

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, please consult your Central Securities Depository Participant (“CSDP”), broker, banker, legal advisor, accountant or other professional advisor immediately.

Action required

If you have disposed of all your shares in Italtile, then this document should be handed to the purchaser of such shares or to the CSDP, broker, banker or other agent through whom the disposal was effected.

Shareholders are referred to page 1 of this circular, which sets out the detailed action required by certificated shareholders and dematerialised shareholders in regard to the transaction set out in this circular.

Additional copies (in English) of this circular may be obtained from the office of Italtile, The Italtile Building, corner William Nicol Drive and Peter Place, Bryanston, 2021.

Italtile does not accept responsibility and will not be held liable for any failure on the part of the CSDP or broker of a dematerialised shareholder to notify such shareholder of the transaction set out in this circular.



(Incorporated in the Republic of South Africa)
(Registration number 1955/000558/06)
Share code: ITE ISIN: ZAE000003679
("Italtile" or the "company")

CIRCULAR TO ITALTILE SHAREHOLDERS

relating to:

- a black economic empowerment transaction entailing the specific issue of 2 000 000 Italtile ordinary shares to selected black economic empowerment partners which include certain broad-based participants, a related party and employees of the company;
- a specific approval for Italtile (or any subsidiary of it) to repurchase, pursuant to rights of pre-emption to be granted to Italtile any Italtile shares held by the empowerment partners, which repurchase constitutes a specific repurchase of securities in terms of the Listings Requirements of the JSE;
- the sub-division of the authorised and issued share capital of Italtile by dividing one Italtile ordinary share of no par value into 44 Italtile ordinary shares of no par value;
- the substitution of Italtile’s Articles of Association with new Articles of Association; and
- the adoption of two new employee share incentive schemes;

and incorporating:

- a notice of general meeting of Italtile shareholders;
- a form of proxy to vote at the general meeting of Italtile shareholders (for use by certificated shareholders and dematerialised shareholders with “own name” registration only); and
- a form of surrender (for use by certificated shareholders only).

Transaction sponsor

JAVACAPITAL

Attorneys



Corporate advisor and legal advisor

R A B I N
+ A S S O C I A T E S (P T Y) L T D

Independent reporting
accountants and auditors

ERNST & YOUNG
Chartered Accountants (SA)
(Registered Accountants and Auditors)

Independent expert

PKF
Corporate Finance

CORPORATE INFORMATION

Registered office

The Italtile Building
Corner William Nicol Drive and Peter Place
Bryanston, 2021
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Transaction sponsor

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2 Arnold Road
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(PO Box 2087, Parklands, 2121)

Corporate advisor and legal advisor

Rabin & Associates
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22 Fredman Drive
Sandton, 2146
(PO Box 78333, Sandton City, 2146)

Attorneys and company secretary

Routledge Modise Attorneys
(Registration number 1992/006150/21)
22 Fredman Drive
Sandton, 2146
(PO Box 78333, Sandton City, 2146)

Independent reporting accountants and auditors

Ernst & Young Inc.
(Registration number 2005/002308/21)
Chartered Accountants (SA)
Registered Accountants and Auditors
Wanderers Office Park, 52 Corlett Drive, Illovo

Independent expert

PKF Corporate Finance (Proprietary) Limited
(Registration number 1998/018420/07)
PKF House, 15 Girton Road
Parktown, 2193
(Postnet Suite, Private Bag X30500, Houghton, 2041)

Transfer secretaries

Computershare Investor Services 2004 (Proprietary) Limited
(Registration number 2004/003647/07)
Ground Floor
70 Marshall Street
Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

ACTION REQUIRED BY SHAREHOLDERS

1. VOTING AT THE GENERAL MEETING

The definitions commencing on page 11 of this circular apply *mutatis mutandis* to this part of the circular, which sets out the action required by shareholders.

The BEE transaction and other proposals in this circular are subject to shareholders passing the requisite resolutions at the general meeting of Italtile shareholders to be held at 10:00 on Thursday, 12 July 2007 at the offices of Italtile, The Italtile Building, Corner William Nicol Drive and Peter Place, Bryanston, 2021. A notice convening the general meeting is attached to and forms part of this circular.

Shareholders holding certificated shares and dematerialised shareholders who have elected “own-name” registration, who are unable to attend the general meeting but who wish to be represented thereat, are requested to complete and return the attached form of proxy in accordance with the instructions contained therein. The duly completed forms of proxy must be received by the transfer secretaries by no later than 10:00 on Wednesday, 11 July 2007.

Dematerialised shareholders who have not elected “own-name” registration, must provide their CSDP or broker with their instruction for attendance or voting at the general meeting in the manner stipulated in the custody agreement governing the relationship between such shareholders and their CSDP or broker. These instructions must be provided to the CSDP or broker by the cut-off time and date advised by the CSDP or broker for instructions of this nature. Should they wish to attend the meeting, they must request a letter of representation from their CSDP or broker.

If you hold your Italtile shares (whether certificated or dematerialised) through a nominee, you should timeously make the necessary arrangements with your nominee in terms of the agreement entered into between the shareholder and the nominee, in the manner and time periods stipulated therein.

Italtile does not accept responsibility and will not be held liable for any failure on the part of the CSDP of a dematerialised shareholder to notify such dematerialised shareholder of the general meeting or any business to be conducted thereat.

2. SURRENDER OF CERTIFICATES AND/OR OTHER DOCUMENTS OF TITLE BY CERTIFICATED SHAREHOLDERS

2.1 Certificated shareholders

Following the requisite approval to sub-divide the Italtile shares, certificated shareholders are required to surrender their existing documents of title in order to exchange them for new share certificates reflecting the sub-division of Italtile shares proposed in this circular.

Certificated shareholders must complete the attached form of surrender which forms part of this circular and return it together with the document/s of title to the transfer secretaries.

Replacement share certificates will be posted by registered post at the risk of the addressee on or about Monday, 30 July 2007 in respect of documents of title received on or before 12:00 on the record date (that is Friday, 27 July 2007) or within five days of receipt of the form of surrender and documents of title if received after 12:00 on the record date. Additional copies of the form of surrender are available on request from the transfer secretaries.

If any person who is not a registered holder of shares in the company or if the company lodges with the transfer secretaries a share certificate or a certified transfer deed or other valid document of title for shares in the company together with:

- a properly completed transfer form for registration of the said shares; and
- proof, to the satisfaction of the transfer secretaries that the relevant stamp duty or marketable securities tax has been paid in respect of the proposed registration of transfer to those shares,

then a share certificate in the name of the transferee named in the abovementioned transfer form for the appropriate shares will be posted by registered post at the risk of the addressee to the transferee's address reflected on such transfer form, provided that no replacement certificates have already been issued in respect of the documents of title so lodged.

The company uses the “certified transfer deeds and other temporary documents of title” procedure approved by the JSE, and, therefore, will issue only one “block” certificate in respect of each surrender.

A new certificate will not be dispatched to a shareholder before that shareholder has surrendered the relevant certificate or other documents of title in respect of the shares held by him, provided that if any shareholder produces evidence to the satisfaction of the company that the certificate in respect of any shares has been lost or destroyed, the company may dispense with the surrender of such certificate against the provision of an indemnity acceptable to the company. No receipt will be issued in respect of documents of title which have been surrendered unless specifically requested. Lodging agents who require a receipt should prepare one and lodge it with the documents for stamping.

2.2 Dematerialised shareholders

Following the requisite approval to sub-divide the Italtile shares, dematerialised shareholders need not take any further action as their accounts with their CSDP or broker will be credited with the requisite number of Italtile shares on the record date.

South African Exchange Control Regulations

The new share certificates will be restrictively endorsed if the existing share certificates or other documents lodged are restrictively endorsed under the South African Exchange Control Regulations or if the address of the certificated shareholders concerned is outside the common monetary area. If the share certificates represent blocked assets of a former resident of South Africa, the new share certificate will be sent to the authorised dealer in foreign exchange in South Africa controlling such former resident's blocked assets or non residents, who are former residents, must give the name and address of the authorised dealer in foreign exchange in South Africa to whom, where applicable, share certificates must be sent as set out in the space provided. The company will retain the share certificates until such information is provided. If the non-resident is not a former resident, the new share certificate will be sent to the address of the non-resident concerned appropriately endorsed.

SALIENT DATES AND TIMES

The definitions commencing on page 11 of this circular apply *mutatis mutandis* to this part of the circular, which sets out the salient dates in respect of the various proposals set out in this circular.

Circular posted to shareholders	Wednesday, 20 June 2007
Last day to lodge forms of proxy (in respect of the general meeting of Italtile shareholders) by 10:00 on	Wednesday, 11 July 2007
General meeting of Italtile shareholders at 10:00 on	Thursday, 12 July 2007
Results of general meeting published on SENS	Thursday, 12 July 2007
Results of general meeting published in the press	Friday, 13 July 2007
Last date to trade for the sub-division of Italtile shares	Thursday, 2 August 2007
List day: New capital structure listed	Friday, 3 August 2007
Shares will trade under the new ISIN ZAE 000099123	Friday, 3 August 2007
Record date for the sub-division of Italtile shares	Friday, 10 August 2007
New securities (sub-divided Italtile shares) issued	Monday, 13 August 2007
Share certificates in the sub-divided form will be posted to certificated shareholders who have surrendered their share certificates together with a completed surrender form before 12:00 on the record date (or within five business days of receipt if received after 12:00 on the record date)	Monday, 13 August 2007
Dematerialised shareholders will have their accounts updated by their CSDP or broker	Monday, 13 August 2007

Notes:

1. The abovementioned dates and times are subject to change. Any changes will be announced on SENS and in the press.
2. Dematerialised shareholders are required to notify their CSDP or broker as to the manner in which they wish to vote their Italtile shares at the general meeting in the manner and time stipulated in the agreement governing the relationship between the shareholder and their CSDP or broker.
3. All times indicated are South African times.
4. Share certificates in the pre-subdivided form may not be dematerialised after Thursday, 2 August 2007.

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SALIENT FEATURES

This summary contains the salient features of the BEE transaction and other proposals in this circular, which should be read together with the circular in its entirety for a full appreciation thereof. The definitions commencing on page 11 of this circular apply *mutatis mutandis* to the salient features.

1. INTRODUCTION

- 1.1 Italtile, which was founded 38 years ago, was listed on the Industrial Building and Construction sector of the JSE on 8 August 1988. The company is the leading South African retailer of imported and local ceramic tiles, sanitary ware, bathroom accessories and other related products. The group is one of the largest purchasers of ceramic tiles in the world. The group trades through two branded national retail chains: Italtile (positioned as a fashion leader in the retail of ceramic tiles) and CTM (the cash-and-carry chain of retail outlets in the Italtile stable, offering a value priced range of product to the trade and do-it-yourself market). Italtile operates in Southern Africa through 90 stores comprising 8 Italtile stores and 82 CTM stores. The group is positioned as a major franchisor, focused on streamlining the parent operation while growing market share and fostering entrepreneurial opportunities through their franchise program. The group commenced trading in Sydney, Australia in 1998 and now operates eight outlets across Queensland and New South Wales.
- 1.2 As announced on SENS on 10 May 2007 and in the press on 11 May 2007 Italtile proposes:
 - 1.2.1 implementing a transaction that will introduce a strategic BEE shareholding to Italtile;
 - 1.2.2 sub-dividing its share capital, on the basis that each Italtile share (whether issued or unissued) will be divided into 44 Italtile shares, in order to promote liquidity in the trading of Italtile shares on the JSE;
 - 1.2.3 adopting new articles of association; and
 - 1.2.4 adopting the new employee share incentive schemes.
- 1.3 This circular contains full details of the terms of the proposed BEE transaction, the subdivision and the adoption of the new articles of association as well as the new employee share incentive schemes.

