view that surplus cash holdings are counterproductive to operational efficiencies. Special dividends will be considered in the future should the need arise.

DIVIDEND ANNOUNCEMENT

The directors have declared a final ordinary dividend (number 76) of 90 cents per share and a special dividend 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 Friday, 20th August 2004. The shares of Italtile Limited will commence trading EX dividend from the commencement of business on Monday, 23rd August 2004 and the record date will be Friday, 27th August 2004. Payment will be made on Monday, 30th August 2004. Share certificates may not be dematerialised or rematerialised between Monday, 23rd August 2004 and Friday, 27th August 2004, both days inclusive.

For and on behalf of the Board

G A M Ravazzotti	**P D Swatton**	
Executive Chairman	*Chief Financial Officer*	4th August 2004

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.

Turnover analysis

For the year ended 30 June 2004 *(Rand 000's unless otherwise stated)*

	Year to 30 June 2004	Year to 30 June 2003	% Increase
GROUP AND FRANCHISED TURNOVER			
– By group owned stores	**799 892**	749 150	
– By franchise owned stores	**768 687**	608 779	
TOTAL	**1 568 579**	1 357 929	15,5

Abridged group income statements

For the year ended 30 June 2004 *(Rand 000's unless otherwise stated)*

	Reviewed year to 30 June 2004	Audited year to 30 June 2003	% Increase
GROUP TURNOVER	**799 892**	749 150	
Profit from operating activities before depreciation	**229 293**	189 393	
Depreciation	**(15 395)**	(17 017)	
Impairment of property, plant and equipment		(6 189)	
Loss on sale of property, plant and equipment	**(241)**	(612)	
Profit from trading activities	**213 657**	165 575	29,0
Interest received	**6 814**	5 093	
Dividends received	**2 877**	2 243	
Share Incentive Trust reversal		2 700	
Goodwill amortised	**(64)**		
Interest paid	**(1 482)**	(1 730)	
Profit before taxation	**221 802**	173 881	27,6
Taxation	**(66 888)**	(53 935)	24,0
Profit after taxation	**154 914**	119 946	29,2
Outside shareholders' interest	**(4 119)**	(2 336)	
Earnings attributable to ordinary shareholders	**150 795**	117 610	28,2
Number of shares in issue (000's)	**17 646**	17 604	
Earnings per share (cents)	**854,6**	668,1	27,9
Headline earnings per share (cents)	**856,3**	691,4	23,9
Ordinary dividends declared per share (cents)	**160,0**	130,0	23,1
Special dividend declared per share (cents)	**140,0**	—	
RECONCILIATION OF HEADLINE EARNINGS			
Earnings attributable to ordinary shareholders	**150 795**	117 610	
Loss on sale of property, plant and equipment	**241**	612	
Impairment of property, plant and equipment		6 189	
Share Incentive Trust reversal		(2 700)	
Goodwill amortised	**64**		
Headline earnings	**151 100**	121 711	24,1
RECONCILIATION OF SHARES IN ISSUE			
Total number of shares issued (000's)	**18 677**	18 536	
Share Incentive Trust shares (000's)	**(1 031)**	(932)	
Shares in issue (000's)	**17 646**	17 604	

Abridged group balance sheets

(Rand 000's unless otherwise stated)

	Reviewed year to 30 June 2004	Audited year to 30 June 2003
ASSETS		
Non-current assets	**329 686**	265 324
Property, plant and equipment	**324 204**	259 740
Other long-term assets	**5 482**	5 584
Current assets	**425 413**	327 343
Inventories	**134 179**	99 892
Trade and other receivables	**68 382**	69 896
Cash and cash equivalents	**222 852**	157 555
Total assets	**755 099**	592 667
EQUITY AND LIABILITIES		
Capital and reserves	**499 673**	389 459
Stated capital	**27 175**	27 175
Non-distributable reserve	**717**	7 059
Treasury shares	**(46 032)**	(38 207)
Retained profit	**517 813**	393 432
Outside shareholders' interest	**14 663**	10 774
Non-current liabilities	**8 674**	10 004
Deferred tax	**444**	535
Long-term liabilities	**8 230**	9 469
Current liabilities	**232 089**	182 430
Trade and other payables	**211 022**	163 832
Taxation	**21 067**	18 598
	755 099	592 667
Net asset value per share (cents)	**2 915**	2 274

Segmental reporting

For the year ended 30 June 2004 *(Rand 000's unless otherwise stated)*

	Retail	**Franchising and properties**	**Other**	**Group**
Reviewed year to June 2004				
Revenue	801 177	96 434	36 759	934 370
Segment results	**89 485**	**112 353**	**11 819**	**213 657**
Audited year to June 2003				
Revenue	751 311	77 668	29 432	858 411
Segment results	66 411	88 152	11 012	165 575

Cash flow statements

For the year ended 30 June 2004 *(Rand 000's unless otherwise stated)*

	Reviewed year to 30 June 2004	Audited year to 30 June 2003
Cash flow from operating activities	**154 812**	126 366
Cash flow from investing activities	**(88 047)**	(67 984)
Cash flow from financing activities	**(1 468)**	7 395
Net movement in cash and cash equivalents	**65 297**	65 777
Cash and cash equivalents at beginning of period	**157 555**	91 778
Cash and cash equivalents at end of period	**222 852**	157 555

Statements of changes in equity

For the year ended 30 June 2004 *(Rand 000's unless otherwise stated)*

Group	**Stated capital**	**Translation reserve**	**Treasury shares**	**Retained profit**	**Total**
Balance at June 2002 as reported	18 457	11 168		296 328	**325 953**
Change in accounting policy					
– Unallocated shares in share trust			(13 139)		**(13 139)**
– Accumulated deficit in share trust			(9 690)		**(9 690)**
Balance at June 2002 restated	18 457	11 168	(22 829)	296 328	**303 124**
New share issues	8 718				**8 718**
Net profit for the period				117 610	**117 610**
Dividends paid				(20 506)	**(20 506)**
Currency translation difference		(4 109)			**(4 109)**
Change in accounting policy					
– Unallocated shares in share trust			(15 555)		**(15 555)**
– Accumulated surplus in share trust			177		**177**
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)**
Change in accounting policy					
– 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**

Notes:

– There are no material contingent liabilities or assets at 30 June 2004.

– Capital commitments at 30 June 2004

	R'000
Contracted	21 394
Authorised, not contracted	51 530
	72 924

– 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: G A M Ravazzotti (Chairman), P D Swatton**, J Couzis*, G F Cousins, D H Rabin, S I Gama *Greek ** British
Refer to Italtile's corporate website: www.italtile.com

BASTION GRAPHICS