2. THE BEE TRANSACTION

2.1 *Principles underlying the BEE transaction*

- 2.1.1 Italtile is committed to broad-based BEE and the BEE transaction is being implemented in the context of the Italtile group's overall BEE strategy and employment equity initiatives. The BEE transaction will result in 2 000 000 Italtile shares (equivalent to approximately 10.7% of the entire issued ordinary share capital of Italtile) being owned by the BEE partners and the BEE trust.
- 2.1.2 The BEE transaction has been structured to give effect to the following principles:
 - 2.1.2.1 broad-based BEE as contemplated in the BEE Act, together with the "Codes of Good Practice" issued by the Minister of Trade and Industry in terms of the BEE Act; and
 - 2.1.2.2 the group's own transformation goals through the inclusion of BEE partners who will contribute to the growth of the group and will enable the Italtile group to trade in market segments where it has previously been inactive.

2.2 *Terms of the BEE transaction*

- 2.2.1 The BEE transaction entails the BEE partners establishing the BEECo's and the establishment of the BEE trust.
- 2.2.2 Italtile will, subject to shareholder approval, issue to the BEECo's and the BEE trust 2 000 000 Italtile shares ("**the BEE shares**"), equating to approximately 10.7% of the entire issued ordinary share capital of Italtile.

- 2.2.3 The BEE shares will be allocated as follows:
- 2.2.3.1 600 000 will be issued to Arrow Creek, equating to approximately 3.2% of the entire issued ordinary share capital of Italtile;
 - 2.2.3.2 800 000 will be issued to Four Arrows, equating to approximately 4.2% of the entire issued share capital of Italtile; and
 - 2.2.3.3 600 000 will be issued to the BEE trust, equating to approximately 3.2% of the entire issued ordinary share capital of Italtile.
- 2.2.4 Of the 600 000 shares to be issued to the BEE trust, 200 000 will be issued on the implementation date and the balance will be issued on such dates and in such tranches as the Italtile board may determine.
- 2.2.5 The BEE shares will be issued to the BEECo's and the BEE trust for a consideration of R201 per share. This represents a discount of 32% to the volume weighted average price of Italtile shares for the 30 trading days preceding the last practicable date and a 17% discount to the volume weighted average price of Italtile shares over the month of March 2007, being the month during which agreement was reached between Italtile and the BEE partners on the terms of the BEE transaction.
- 2.2.6 The BEE shares will be subject to restrictions on alienation and encumbrance for seven years after the issue thereof to the BEECo's and for three years in the case of the BEE trust, whereafter Italtile, subject to shareholder approval, will have pre-emptive rights applicable in favour of the group or its nominee in the event of any sale of such shares.
- 2.2.7 Should any of the BEECo's or the BEE Trust wish to sell any of the BEE shares that it owns following the expiry of the periods referred to in paragraph 2.2.6 above, or should any of the BEE partners wish to sell 100% of the issued shares in the BEECo that it owns, such party shall procure that a written offer is made by it in terms of which Italtile (or its nominee) will be entitled to purchase the BEE shares or the shares in the relevant BEECo (as the case may be) for the purchase price referred to in paragraph 2.2.8 below.
- 2.2.8 The purchase price payable by Italtile (or its nominee) for:
- 2.2.8.1 the BEE shares shall be 83% of the trade weighted average price at which Italtile shares traded on the JSE during the 10 trading days immediately preceding the date of receipt of the offer, as certified by ABSA Bank Limited (or its successor in title);
 - 2.2.8.2 the shares in BEECo shall be 83% of the value of the BEE shares held by the BEECo at the time of the offer calculated by multiplying the trade weighted average price at which Italtile shares traded on the JSE during the 10 trading days immediately preceding the date of receipt of the offer by the number of BEE shares held by the BEECo minus the total of all liabilities owing by the BEECo as at the date of payment of the purchase price due by Italtile in respect of the BEE shares including the amounts owed by the BEECo to Italtile in terms of the preference shares referred to in paragraph 2.3.2 below.
- 2.2.9 In order to afford the company the requisite authority, the board of Italtile proposes that, in accordance with the company's new articles of association (details of which are set out in paragraph 4.2.2 below) and subject to the company satisfying the requirements stipulated in the Companies Act and the JSE Listings Requirements at the time of the specific repurchase by Italtile (including in respect of the working capital requirements of the Italtile group), shareholders approve the specific repurchase by Italtile of the BEE shares or the purchase of the shares in the BEECo's (utilising cash resources available to it at the time) at the prices set out in paragraph 2.2.8 above.
- 2.2.10 In the event that it is required in terms of the JSE Listings Requirements at any time that Italtile enters into a specific repurchase as contemplated, the board must appoint an independent professional expert acceptable to the JSE to provide an opinion as to whether the price proposed to be paid for the relevant transaction shares is fair and reasonable to shareholders, and the board shall not proceed with the specific repurchase if the independent expert finds that the price is not fair and reasonable.
- 2.2.11 Under the JSE's Listings Requirements:
- 2.2.11.1 the proposed issue of the BEE shares by Italtile to the BEECo's and the BEE trust constitutes a specific issue of shares for cash;

- 2.2.11.2 as a consequence of the participation of Mr Siyabonga Gama, a director of Italtile, in the BEE transaction, the specific issue of shares for cash to Four Arrows will constitute a specific issue of shares to a related party; and
- 2.2.11.3 if Italtile ever exercises its pre-emptive rights to buy back the BEE shares, any such buy back would be a specific repurchase of shares.
- 2.2.12 Accordingly, both the issue of the BEE shares to the BEECo's and the BEE trust and the authority to exercise the pre-emptive rights require approval by way of special resolution to be passed by 75% of ordinary shareholders present or represented by proxy at the general meeting of shareholders, excluding any party and its associates participating in such issue of shares.
- 2.2.13 The necessary notices and resolutions in regard to the foregoing, and a copy of the independent expert's opinion are included in the notice of general meeting attached to and forming part of the circular and as Annexure 3 respectively.

2.3 *Funding of the BEECo's*

- 2.3.1 In order to raise the funds necessary to purchase the BEE shares, the BEECo's will:
 - 2.3.1.1 in the case of Arrow Creek, be capitalised in an amount of R1 000 000 by Aka Capital out of its own funds;
 - 2.3.1.2 procure loan funding from ABSA Bank Limited for an amount equal to not less than the balance of the total cash subscription price of the BEE shares ("**the bridging loan**").
- 2.3.2 Immediately upon the issue of the BEE shares to the BEECo's, Italtile will subscribe for the BEECo preference shares in the BEECo's upon the following terms:
 - 2.3.2.1 Italtile will subscribe for a total of 1 400 000 BEECo preference shares for a total subscription price of R280 406 000, which is equivalent to R200.29 per BEECo preference share, as follows:
 - 2.3.2.1.1 800 000 BEECo preference shares from Four Arrows; and
 - 2.3.2.1.2 600 000 BEECo preference shares from Arrow Creek.
 - 2.3.2.2 the BEECo preference shares will yield an annual cumulative dividend equal to 70% of the prime lending rate from time to time;
 - 2.3.2.3 the BEECo preference shares will be redeemed by no later than the 10th anniversary of the date upon which Italtile subscribes for them ("**the subscription date**") and may be redeemed by the BEECo's at any time after the subscription date and may further be redeemed at the option of Italtile at any time after the 8th anniversary of the subscription date.
- 2.3.3 The BEECo's are obliged to apply the proceeds from the issue of the BEECo preference shares to settle the bridging loan.
- 2.3.4 In order to raise the funds necessary to purchase the BEE shares to be issued and allotted to it, the BEE trust will be funded by way of a loan from Italtile. This loan will accrue interest at the prime lending rate from time to time.

3. **PRO FORMA FINANCIAL EFFECTS**

- 3.1 These unaudited *pro forma* financial effects for which the board of Italtile is responsible are presented for illustrative purposes only and may not give a fair reflection of the financial position and results of operations after the implementation of the BEE transaction.
- 3.2 The table below sets out the unaudited *pro forma* financial effects of the BEE transaction based on the published financial results of Italtile for the six month period ended 31 December 2006 and the financial year ended 30 June 2006.

Six-month period ended 31 December 2006:

	Before the BEE transaction	After the BEE transaction	Percentage change
Earnings per share and headline earnings per share (cents)	694	426	(38.6)

Notes:

1. The earnings per share (“EPS”) and headline earnings per share (“HEPS”) “Before the BEE transaction” are based on the published financial results of Italtile for the 6 month period ended 31 December 2006. For purposes of the calculations, the consolidated weighted average number and the actual number of Italtile shares in issue (net of treasury shares) at 31 December 2006 are both 18 148 000.
2. For purposes of the calculations relating to the EPS and HEPS “After the BEE transaction”, the consolidated weighted average number and the actual number of Italtile shares in issue (net of treasury shares) at 31 December 2006 are both 18 148 000.
3. The EPS and HEPS “After the BEE transaction” are based on the assumption that the BEE transaction was implemented on 1 July 2006 and assume transaction fees and other administration fees.
4. The effect of the BEE transaction on net asset value (“NAV”) and net tangible asset value (“NTAV”) per Italtile share is immaterial and therefore not shown.

Year ended 30 June 2006:

	Before the BEE transaction	After the BEE transaction	Percentage change
Earnings per share (cents)	1 290	1 019	(21.0)
Headline earnings per share (cents)	1 312	1 041	(20.7)

Notes:

1. EPS and HEPS “Before the BEE transaction” are based on the published financial results of Italtile for the year ended 30 June 2006. For purposes of the calculations, the consolidated weighted average number and the actual number of Italtile shares in issue (net of treasury shares) at 30 June 2006 are both 18 095 000.
2. For purposes of the calculations relating to the EPS and HEPS “After the BEE transaction”, the consolidated weighted average number and the actual number of Italtile shares in issue (net of treasury shares) at 30 June 2006 are both 18 095 000.
3. The EPS and HEPS “After the BEE transaction” are based on the assumption that the BEE transaction was implemented on 1 July 2005 and assume transaction fees and other administration fees.
4. The effect of the BEE transaction on NAV and NTAV per Italtile share is immaterial and therefore not shown.

3.3 *Impact of IFRS 2*

- 3.3.1 As required when preparing *pro forma* financial effects, the above tables have been prepared on the basis of Italtile’s accounting policies for the year ended 30 June 2006.
- 3.3.2 Under IFRS2, Italtile is required to expense, through the income statement, the difference between the fair value of the shares issued in terms of the proposed BEE transaction and the proceeds received on the issue of those shares (“**the cost of the BEE transaction**”). The fair value is deemed to be the current share price, adjusted for any restrictions applicable to the specific shares to be issued, determined on the date of issue of the shares.
- 3.3.3 For the purposes of preparation of the *pro forma* financial effects, the fair value is R264, being the price at which Italtile’s shares were traded on the JSE on 2 April 2007. On this assumption, the cost of the BEE transaction is R48 400 000, which amount will be recognised as a once-off expense through headline earnings.
- 3.3.4 This non-recurring expense will have no effect on the Italtile group’s cash flows.

4. **CONDITIONS PRECEDENT**

The implementation of the BEE transaction is subject to fulfilment of all of the following conditions precedent:

- 4.1 Section 38(2A) of the Companies Act comes into effect. This section will allow a company to provide financial assistance for the purchase of shares issued by it, thereby enabling Italtile to subscribe for the BEECo preference shares. As at the last practicable date, although section 38(2A) has been enacted, no effective date has yet been declared.

- 4.2 The approval by the requisite majority of Italtile shareholders of all the resolutions necessary to implement the BEE transaction, including:
 - 4.2.1 a special resolution approving the grant of financial assistance by Italtile to the BEECo's by way of the subscription for the BEECo preference shares;
 - 4.2.2 a resolution substituting the current articles of association of Italtile with an entirely new and updated articles of association that include provisions granting Italtile or its subsidiaries the authority to acquire shares issued by Italtile, by way of special resolution, as contemplated in sections 85 and 89 of the Companies Act; and
 - 4.2.3 those resolutions approving the issue of the BEE shares to the BEECo's and the specific re-purchase of the BEE shares from the BEECo's by Italtile or its nominee (in the event of an exercise of pre-emptive rights).
- 4.3 The requisite regulatory approvals.

DEFINITIONS

Throughout this circular and the annexures hereto, unless otherwise stated, the words in the first column have the meanings assigned to them in the second column, words in the singular include the plural and *vice versa*, words importing natural persons include corporations and associations of persons and any reference to a gender includes the other gender.

“ Aka Capital ”	Aka Capital (Proprietary) Limited (Registration number 2000/025483/07), a private company registered under the company laws of South Africa;
“ Arrow Creek ”	Arrow Creek Investments 74 (Proprietary) Limited (Registration number 2006/033022/07), a private company registered under the company laws of South Africa and 100% of whose authorised and issued share capital is owned by Aka Capital;
“ BEE ”	black economic empowerment as defined in the BEE Act;
“ BEE Act ”	the Broad-based Black Economic Empowerment Act, 2003 (Act 53 of 2003), as amended;
“ BEECo’s ”	collectively, Arrow Creek and Four Arrows;
“ BEECo preference shares ”	the preference shares that Italtile will subscribe for in the BEECo’s on the basis set out in paragraph 2.4.2 of this circular;
“ BEE partners ”	collectively, Mafumbuka and Aka Capital;
“ BEE transaction ”	the proposed implementation by Italtile of a transaction that will introduce a strategic BEE shareholding to Italtile, further details of which are set out in paragraph 2 of this circular;
“ BEE trust ”	the trust to be formed which, <i>inter alia</i> , will be responsible for making allocations based on the shares it holds, to all staff but primarily to and for the benefit of black members of management and staff of the Italtile group;
“ certificated shareholders ”	Italtile shareholders who have not dematerialised their shares, title to which is represented by a share certificate or other physical document of title;
“ circular ”	this circular to Italtile shareholders dated 20 June 2007 and the annexures hereto;
“ Companies Act ”	the Companies Act, No. 61 of 1973, as amended;
“ conditions precedent ”	the conditions precedent to the implementation of the BEE transaction, as set out at paragraph 4 of the circular;
“ CSDP ”	Central Securities Depository Participant;
“ dematerialisation ”	the process by which certificated shares are converted into electronic form as dematerialised shares and recorded in the sub-register of shareholders maintained by a CSDP in terms of STRATE;
“ dematerialised shareholders ”	Italtile shareholders who have dematerialised their Italtile shares in terms of STRATE;
“ directors ” or the “ board ”	the board of directors of Italtile;

“documents of title”	certificated shares in the form of valid share certificates, certified transfer deeds, balance receipts or any other documents of title acceptable to Italtile;
“Exchange Control Regulations”	the South African Exchange Control Regulations;
“Four Arrows”	Four Arrows Investments 256 (Proprietary) Limited (Registration number 2006/033022/07), a private company registered under the company laws of South Africa and 100% of whose authorised and issued share capital is owned by Mafumbuka;
“general meeting”	the general meeting of Italtile shareholders to be held at 10:00 on Thursday, 12 July 2007 at the offices of Italtile at The Italtile Building, corner William Nicol Drive and Peter Place, Bryanston, 2021;
“implementation date”	the date of implementation of the proposed BEE transaction, being the 3rd business day following fulfilment of the conditions precedent;
“Italtile” or “the company”	Italtile Limited (Registration number 1955/000558/06), a public company registered under the company laws of South Africa and whose shares are listed on the JSE;
“Italtile Group” or “the group”	Italtile and any subsidiary of Italtile from time to time;
“Italtile shares” or “shares”	ordinary shares with no par value in the share capital of Italtile;
“Italtile shareholders”	holders of Italtile shares as recorded on the register of Italtile;
“JSE”	JSE Limited, a public company duly registered and incorporated with limited liability under the company laws of South Africa under Registration number 2005/022939/06 and licensed as an exchange under the Securities Services Act, No. 36 of 2004, as amended;
“JSE Listings Requirements”	the Listings Requirements of the JSE, as amended from time to time;
“last practicable date”	the last practicable date prior to finalisation of this circular, being Tuesday, 12 June 2007;
“Mafumbuka”	Mafumbuka Investment Holdings (Proprietary) Limited (Registration number 2003/031580/07), a private company registered under the company laws of South Africa;
“NAV”	net asset value per share;
“new employee share incentive schemes”	collectively, the Italtile Share Appreciation Rights Scheme and the Italtile Long-Term Incentive Plan, further details of which are set out in paragraph 7 of this circular;
“ <i>pro forma</i> financial information”	collectively, the <i>pro forma</i> financial effects of the specific issue of shares to the BEECo’s and the BEE trust, the <i>pro forma</i> income statement and <i>pro forma</i> balance sheet referred to in paragraph 3 of this circular;
“reporting accountants”	the reporting accountants on the <i>pro forma</i> financial information, namely Ernst & Young, full details of which are set out on the inside front cover of this circular;
“SENS”	the Securities Exchange News Service of the JSE;
“South Africa”	the Republic of South Africa;
“specific issue”	the issue by the company of 2 000 000 Italtile shares to the BEECo’s and the BEE

trust on the basis set out in paragraph 2 of this circular;

“specific repurchase by Italtile”

the exercise by Italtile (or any of its subsidiaries) of its pre-emptive rights to repurchase from the BEECo's and the BEE trust any shares acquired by them in terms of the proposed BEE transaction;

“STRATE”

Strate Limited (Registration number 1998/022242/06), a public company registered under the company laws of South Africa, which is a registered central securities depository responsible for the electronic custody and settlement system used by the JSE;

“the sub-division”

the proposed sub-division by Italtile of its share capital, further details of which are set out in paragraph 6 of this circular;

“subsidiary” or “subsidiaries”

a subsidiary company as defined in the Companies Act; and

“transfer secretaries”

Computershare Investor Services 2004 (Proprietary) Limited (Registration number 2004/003647/07), a private company incorporated under the company laws of South Africa, full details of which are set out on the inside front cover of this circular.



(Incorporated in the Republic of South Africa)
(Registration Number 1955/000558/06)
Share code: ITE ISIN: ZAE000003679
("Italtile" or the "company")

Giovanni Ravazzotti**

Gian-Paolo Ravazzotti†

Peter Swatton‡

John Couzis*

Siyabonga Gama*

Derek Rabin*

** *Chairman*

† *Chief Executive Officer*

‡ *Chief Financial Officer*

* *Non-executive*

CIRCULAR TO ITALTILE SHAREHOLDERS

1. INTRODUCTION

- 1.1 Italtile, which was founded 38 years ago, was listed on the Industrial Building and Construction sector of the JSE on 8 August 1988. The company is the leading South African retailer of imported and local ceramic tiles, sanitary ware, bathroom accessories and other related products. The group is one of the largest purchasers of ceramic tiles in the world. The group trades through two branded national retail chains: Italtile (positioned as a fashion leader in the retail of ceramic tiles) and CTM (the cash-and-carry chain of retail outlets in the Italtile stable, offering a value priced range of product to the trade and do-it-yourself market). Italtile operates in southern Africa through 90 stores comprising eight Italtile stores and 82 CTM stores. The group is positioned as a major franchisor, focused on streamlining the parent operation while growing market share and fostering entrepreneurial opportunities through their franchise program. The group commenced trading in Sydney, Australia in 1998 and now operates eight outlets across Queensland and New South Wales.
- 1.2 As announced on SENS on 10 May 2007 and in the press on 11 May 2007 Italtile proposes:
- 1.2.1 implementing a transaction that will introduce a strategic BEE shareholding to Italtile;
 - 1.2.2 sub-dividing its share capital, on the basis that each Italtile share (whether issued or unissued) will be divided into 44 Italtile shares, in order to promote liquidity in the trading of Italtile shares on the JSE;
 - 1.2.3 adopting new articles of association; and
 - 1.2.4 adopting the new employee share incentive schemes.
- 1.3 This circular contains full details of the terms of the proposed BEE transaction, the subdivision and the adoption of the new articles of association as well as the new employee share incentive schemes.

2. THE BEE TRANSACTION

2.1 *Principles underlying the BEE transaction*

2.1.1 Italtile is committed to broad-based BEE and the BEE transaction is being implemented in the context of the Italtile group's overall BEE strategy and employment equity initiatives. The BEE transaction will result in 2 000 000 Italtile shares (equivalent to approximately 10.7% of the entire issued ordinary share capital of Italtile) being owned by the BEE partners and the BEE trust.

2.1.2 The BEE transaction has been structured to give effect to the following principles:

2.1.2.1 broad-based BEE as contemplated in the BEE Act, together with the "Codes of Good Practice" issued by the Minister of Trade and Industry in terms of the BEE Act; and

2.1.2.2 the group's own transformation goals through the inclusion of BEE partners who will contribute to the growth of the group and will enable the Italtile group to trade in market segments where it has previously been inactive.

2.2 *The participants in the BEE transaction*

2.2.1 Italtile's proposed BEE partners comprise the following groupings:

2.2.1.1 Mafumbuka

Mafumbuka is a wholly black-owned entity which has a shareholder profile comprising of a trust, private individuals as well as the Ingcuze Women Organisation, a broad based women's group which is involved with HIV/AIDS projects as well as employment generation for rural women.

The executive of Mafumbuka consists of Siyabonga Gama, Elizabeth Ntshingila (Non-executive Director), Khulu Andrew Ntshingila (Executive Director), Nana Queeneth Gama (MD) and Mpika Manyathi (Executive Director). Further details of these executives are set out in **Annexure 9** hereto.

Siyabonga Gama currently serves and will continue to serve on the board of Italtile as a non-executive director. Khulu Ntshingila has joined Italtile in an executive capacity.

2.2.1.2 Aka Capital

Aka Capital is a black owned and managed private equity and investment holding company, which was founded in 2001.

The executive of Aka Capital includes the founding principals, Reuel Khoza (Executive Chairman), Sam Nematswerani (CEO) and Gary Morolo (Executive Director). Further details of these executives are set out in **Annexure 9** hereto.

Aka Capital has agreed to transfer 10% of its shareholding in Arrow Creek to a broad-based BEE educational trust which will cater to the needs of historically disadvantaged persons.

It is intended that Sam Nematswerani will be appointed to the board of directors of Italtile with Gary Morolo to be appointed as his alternate director.

2.2.1.3 BEE trust

In addition, Italtile's staff will be afforded an opportunity to participate in the BEE transaction through the newly established BEE trust, in which the beneficiaries will primarily come from historically disadvantaged communities.

2.3 *Terms of the BEE transaction*

2.3.1 The BEE transaction entails the BEE partners establishing the BEECo's and the establishment of the BEE trust.

2.3.2 Italtile will, subject to shareholder approval, issue to the BEECo's and the BEE trust 2 000 000 Italtile shares ("**the BEE shares**"), equating to approximately 10.7% of the entire issued ordinary share capital of Italtile.

- 2.3.3 The BEE shares will be allocated as follows:
- 2.3.3.1 600 000 will be issued to Arrow Creek, equating to approximately 3.2% of the entire issued ordinary share capital of Italtile;
 - 2.3.3.2 800 000 will be issued to Four Arrows, equating to approximately 4.2% of the entire issued share capital of Italtile; and
 - 2.3.3.3 600 000 will be issued to the BEE trust, equating to approximately 3.2% of the entire issued ordinary share capital of Italtile.
- 2.3.4 Of the 600 000 shares to be issued to the BEE trust, 200 000 will be issued on the implementation date and the balance will be issued on such dates and in such tranches as the Italtile board may determine.
- 2.3.5 The BEE shares will be issued to the BEECo's and the BEE trust for a consideration of R201 per share. This represents a discount of 32% to the volume weighted average price of Italtile shares for the 30 trading days preceding the last practicable date and a 17% discount to the volume weighted average price of Italtile shares over the month of March 2007, being the month during which agreement was reached between Italtile and the BEE partners on the terms of the BEE transaction.
- 2.3.6 The BEE shares will be subject to restrictions on alienation and encumbrance for 7 years after the issue thereof to the BEECo's and for three years in the case of the BEE trust, whereafter Italtile, subject to shareholder approval, will have pre-emptive rights applicable in favour of the group or its nominee in the event of any sale of such shares.
- 2.3.7 Should any of the BEECo's or the BEE Trust wish to sell any of the BEE shares that it owns following the expiry of the periods referred to in 2.3.6 above, or should any of the BEE partners wish to sell 100% of the issued shares in the BEECo that it owns, such party shall procure that a written offer is made by it in terms of which Italtile (or its nominee) will be entitled to purchase the BEE shares or the shares in the relevant BEECo (as the case may be) for the purchase price referred to in paragraph 2.3.8 below.
- 2.3.8 The purchase price payable by Italtile (or its nominee) for:
- 2.3.8.1 the BEE shares shall be 83% of the trade weighted average price at which Italtile shares traded on the JSE during the 10 trading days immediately preceding the date of receipt of the offer, as certified by ABSA Bank Limited (or its successor in title);
 - 2.3.8.2 the shares in BEECo shall be 83% of the value of the BEE shares held by the BEECo at the time of the offer calculated by multiplying the trade weighted average price at which Italtile shares traded on the JSE during the 10 trading days immediately preceding the date of receipt of the offer by the number of BEE shares held by the BEECo minus the total of all liabilities owing by the BEECo as at the date of payment of the purchase price due by Italtile in respect of the BEE shares including the amounts owed by the BEECo to Italtile in terms of the preference shares referred to in paragraph 2.4.2 below.
- 2.3.9 In order to afford the company the requisite authority, the board of Italtile proposes that, in accordance with the company's new articles of association (details of which are set out in paragraph 4.2.2 below) and subject to the company satisfying the requirements stipulated in the Companies Act and the JSE Listings Requirements at the time of the specific repurchase by Italtile (including in respect of the working capital requirements of the Italtile group), shareholders approve the specific repurchase by Italtile of the BEE shares or the purchase of the shares in the BEECo's (utilising cash resources available to it at the time) at the prices set out in paragraph 2.3.8 above.
- 2.3.10 In the event that it is required in terms of the JSE Listings Requirements at any time that Italtile enters into a specific repurchase as contemplated, the board must appoint an independent professional expert acceptable to the JSE to provide an opinion as to whether the price proposed to be paid for the relevant transaction shares is fair and reasonable to shareholders, and the board shall not proceed with the specific repurchase if the independent expert finds that the price is not fair and reasonable.
- 2.3.11 Under the JSE Listings Requirements:
- 2.3.11.1 the proposed issue of the BEE shares by Italtile to the BEECo's and the BEE trust constitutes a specific issue of shares for cash;

- 2.3.11.2 as a consequence of the participation of Mr Siyabonga Gama, a director of Italtile, in the BEE transaction, the specific issue of shares for cash to Four Arrows will constitute a specific issue of shares to a related party; and
- 2.3.11.3 if Italtile ever exercises its pre-emptive rights to buy back the BEE shares, any such buy back would be a specific repurchase of shares.
- 2.3.12 Accordingly, both the issue of the BEE shares to the BEECo's and the BEE trust and the authority to exercise the pre-emptive rights require approval by way of special resolution to be passed by 75% of ordinary shareholders present or represented by proxy at the general meeting of shareholders, excluding any party and its associates participating in such issue of shares.
- 2.3.13 The necessary notices and resolutions in regard to the foregoing, and a copy of the independent expert's opinion are included in the notice of general meeting attached to and forming part of the circular and as **Annexure 3**, respectively.
- 2.4 *Funding of the BEECo's*
- 2.4.1 In order to raise the funds necessary to purchase the BEE shares, the BEECo's will:
- 2.4.1.1 in the case of Arrow Creek, be capitalised in an amount of R1 000 000 by Aka Capital out of its own funds;
- 2.4.1.2 procure loan funding from ABSA Bank Limited for an amount equal to not less than the balance of the total cash subscription price of the BEE shares ("**the bridging loan**").
- 2.4.2 Immediately upon the issue of the BEE shares to the BEECo's, Italtile will subscribe for the BEECo preference shares in the BEECo's upon the following terms:
- 2.4.2.1 Italtile will subscribe for a total of 1 400 000 BEECo preference shares for a total subscription price of R280 406 000, which is equivalent to R200.29 per BEECo preference share, as follows:
- 2.4.2.1.1 800 000 BEECo preference shares from Four Arrows; and
- 2.4.2.1.2 600 000 BEECo preference shares from Arrow Creek;
- 2.4.2.2 the BEECo preference shares will yield an annual cumulative dividend equal to 70% of the prime lending rate from time to time; and
- 2.4.2.3 the BEECo preference shares will be redeemed by no later than the 10th anniversary of the date upon which Italtile subscribes for them ("**the subscription date**") and may be redeemed by the BEECo's at any time after the subscription date and may further be redeemed at the option of Italtile at any time after the 8th anniversary of the subscription date.
- 2.4.3 The BEECo's are obliged to apply the proceeds from the issue of the BEECo preference shares to settle the bridging loan.
- 2.4.4 In order to raise the funds necessary to purchase the BEE shares to be issued and allotted to it, the BEE trust will be funded by way of a loan from Italtile. This loan will accrue interest at the prime lending rate from time to time.

3. **PRO FORMA FINANCIAL EFFECTS**

- 3.1 These unaudited *pro forma* financial effects for which the board of Italtile is responsible are presented for illustrative purposes only and may not give a fair reflection of the financial position and results of operations after the implementation of the BEE transaction.
- 3.2 The table below sets out the unaudited *pro forma* financial effects of the BEE transaction based on the published financial results of Italtile for the six-month period ended 31 December 2006 and the financial year ended 30 June 2006.

Six month period ended 31 December 2006:

	Before the BEE transaction	After the BEE transaction	Percentage change
Earnings per share and headline earnings per share (cents)	694	426	(38.6)

Notes:

1. The earnings per share (“EPS”) and headline earnings per share (“HEPS”) “Before the BEE transaction” are based on the published financial results of Italtile for the six- month period ended 31 December 2006. For purposes of the calculations, the consolidated weighted average number and the actual number of Italtile shares in issue (net of treasury shares) at 31 December 2006 are both 18 148 000.
2. For purposes of the calculations relating to the EPS and HEPS “After the BEE transaction”, the consolidated weighted average number and the actual number of Italtile shares in issue (net of treasury shares) at 31 December 2006 are both 18 148 000.
3. The EPS and HEPS “After the BEE transaction” are based on the assumption that the BEE transaction was implemented on 1 July 2006 and assume transaction fees and other administration fees.
4. The effect of the BEE transaction on net asset value (“NAV”) and net tangible asset value (“NTAV”) per Italtile share is immaterial and therefore not shown.

Year ended 30 June 2006:

	Before the BEE transaction	After the BEE transaction	Percentage change
Earnings per share (cents)	1 290	1 019	(21.0)
Headline earnings per share (cents)	1 312	1 041	(20.7)

Notes:

1. EPS and HEPS “Before the BEE transaction” are based on the published financial results of Italtile for the year ended 30 June 2006. For purposes of the calculations, the consolidated weighted average number and the actual number of Italtile shares in issue (net of treasury shares) at 30 June 2006 are both 18 095 000.
2. For purposes of the calculations relating to the EPS and HEPS “After the BEE transaction”, the consolidated weighted average number and the actual number of Italtile shares in issue (net of treasury shares) at 30 June 2006 are both 18 095 000.
3. The EPS and HEPS “After the BEE transaction” are based on the assumption that the BEE transaction was implemented on 1 July 2005 and assume transaction fees and other administration fees.
4. The effect of the BEE transaction on NAV and NTAV per Italtile share is immaterial and therefore not shown.

3.3 Impact of IFRS 2

- 3.3.1 As required when preparing *pro forma* financial effects, the above tables have been prepared on the basis of Italtile’s accounting policies for the year ended 30 June 2006.
- 3.3.2 Under IFRS2, Italtile is required to expense, through the income statement, the difference between the fair value of the shares issued in terms of the proposed BEE transaction and the proceeds received on the issue of those shares (“**the cost of the BEE transaction**”). The fair value is deemed to be the current share price, adjusted for any restrictions applicable to the specific shares to be issued, determined on the date of issue of the shares.
- 3.3.3 For the purposes of preparation of the *pro forma* financial effects, the fair value is R264, being the price at which Italtile’s shares were traded on the JSE on 2 April 2007. On this assumption, the cost of the BEE transaction is R48 400 000, which amount will be recognised as a once-off expense through headline earnings.
- 3.3.4 This non-recurring expense will have no effect on the Italtile group’s cash flows.

4. CONDITIONS PRECEDENT

The implementation of the BEE transaction is subject to fulfilment of all of the following conditions precedent:

- 4.1 Section 38(2A) of the Companies Act comes into effect. This section will allow a company to provide financial assistance for the purchase of shares issued by it, thereby enabling Italtile to subscribe for the BEECo preference shares. As at the last practicable date, although section 38(2A) has been enacted, no effective date has yet been declared.

- 4.2 The approval by the requisite majority of Italtile shareholders of all the resolutions necessary to implement the BEE transaction, including:
- 4.2.1 a special resolution approving the grant of financial assistance by Italtile to the BEECo's by way of the subscription for the BEECo preference shares;
 - 4.2.2 a resolution substituting the current memorandum and articles of association of Italtile with an entirely new and updated memorandum and articles of association that include provisions granting Italtile or its subsidiaries the authority to acquire shares issued by Italtile, by way of special resolution, as contemplated in sections 85 and 89 of the Companies Act; and
 - 4.2.3 those resolutions approving the issue of the BEE shares to the BEECo's and the specific re-purchase of the BEE shares from the BEECo's by Italtile or its nominee (in the event of an exercise of pre-emptive rights).
- 4.3 The requisite regulatory approvals.

5. IRREVOCABLE UNDERTAKINGS

The board has received irrevocable undertakings in excess of 75% from Italtile's shareholders, in terms of which such shareholders have undertaken to vote in favour of the resolutions necessary to implement the BEE transaction. These irrevocable undertakings are valid until 15 August 2007.

6. SUB-DIVISION OF ITALTILE'S SHARE CAPITAL

- 6.1 Italtile proposes sub-dividing its authorised and issued share capital in order to promote liquidity in the trading of Italtile shares on the JSE. The proposed sub-division entails that each authorised ordinary Italtile share (whether issued or unissued) of no par value will be divided into 44 Italtile shares of no par value. The JSE has granted approval for the sub-division of the Italtile shares.
- 6.2 The table of entitlements of Italtile shareholders in respect of the sub-divided Italtile shares is set out in **Annexure 10** hereto.

7. ADOPTION OF NEW EXECUTIVE EMPLOYEE SHARE INCENTIVE SCHEMES

In order to incentivise selected group directors and employees, including directors and employees of group franchises, Italtile proposes implementing two new employee share incentive schemes, to be known as the Italtile Share Appreciation Rights Scheme and the Italtile Long-Term Incentive Plan. A summary of the salient features of the new employee share incentive schemes are set out in **Annexure 4** hereto.

8. OPINIONS AND RECOMMENDATIONS

- 8.1 The board appointed PKF Corporate Finance as the expert to provide a fair and reasonable opinion on the specific issue of Italtile shares for cash in the context of the BEE transaction as certain of the BEE shares are being issued to Mr Siyabonga Gama, a related party of the company. PKF Corporate Finance has considered the specific issue and is of the opinion that it is not fair but is reasonable to shareholders in the context of the BEE transaction and the requirement to establish and maintain empowerment credentials of the company and has advised the Italtile board of directors accordingly. A copy of the opinion of PKF Corporate Finance is set out in **Annexure 3** hereto.
- 8.2 The board has considered both the terms and conditions of the BEE transaction and the opinion received from PKF Corporate Finance and is of the opinion that the BEE transaction is in the best interests of all of Italtile's stakeholders. Accordingly, the board recommends that shareholders vote in favour of the resolutions required to approve and implement the BEE transaction.
- 8.3 The directors of Italtile who, directly or indirectly, beneficially own Italtile shares, intend to vote in favour of the resolutions to implement the BEE transaction, the subdivision, the adoption of new articles of association and the new employee share incentive schemes in respect of their shareholdings.

9. GENERAL MEETING OF ITALTILE SHAREHOLDERS

9.1 A general meeting of Italtile shareholders will be held at 10:00 on Thursday, 12 July 2007 at the registered office of the company (The Italtile Building, corner William Nicol Drive and Peter Place, Bryanston, Sandton, 2021) to consider and, if deemed fit, pass the proposed resolutions necessary to implement the BEE transaction, the sub-division, the adoption of new articles of association and adoption of the new executive employee share incentive schemes.

9.2 Details of the action required by Italtile shareholders are set out on pages 1 and 2 of this circular.

10. ITALTILE'S CAPITAL STRUCTURE

Details of Italtile's share capital are set out in **Annexure 5** hereto.

11. MAJOR SHAREHOLDERS

Set out below are the names of those parties (other than directors of the companies, whose interests in the company's securities are contained in paragraph 12 below) who were known to hold, directly or indirectly, 5% or more of the issued shares of the company at the last practicable date:

Before the specific issue and sub-division

Shareholder	Number of shares held	Percentage of shares in issue
Rallen (Proprietary) Limited	10 583 763	56.7
Old Mutual Group	2 554 120	13.7

After the specific issue and sub-division

Shareholder	Number of shares held	Percentage of shares in issue
Rallen (Proprietary) Limited	465 685 572	51.2
Old Mutual Group	112 381 280	12.3

12. INTERESTS OF DIRECTORS

The interests of the directors of Italtile at 30 June 2006 were as follows:

Director	Non-beneficially held		Beneficially held		Total	%
	Directly	Indirectly	Directly	Indirectly		
G A M Ravazzotti	–	–	277 778	10 969 344	11 247 122	60.2
P D Swatton	–	–	293 100	–	293 100	1.6
G P E Ravazzotti	–	–	29 000	–	29 000	0.2
J Couzis	–	–	210 000	300 000	510 000	2.7
D H Rabin	–	–	60 000	–	60 000	0.3
Total	–	–	932 878	11 269 344	12 202 222	65.3

The interests of the directors of Italtile at the last practicable date were as follows:

Director	Non-beneficially held		Beneficially held		Total	%
	Directly	Indirectly	Directly	Indirectly		
G A M Ravazzotti	–	–	277 778	10 969 344	11 247 122	60.2
P D Swatton	–	–	293 100	–	293 100	1.6
G P E Ravazzotti	–	–	74 000	–	74 000	0.4
J Couzis	–	–	210 000	300 000	510 000	2.7
D H Rabin	–	–	60 000	–	60 000	0.3
Total	–	–	914 878	11 269 344	12 184 222	65.2

There were no changes to the interests of the directors of Italtile between the last practicable date and the date of this circular.

There will be no variation in the remuneration received by the directors as a consequence of the transactions proposed in this circular.

Other than in respect of Mr S Gama's interest in the BEE transaction, the directors of the company had no interest in transactions entered into by the company during the current or the preceding financial year and which remain in any respect outstanding or unperformed in any earlier financial year.

Additional information relating to the directors and management of the group is set out in **Annexure 7** hereto.

13. MATERIAL CONTRACTS

Save for the preference share agreements referred to in paragraph 2.4 above and the trust deed in respect of the BEE trust, the company has not entered into any contracts, other than in the ordinary course of business, within the two years preceding the date of this circular or which contain an obligation for settlement that is material to Italtile or its subsidiaries at the date of this circular.

14. MATERIAL CHANGES

14.1 There have been no material changes in the financial or trading positions of the group since 8 February 2007, being the date on which the company published its interim results for the six months ended 31 December 2006.

14.2 There has been no change in the controlling shareholder of the company and there has been no change in the trading objects of the company and its subsidiaries during the previous five years.

15. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are given on page 14 of this circular, collectively and individually, accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief, there are no other facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this circular contains all information required by law and the JSE Listings Requirements.

16. LITIGATION STATEMENT

Other than in respect of legal matters related to normal business practices (for example claiming moneys due to the company), which are not material, there are no material legal or arbitration proceedings against the group nor, as far as the directors are aware, are there any legal or arbitration proceedings pending or threatened against the group, that may have had, in the 12 months preceding the date of this circular, a material effect on the financial position of the group.

17. CONSENTS

Each of Java Capital, Rabin and Associates, Ernest & Young, Routledge Modise, PKF Corporate Finance and Computershare have consented in writing to act in the capacities stated and to their names appearing in this circular and have not withdrawn their consent prior to the publication of this circular.

18. SHARE PRICE AND TRADING HISTORY

The price and trading history of Italtile shares are set out in **Annexure 6** hereto.

19. DIRECTORS AND MANAGEMENT

Information relating to the directors and management of the group is contained in **Annexure 7** hereto.

20. KING CODE

Italtile's corporate governance report is set out in **Annexure 8** hereto.

21. PRELIMINARY EXPENSES AND ISSUE EXPENSES

The preliminary costs incurred by Italtile in respect of the BEE transaction, sub-division, the adoption of new articles of association and the adoption of new employee share incentive schemes are set out below:

Costs	R
Transaction sponsor fees – Java Capital	500 000.00
Corporate advisor and legal advisor fees – Rabin & Associates (Pty) Limited	10 050 000.00
Attorneys' fees – Routledge Modise	600 000.00
Reporting accountants – Ernst & Young	120 000.00
Independent experts – PKF Corporate Finance.	250 000.00
Press announcements – Ince (Proprietary) Limited	250 000.00
Printing costs – Ince (Proprietary) Limited	70 000.00
JSE Listing fees – JSE	79 177.56
Documentation inspection fee – JSE (including VAT)	31 920.00
Total costs	11 951 097.56

Unless expressly stated to the contrary all amounts are stated exclusive of VAT.

Italtile has not incurred any preliminary expenses within the three years preceding the date of this circular.

22. EXCHANGE CONTROL GUIDELINES

The following is a summary of the relevant provisions of South African Exchange Control Regulations. If in doubt, shareholders should consult their professional advisors without delay.

Emigrants from the common monetary area

A “non-resident” endorsement will be stamped on every new share certificate or statement issued by the transfer secretaries to a shareholder whose registered address is outside the common monetary area. The new share certificate or statement will be forwarded to the authorised dealer concerned in accordance with surrender procedures above.

All CSDP's and brokers with whom shares have been dematerialised should note that they are required to comply with the South African Exchange Control Regulations set out above.

All other non-residents of the common monetary area

A “non-resident” endorsement will be stamped on every new share certificate or statement issued by the transfer secretaries to a shareholder whose registered address is outside the common monetary area. The new share certificate or statement will be forwarded to the shareholder concerned in accordance with surrender procedures above.

All CSDP's and brokers with whom shares have been dematerialised should note that they are required to comply with the South African Exchange Control Regulations set out above.

Failure to provide information

If the information regarding South African authorised dealers in foreign exchange and authorised banks is not given in terms of the paragraphs above, the certificates or statements and any cash will be held in trust for shareholders concerned pending receipt of the necessary information or instruction. No interest will be paid on any cash so held in trust.

23. DOCUMENTS AVAILABLE FOR INSPECTION

23.1 The documents listed below will be available for inspection during normal office hours on business days from Wednesday, 20 June 2007 until Thursday, 12 July 2007 at the registered office of the company, The Italtile Building, corner William Nicol Drive and Peter Place, Bryanston, 2021.

23.2 The documents that will be available for inspection are:

23.2.1 the existing and new articles of association of the company;

23.2.2 the rules of the new employee share incentive schemes;

23.2.3 the consent letters referred to in paragraph 17 above;

- 23.2.4 the independent reporting accountants report on the *pro forma* financial information of Italtile, which report is attached as **Annexure 2** to this circular;
- 23.2.5 the independent expert's opinion referred to in paragraph 8.1 above;
- 23.2.6 the company's annual financial statements for the three years ended 30 June 2004, 2005 and 2006; and
- 23.2.7 the agreements referred to in paragraph 13 above.

Signed in Bryanston, Johannesburg by G A M Ravazzotti in his capacity as Chairman of Italtile and on behalf of the remaining directors of Italtile in terms of the powers of attorney granted to him by each director of the company.

By order of the board

ITALTILE LIMITED

20 June 2007

Registered office

The Italtile Building
Corner William Nicol Drive and Peter Place
Bryanston
2021

PRO FORMA BALANCE SHEET AND INCOME STATEMENT

PRO FORMA BALANCE SHEET

June 2006

	Before R'm	Adjustments R'm	After R'm
ASSETS			
Non-current assets	550.0	–	550.0
Current assets	567.0	0.7	567.7
	1 117.0	0.7	1 117.7
Issued capital and reserves			
Ordinary share capital and premium	27.0	–	27.0
Shares issued for empowerment purposes	–	411.0	411.0
Treasury shares	(48.0)	(411.0)	(459.0)
Share option reserve	3.0	48.4	51.4
Non-distributable reserves	14.0	–	14.0
Accumulated profits	768.0	48.7	719.3
	764.0	(0.3)	763.7
Minority interest	30.0	1.0	31.0
Non-current liabilities	11.0	–	11.0
Current liabilities	312.0	–	312.0
	1 117.0	0.7	1 117.7
NAV per ordinary share	4 387 952.5		4 391 820.9
Tangible NAV per ordinary share – excluding goodwill and intangible assets	4 387 952.5		4 391 820.9

PRO FORMA INCOME STATEMENT

June 2006

	Before R'm	Adjustments R'm	After R'm
Revenue	(1 418.0)	–	(1 418.0)
Continuing operations	(1 418.0)	–	(1 418.0)
Discontinuing operations	–	–	–
Operating income	(338.0)	–	(338.0)
Continuing operations	(338.0)	–	(338.0)
Discontinuing operations	–	–	–
Amortisation of intangibles	–	–	–
Income from operations	(338.0)	–	(338.0)
Income from investments	(9.0)	–	(9.0)
Net financing cost	(5.0)	–	(5.0)
Income before taxation and abnormal items	(352.0)	–	(352.0)
Abnormal items	–	48.7	48.7
Income before taxation	(352.0)	48.7	(303.3)
Income tax expense	111.0	–	111.0
Net income of the group	(241.0)	48.7	(192.3)
Income from associates	–	–	–
Minority interest	8.0	–	8.0
Income attributable to ordinary shareholders in Italtile	(233.0)	48.7	(184.3)
Weighted average number of shares in issue	18 677		18 677
Issue of shares for cash		2 000.00	2 000
BEEco's			(2 000)
Franchisees			
Staff	(582)		(582)
	<u>18 095</u>		<u>18 095</u>
Reconciliation between earnings and headline earnings:			
Income attributable to ordinary shareholders	(233.0)		(184.3)
Profit on sale of property, plant and equipment, net of impairment charge	(4.0)		(4.0)
Impairment of investments	–		–
Losses on sale of discontinuance of operations	–		–
Associates	–		–
Discontinued operations	–		–
Other	–		–
Goodwill	–		–
Other	–		–
Headline earnings	(237.0)		(188.3)
Basic earnings per ordinary shares (cents)	1 287.65		1 018.51
Headline earnings per ordinary shares (cents)	1 309.75		1 040.62

Adjustment 1:

Bridging finance cost on the basis that it is not included in the R10 million:

Dr	ABSA transaction cost	300 000
Cr	Bank	(300 000)

Adjustment 2:

IFRS 2 cost of BEE transaction:

Dr	IFRS 2 cost	48 360 000
Cr	IFRS 2 reserve	(48 360 000)

PRO FORMA BALANCE SHEET

December 2006

	Before R'm	Adjustments R'm	After R'm
ASSETS			
Non-current assets	655.0	–	655.0
Current assets	578.0	0.7	578.7
	1 233.0	0.3	1 233.7
Issued capital and reserves			
Ordinary share capital and premium	27.0	–	27.0
Shares issued for empowerment purposes	–	411.0	411.0
Treasury shares	(45.0)	(411.0)	(465.0)
Share option reserve	–	48.4	48.4
Non-distributable reserves	21.0	–	21.0
Accumulated profit	842.0	(48.7)	793.3
	845.0	(0.3)	844.7
Minority interest	29.0	1.0	30.0
Non-current liabilities	11.0	–	11.0
Current liabilities	348.0	–	348.0
	1 233.0	0.7	1 233.7
NAV per ordinary share	4 815 957.7		4 814 304.6
Tangible NAV per ordinary share (excluding goodwill and intangible assets)	4 815 957.7		4 814 304.6

Adjustment 1:

Bridging finance cost on the basis that it is not included in the R10 million:

Dr	ABSA transaction cost
Cr	Bank

Adjustment 2:

IFRS 2 cost of BEE transaction:

Dr	IFRS 2 cost
Cr	IFRS 2 reserve

PRO FORMA INCOME STATEMENT

December 2006

	Before R'm	Adjustments R'm	After R'm
Revenue	–	–	–
Continuing operations	–	–	–
Discontinuing operations	–	–	–
Operating income	(185.0)	–	(185.0)
Continuing operations	(185.0)	–	(185.0)
Discontinuing operations	–	–	–
Amortisation of intangibles	–	–	–
Income from operations	(185.0)	–	(185.0)
Income from investments	–	–	–
Net financing cost	(7.0)	–	(7.0)
Income before taxation and abnormal items	(192.0)	–	(192.0)
Abnormal items	–	48.7	48.7
Income before taxation	(192.0)	48.7	(143.3)
Income tax expense	61.0	–	61.0
Net income of the group	(131.0)	48.7	(82.3)
Income from associates	–	–	–
Minority interest	5.0	–	5.0
Income attributable to ordinary shareholders in Italtile	(126.0)	48.7	(77.3)
Weighted average number of shares in issue	18 677		18 677
Issue of shares for cash	–	2 000.00	2 000
BEEco's	–		(2 000)
Franchisees	–		–
Staff	(529)		(529)
	<u>18 148</u>		<u>18 148</u>
Reconciliation between earnings and headline earnings:			
Income attributable to ordinary shareholders	(126.0)		(77.3)
Profit on sale of property, plant and equipment, net of impairment charge	–		–
Impairment of investments	–		–
Losses on sale of discontinuance of operations	–		–
Associates	–		–
Discontinued operations	–		–
Other	–		–
Goodwill	–		–
Other	–		–
Headline earnings	(126.0)		(77.3)
Basic earnings per ordinary shares (cents)	694.29		425.94
Headline earnings per ordinary shares (cents)	694.29		425.94

Adjustment 1:

Bridging Finance Cost on the basis that it is not included in the R10 million:

Dr	ABSA transaction cost
Cr	Bank

Adjustment 2:

IFRS 2 cost of BEE transaction:

Dr	IFRS 2 cost
Cr	IFRS 2 reserve

REPORTING ACCOUNTANTS' REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION

“The Directors
Italtile Limited
The Italtile Building
Corner William Nicol Drive and Peter Place
Bryanston
2021

12 June 2007

Dear Sirs

INDEPENDENT REPORTING ACCOUNTANTS' LIMITED ASSURANCE REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION OF ITALTILE LIMITED (“ITALTILE” OR “THE ISSUER”)**Introduction**

We have performed our limited assurance engagement in respect of the *pro forma* financial information set out in paragraph 3 and Annexure 1 to the circular to Italtile shareholders to be dated on or about 20 June 2007 (“the circular”). The *pro forma* financial information has been prepared in accordance with the requirements of the JSE Listings Requirements, for illustrative purposes only, to provide information about how the specific issue of 2 000 000 Italtile shares at a price of R201 per share to selected BEE partners and a BEE trust for the benefit of Italtile employees (“the transaction”) might have affected the reported historical financial information presented for the financial year ended 30 June 2006 and the six-month period ended 31 December 2006, had the transaction been undertaken at the commencement of the period or at the date of the *pro forma* balance sheet being reported on.

Responsibilities

The directors are responsible for the compilation, contents and presentation of the *pro forma* financial information contained in the circular and for the financial information from which it has been prepared. Their responsibility includes determining that: the *pro forma* financial information has been properly compiled on the basis stated; the basis is consistent with the accounting policies of Italtile; and the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information disclosed in terms of the JSE Listings Requirements.

Our responsibility is to express our limited assurance conclusion on the *pro forma* financial information included in the circular to Italtile shareholders. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements applicable to Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and the Guide on *Pro Forma* Financial Information issued by SAICA. This standard requires us to obtain sufficient appropriate evidence on which to base our conclusion.

We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* financial information, beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Sources of information and work performed

Our procedures consisted primarily of comparing the unadjusted financial information with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Italtile, considering the evidence supporting the *pro forma* adjustments and discussing the adjusted *pro forma* financial information with the directors of Italtile in respect of the transaction.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of Italtile and other information from various public, financial and industry sources.

While our work performed has involved an analysis of the historical published and audited financial information and other information provided to us, our assurance engagement does not constitute an audit or review of any of the underlying financial information conducted in accordance with International Standards on Auditing or International Standards on Review Engagements and accordingly, we do not express an audit or review opinion.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our examination of the evidence obtained, nothing has come to our attention, which causes us to believe that, in terms of sections 8.17 and 8.30 of the JSE Listings Requirements:

- the *pro forma* financial information has not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of Italtile;
- the adjustments are not appropriate for the purposes of the *pro forma* financial information as disclosed.

Consent

This report on the *pro forma* financial information is included solely for the information of the Italtile shareholders. We consent to the inclusion of our report on the *pro forma* financial information and the references thereto, in the form and context in which they appear.

Ernst & Young Inc
Registration number
Registered Auditors
Chartered Accountants (SA)

Johannesburg”

INDEPENDENT EXPERT'S REPORT

Italtile Limited
The Italtile Building
Corner William Nicol Drive and Peter Place
Bryanston
2021
12 June 2007

Dear Sirs

FAIR AND REASONABLE OPINION ON THE PROPOSED SPECIFIC ISSUE OF SHARES TO A RELATED PARTY

Introduction

We have agreed to provide a fair and reasonable opinion on the proposed specific issue of shares to Four Arrows 256 (Proprietary) Limited ("Four Arrows"), a related party, by Italtile Limited ("Italtile" or "the issuer") in order to introduce black economic empowerment ("BEE") shareholders into the issuer ("the BEE transaction"). Full details of the BEE transaction are set out in the circular to be issued to Italtile Limited shareholders on or about 20 June 2007 ("the circular"). Terms defined in the circular have, unless the context requires otherwise, the same meanings in this report as given to them elsewhere in the circular.

Our opinion is required in terms of Sections 5.51(f) and 11.19(d) of the JSE Listings Requirements as the JSE has determined that the transaction constitutes a specific issue of shares to a related party which may be at a price that is not fair or reasonable to the shareholders of the company.

Meaning of fairness and reasonableness

In terms of the JSE Listings Requirements fairness is primarily based on quantitative issues and reasonableness on qualitative issues. For illustrative purposes, an issue of shares may be said to be fair if the issue price is equal to or greater than the value of the share. In other instances, even though the issue price may be less than the value of the share, the issue may be said to be reasonable in certain circumstances after considering other significant qualitative factors.

In preparing our opinion we have applied the aforementioned principles.

Sources of information

We have relied on information from the following sources in arriving at our opinion:

- the historic financial information of Italtile;
- the historic share price of Italtile on the JSE;
- our independent valuation of the Italtile shares;
- the rationale for the BEE transaction as detailed in the circular;
- the terms and conditions of the BEE transaction and the BEE shares;
- the *pro forma* financial effects of the BEE transaction; and
- information and assumptions made available by and discussions held with the directors of Italtile.

Where practical, we have corroborated the reasonability of the information provided to us for the purposes of our opinion, including publicly available information, whether in writing or obtained in discussion with the directors of Italtile. Where possible, such information has been substantiated by reference to supporting documentation and other corroborating evidence. Whilst our work has involved an analysis of the financial information, as provided to us, our engagement does not constitute, nor does it include an audit or review in accordance with International Standards on Auditing. We have not and we do not assume responsibility or liability for such information.

Scope and factors considered

In assessing the fairness and reasonableness of the BEE transaction we have:

- Reviewed the representation letter from the directors of Italtile, stating that:
 - The directors are of the opinion that the BEE transaction is necessary to secure Italtile’s current and future BEE credentials, and,
 - The directors are of the opinion that the BEE transaction is required in order to expand the business into the construction sector;
- Performed an independent valuation of the business of Italtile and of the shares in Italtile. The valuation was performed using maintainable earnings methodology. The following principal assumptions and value drivers were applied in performing the valuation:
 - a risk-free after tax rate of 5.7%;
 - a continued growth rate of 25%;
 - a fair rate of return of 10%; and
 - revaluation of land and buildings owned by the group of R154 million.

On this basis we valued each share in the range of R240 to R260;

- Considered the theoretical dilution in shareholders’ value as at the date of our opinion due to the implementation of the BEE transaction. The calculation of the aforementioned theoretical dilution does not take into account the potential enhancements in shareholders’ value due to the enhanced BEE credentials of Italtile;
- Consideration of the discount at which the shares were issued;
- Consideration of the funding terms of the BEE transaction;
- The significant increase in the company’s listed share price performance and consequent increase in shareholder value subsequent to the disclosure of the BEE transaction which may appear to be as a result of the strategic impact on growth prospects of Italtile;
- Consideration of the context of the BEE transaction and the requirement to establish and maintain empowerment credentials of the company;
- Considered the issue price relative to the 30-day volume weighted average price (“30-day VWAP”) of Italtile shares on the JSE up to and including 17 May 2007. The 30-day VWAP of Italtile shares at that date was R277.30 per share. We performed independent valuation procedures on the listed Italtile shares to assess whether the 30-day VWAP is an accurate approximation of the market value of Italtile shares. Our procedures were as follows:
 - calculated the liquidity in Italtile shares in the preceding 12 months. Liquidity during this period was approximately 4.2% and 0.2% in the 30 day-period on which the VWAP is based;
 - calculated the volatility of the Italtile share price during the preceding 12 months. Volatility during this period was approximately 16%; and
 - compared Italtile’s price earnings ratio to that of similar listed entities. Italtile’s price earnings ratio at 17 May 2007 was 19.8 while the average of the similar listed entities was 15, andbased on the aforementioned procedures we are of the opinion that the 30-day VWAP of Italtile shares provides an accurate approximation of the market value of the shares. In terms of the BEE transaction, Italtile will issue shares to Four Arrows at R201 per share. This represents a discount of 28% to the 30-day VWAP;
- Considered the restriction placed on Four Arrows in terms of which it may not dispose of or transfer any of the BEE transaction shares during a period of seven years from the implementation date of the BEE transaction;
- Considered Italtile’s right of first refusal to acquire the BEE transaction shares held by Four Arrows in respect of a realisation by it of any of those shares;
- Considered the *pro forma* financial effects of the BEE transaction as detailed in the circular;
- Considered the irrevocable undertakings received from shareholders who hold 75% of the issued share capital of Italtile in terms of which such shareholders have undertaken to vote in favour of the BEE transaction.

Opinion

Our opinion is based on the economic, regulatory, market and other conditions in effect on, and information made available to us, at 17 May 2007. Subsequent developments may affect this opinion which we are under no obligation to update, review or re-affirm.

This letter and opinion is provided solely for the shareholders of Italtile in connection with and for the purpose of their consideration of the BEE transaction and may not be reproduced in any form save with our prior written consent.

Based upon and subject to the foregoing we are of the opinion, at 17 May 2007, that the terms and conditions of the BEE transaction are not fair but reasonable to the shareholders of Italtile Limited.

An individual shareholder's decision may be influenced by his or her particular circumstances. This fair and reasonable opinion does not purport to cater for each shareholder's circumstances and risk profile, but rather the general body of shareholders taken as a whole. Should a shareholder be in any doubt as to what action to take, he or she should consult an independent advisor.

Conclusion

We record that no persons who form part of the staff of PKF Corporate Finance (Pty) Ltd who are, directly or indirectly, involved in preparing this fair and reasonable opinion have any interest in:

- the issued share capital of Italtile; and
- the success or failure of the BEE transaction.

We hereby consent to the inclusion of this letter in its entirety in the circular to be issued to shareholders of Italtile on or about 20 June 2007.

Yours faithfully

PKF Corporate Finance (Pty) Ltd
(Registration number 1998/018420/07)

15 Girton Road
Parktown
2193"

SUMMARY OF THE SALIENT FEATURES OF THE NEW EMPLOYEE SHARE INCENTIVE SCHEMES

SHARE APPRECIATION RIGHTS SCHEME (“the Scheme”)

1. INTRODUCTION

The Scheme will be established by Italtile (“**Italtile**”) in terms of which selected directors and employees of Italtile and its subsidiaries (“**Group**”) will receive a conditional right to receive a cash award (“**SARS Award**”) equal to the increase in value of a number of notional Italtile issued ordinary shares (“**Shares**”) between the date that the Remuneration Committee offers the SARS Award to the Participant and the date that the award becomes unconditional as specified in the SARS Award Certificate. The SARS Award is to be applied towards the obligatory subscription and/or purchase of Italtile ordinary shares. A summary of the main terms of the Scheme is set out below.

2. ELIGIBILITY

Directors and employees of Italtile as well as directors and employees of any subsidiary of Italtile which is designated by the directors of Italtile as being a Participating Company (“**Participating Company**”) are eligible to participate in the Scheme. In addition, the directors of Italtile may select certain franchisees of the Group to participate in the Scheme, in which event directors and employees of such franchisees will also be eligible.

3. OFFERS OF SARS AWARDS

SARS Awards will be offered (in terms of SARS Award Certificates) to directors and employees of Participating Companies with the approval of the Remuneration Committee. Subject to any restrictions imposed by the King Code, the JSE Listing Requirements or any other laws or regulations applicable to the offering of the SARS Awards, the SARS Awards may only be granted within 60 business days starting from any of the following:

- 3.1 the day after the announcement of Italtile’s annual results through SENS for any period; or
- 3.2 any day on which the Remuneration Committee resolves that circumstances exist which justify the offer of SARS Awards; or
- 3.3 any day on which changes to the legislation or regulations affecting SARS Awards are announced, effected or made; or
- 3.4 the lifting of any restrictions (imposed by the King Code, Listing Requirements or any statute, order, regulation or government directive) including, without limitation, any Closed Period), which prevented the offering of SARS Awards during any period specified above.

4. PERFORMANCE CONDITIONS

- 4.1 The offer of the SARS Awards may be conditional upon the achievement of performance targets, as established by the Remuneration Committee and specified in the SARS Award Certificates.
- 4.2 In addition to any performance targets referred to in paragraph 4.1 above, SARS Awards will in all cases be further conditional upon the Participant being and remaining employed within the Group over a minimum employment period. Save as provided in paragraph 11 below, if a Participant ceases to be employed within the Group during such minimum employment period, the Participant’s SARS Awards will automatically lapse and be of no further force or effect.

5. LIMITS

- 5.1 The number of new Italtile ordinary shares which are to be issued under the Scheme in any period of 10 years, commencing on or after the date of approval of the Scheme by the Shareholders of Italtile, when added to the

number of such shares which are to be issued under the Italtile Long Term Incentive Plan (“**LTIP**”) and any other employee share based schemes operated by the Group, must not exceed 10% of the issued ordinary share capital of Italtile from time to time.

- 5.2 The total number of new Italtile ordinary shares which are to be issued and/or transferred to a Participant under the Scheme in any period of 10 years, commencing on or after the date of approval of the Scheme by the Shareholders of Italtile, when added to the number of such shares which are to be issued and/or transferred to the same Participant under LTIP and any other employee share based schemes operated by the Group, must not exceed 2% of the issued ordinary share capital of Italtile from time to time.

6. TRANCHES

The SARS Awards are divided into 2 tranches (“**Tranches**”) as follows:

- 6.1 The first Tranche will comprise 25% (twenty-five percent) of the SARS Award, and provided any performance conditions are satisfied and the Participant remains employed by the Group, the first Tranche will become unconditional on the 3rd anniversary of the date of offer.
- 6.2 The second Tranche will comprise 75% (seventy-five percent) of the SARS Award, and provided any performance conditions are satisfied and the Participant remains employed by the Group, the second Tranche will become unconditional on the 5th anniversary of the date of offer.

7. VALUE

At the date on which each Tranche becomes unconditional, the volume weighted average price of the Italtile Shares as traded on the JSE over the 10 trading days preceding and including such date will be determined, against which the value at the date of offer is to be deducted to determine the value of the SARS Awards granted to Participants.

8. SETTLEMENT

Subject to the provisions of the King Code and any requirements of the JSE, within 20 business days of each Tranche of the SARS Award (as determined by the Remuneration Committee), the Participating Company will settle the amount due to Participants in terms of that Tranche of the SARS Award by the payment of the value thereof either in cash to the Participant or, at the election of the Participating Company, to a broker trust or other person specifically appointed by the Participating Company as agent for and on behalf of the Participant. The amount paid is to be applied exclusively towards the obligatory subscription and/or purchase of Italtile ordinary shares. The Participating Company, with approval of the Remuneration Committee, shall determine and notify the Participant at the time of payment whether the payment is to be applied towards the subscription of new (unissued) Italtile ordinary shares or the purchase of existing (issued) Italtile ordinary shares, or any combination thereof.

9. EMPLOYEES TAX

Participants shall be liable for their tax liability arising from participation in the Scheme. Such tax liability will arise when each Tranche of their SARS Awards become unconditional. If Participants do not settle their tax liability before settlement of the amount due in respect of each Tranche of their SARS Awards, then a sufficient number of Italtile shares purchased or subscribed for in settlement of that Tranche will be sold to discharge the tax liability.

10. TAKE-OVERS

On a take-over of Italtile, provided that a similar scheme is not implemented by the acquirer which contains materially similar terms and conditions as this Scheme (“**Alternative Scheme**”) or if an Alternative Scheme is implemented by the acquirer but an award in terms of the Alternative Scheme is not accepted by Participants in exchange for SARS Awards, SARS Awards will become unconditional as at the date of take-over.

11. TERMINATION OF EMPLOYMENT

- 11.1 In the event that a Participant’s employment with the Group is terminated by reason of death, ill-health, incapacity, redundancy, retirement or other cause considered appropriate by the Remuneration Committee (“**good cause**”), the Remuneration Committee may in its absolute discretion:

- 11.1.1 deem the whole or a portion of the SARS Award to become unconditional within three months of the date of termination of employment. In exercising their discretion, the Remuneration Committee will take into consideration the extent to which any performance targets have been satisfied and the proportion of the minimum employment period which has elapsed; or
- 11.1.2 allow the Scheme to continue to apply to the whole or any portion of the SARS Awards which were made to the Participant, as though he had not ceased to be an employee.
- 11.2 If a Participant's employment with the Group terminates for any reason which is not good cause, all the Participant's SARS Awards which are not unconditional at the date of termination of employment, will lapse and have no further effect.

12. VARIATION IN SHARE CAPITAL, ADJUSTMENTS TO SARS AWARDS

Following a variation in the share capital of Italtile, the Remuneration Committee may adjust the number of shares comprising each SARS Award and/or the offer value, in any way which the Remuneration Committee considers appropriate so that the value of the SARS Awards granted to Participants are materially similar to the values applicable prior to the variation, provided that any such adjustments must be confirmed by Italtile's auditors as having been calculated on a reasonable basis.

13. AMENDMENTS TO THE SCHEME

- 13.1 The directors of Italtile will be authorised to make amendments they consider appropriate to the rules of the Scheme, subject firstly to the approval having been obtained from the JSE (where required) and subject further to Italtile in general meeting approving such amendments if the amendments relate to:
 - 13.1.1 the persons who are eligible to be granted SARS Awards;
 - 13.1.2 the Scheme and individual limits provided for above;
 - 13.1.3 the determination of the values of the SARS Award at the dates of offer and when the Tranches become unconditional and the amounts payable to Participants in terms of the Scheme;
 - 13.1.4 the rights of Participants in respect of voting, dividends, transfer and other rights in and to the shares subscribed for and/or purchased pursuant to the settlement of their SARS Awards.
- 13.2 The directors of Italtile may make minor amendments to the Scheme without prior shareholder approval to benefit the administration of the Scheme, to take into account any change in legislation or accounting practice or to obtain and maintain favourable tax, exchange control or regulatory treatment, provided that the prior approval of the JSE is obtained to any such change, if and to the extent that such prior approval is requisite.

LONG-TERM INCENTIVE PLAN ("the Plan")

1. INTRODUCTION

The Plan will be established by Italtile in terms of which selected directors and employees of the Group will receive a conditional right to receive a cash award ("**LTIP Award**") equal to the market value of a number of notional Italtile issued ordinary shares ("**Shares**") on the date that the award becomes unconditional as specified in the LTIP Award Certificate. The LTIP Award is to be applied towards the obligatory subscription and/or purchase of Italtile ordinary shares. A summary of the main terms of the Plan is set out below.

2. ELIGIBILITY

Directors and employees of Italtile as well as directors and employees of any subsidiary of Italtile which is designated by the directors of Italtile as being a Participating Company ("**Participating Company**") are eligible to participate in the Plan. In addition, the directors of Italtile may select certain franchisees of the Group to participate in the Plan, in which event directors and employees of such franchisees will also be eligible.

3. OFFERS OF LTIP AWARDS

LTIP Awards will be offered (in terms of LTIP Award Certificates) to directors and employees of Participating Companies with the approval of the Remuneration Committee. Subject to any restrictions imposed by the King Code, the JSE Listing Requirements or any other laws or regulations applicable to the offering of the LTIP Awards, the LTIP Awards may only be granted within 60 business days starting from any of the following:

- 3.1 the day after the announcement of Italtile's annual results through SENS for any period; or
- 3.2 any day on which the Remuneration Committee resolves that circumstances exist which justify the offer of LTIP Awards; or
- 3.3 any day on which changes to the legislation or regulations affecting LTIP Awards are announced, effected or made; or
- 3.4 the lifting of any restrictions (imposed by the King Code, Listing Requirements or any statute, order, regulation or government directive) including, without limitation, any Closed Period, which prevented the offering of LTIP Awards during any period specified above.

4. PERFORMANCE CONDITIONS

- 4.1 The offer of the LTIP Awards may be conditional upon the achievement of performance targets, as established by the Remuneration Committee and specified in the LTIP Award Certificates.
- 4.2 In addition to any performance targets referred to in paragraph 4.1 above, LTIP Awards will in all cases be further conditional upon the Participant being and remaining employed within the Group over a minimum employment period. Save as provided in paragraph 11 below, if a Participant ceases to be employed within the Group during such minimum employment period, the Participant's LTIP Awards will automatically lapse and be of no further force or effect.

5. LIMITS

- 5.1 The number of new Italtile ordinary shares which are to be issued under the Plan in any period of 10 years, commencing on or after the date of approval of the Plan by the Shareholders of Italtile, when added to the number of such shares which are to be issued under the Italtile Share Appreciation Rights Scheme ("SARS") and any other employee share based schemes operated by the Group, must not exceed 10% of the issued ordinary share capital of Italtile from time to time.
- 5.2 The total number of new Italtile ordinary shares which are to be issued and/or transferred to a Participant under the Plan in any period of 10 years, commencing on or after the date of approval of the Plan by the Shareholders of Italtile, when added to the number of such shares which are to be issued and/or transferred to the same Participant under SARS and any other employee share based schemes operated by the Group, must not exceed 2% (two percent) of the issued ordinary share capital of Italtile from time to time.

6. TRANCHES

The LTIP Awards are divided into 2 Tranches as follows:

- 6.1 The first Tranche will comprise 25% (twenty-five percent) of the LTIP Award, and provided any performance conditions are satisfied and the Participant remains employed by the Group, the first Tranche will become unconditional on the 3rd anniversary of the date of offer.
- 6.2 The second Tranche will comprise 75% (seventy-five percent) of the LTIP Award, and provided any performance conditions are satisfied and the Participant remains employed by the Group, the second Tranche will become unconditional and Vest on the 5th anniversary of the date of offer.

7. VALUE

At the date on which each Tranche becomes unconditional, the volume weighted average price of the Italtile shares as traded on the JSE over the 10 trading days preceding and including such date will be determined, to be used as the basis for determining the value of the LTIP Awards granted to Participants.

8. SETTLEMENT

Subject to the provisions of the King Code and any requirements of the JSE, within 20 business days of the LTIP Award becoming unconditional (as determined by the Remuneration Committee), the Participating Company will settle the amount due to Participants in terms of that Tranche of their LTIP Award by the payment of the value thereof either in cash to the Participant or, at the election of the Participating Company, to a broker trust or other person specifically appointed by the Participating Company as agent for and on behalf of the Participant. The amount paid is to be applied exclusively towards the obligatory subscription and/or purchase of Italtile ordinary shares. The Participating Company, with approval of the Remuneration Committee, shall determine and notify the Participant at the time of payment whether the payment is to be applied towards the subscription of new (unissued) Italtile ordinary shares or the purchase of existing (issued) Italtile ordinary shares, or any combination thereof.

9. EMPLOYEES TAX

Participants shall be liable for their tax liability arising from participation in the Plan. Such liability arises when each Tranche of their LTIP Awards become unconditional. If Participants do not settle their tax liability before settlement of the amount due in respect of each Tranche of the LTIP Awards, then a sufficient number of Italtile shares purchased or subscribed for in settlement of that Tranche will be sold to discharge the tax liability.

10. TAKE-OVERS

On a take-over of Italtile, provided that a similar scheme is not implemented by the acquirer which contains materially similar terms and conditions as this Plan (“**Alternative Plan**”) or if an Alternative Plan is implemented by the acquirer but an award in terms of the Alternative Plan is not accepted by Participants in exchange for LTIP Awards, LTIP Awards will become unconditional as at the date of take-over.

11. TERMINATION OF EMPLOYMENT

11.1 In the event that a Participant’s employment with the Group is terminated by reason of death, ill health, incapacity, redundancy, retirement or other cause considered appropriate by the Remuneration Committee (“**good cause**”), the Remuneration Committee may in its absolute discretion:

11.1.1 deem the whole or a portion of the LTIP Award to become unconditional within 3 months of the date of termination of employment. In exercising their discretion, the Remuneration Committee will take into consideration the extent to which any performance targets have been satisfied and the proportion of the minimum employment period which has elapsed; or

11.1.2 allow the Plan to continue to apply to the whole or any portion of the LTIP Awards which were made to the Participant, as though he had not ceased to be an employee.

11.2 If a Participant’s employment with the Group terminates for any reason which is not good cause, all the Participant’s LTIP Awards which are not unconditional at the date of termination of employment, will lapse and have no further effect.

12. VARIATION IN SHARE CAPITAL, ADJUSTMENTS TO LTIP AWARDS

Following a variation in the share capital of Italtile, the Remuneration Committee may adjust the number of Shares comprising each LTIP Award in any way which the Remuneration Committee considers appropriate so that the value of the LTIP Awards granted to Participants are materially similar to the values applicable prior to the variation, provided that any such adjustments must be confirmed by Italtile’s auditors as having been calculated on a reasonable basis.

13. AMENDMENTS TO THE SCHEME

- 13.1 The directors of Italtile will be authorised to make amendments they consider appropriate to the rules of the Plan, subject firstly to the approval having been obtained from the JSE (where required) and subject further to Italtile in general meeting approving such amendments if the amendments relate to:
- 13.1.1 the persons who are eligible to be granted LTIP Awards;
 - 13.1.2 the Plan and individual limits provided for above;
 - 13.1.3 the determination of the values of the LTIP Award at the dates of offer and when the Tranches become unconditional, and the amounts payable to Participants in terms of the Plan;
 - 13.1.4 the rights of Participants in respect of voting, dividends, transfer and other rights in and to the shares subscribed for and/or purchased pursuant to the settlement of their LTIP Awards.
- 13.2 The directors of Italtile may make minor amendments to the Plan without prior shareholder approval to benefit the administration of the Plan, to take into account any change in legislation or accounting practice or to obtain and maintain favourable tax, exchange control or regulatory treatment, provided that the prior approval of the JSE is obtained to any such change, if and to the extent that such prior approval is requisite.

ITALTILE'S SHARE CAPITAL

The authorised and issued share capital, before and after the specific issue and sub-divisions, are as follows:

	Rand
<i>Authorised, before the specific issue and sub-division</i>	
75 000 000 shares of no par value	–
<i>Issued, before specific issue and sub-division</i>	
18 677 283 shares of no par value	–
Share premium before the transaction	–
Stated capital before the transaction	27 253 984
<i>Authorised, after the specific issue</i>	
75 000 000 shares of no par value	–
<i>Issued, after the specific issue</i>	
20 677 283 shares of no par value	–
Share premium after the specific issue	–
Stated capital after the specific issue	429 253 984
<i>Authorised, after the specific issue and sub-division</i>	
3 300 000 000 shares of no par value	–
<i>Issued, after the specific issue and sub-division</i>	
909 800 492 ordinary shares of no par value	–
Share premium after the specific issue and sub-division	–
Stated capital after the specific issue and sub-division	429 253 984

The shares, before and after the specific issue and subdivision, rank *pari passu* in all respects. There are no preferential conversion and/or exchange rights of any securities.

Italtile has not issued or repurchased any shares in the past three years.

PRICE HISTORY OF ITALTILE SHARES ON THE JSE

Date	Closing price	High	Low	Volume traded
Quarterly				
2004				
June	7 819	8 000	7 300	97 827
September	8 605	9 300	7 749	217 808
December	10 749	13 500	9 300	213 751
2005				
March	13 454	13 900	12 900	131 957
June	12 941	14 000	12 300	142 769
September	15 404	16 750	13 300	128 931
December	16 809	17 200	16 000	72 751
2006				
March	18 857	20 250	17 200	52 728
Monthly				
2006				
April	20 440	20 900	20 100	177 638
May	19 721	20 380	18 000	45 154
June	19 245	19 500	18 790	42 536
July	18 703	19 500	18 200	127 367
August	20 318	21 000	19 550	103 389
September	21 502	22 000	20 400	31 105
October	21 530	21 700	21 400	48 885
November	20 877	21 350	20 699	92 636
December	20 818	20 850	20 000	52 931
2007				
January	20 827	21 900	20 000	13 654
February	22 655	23 700	21 900	117 203
March	25 119	26 500	23 500	78 773
April	26 924	27 500	26 400	18 478
Daily				
2007				
2 May	27 850	27 850	27 850	11 323
3 May	27 850	27 850	27 850	–
4 May	27 800	27 800	27 800	60
7 May	27 800	27 800	27 800	–
8 May	27 800	27 800	27 800	–
9 May	27 100	27 100	27 100	980
10 May	27 100	27 100	27 100	4 610
11 May	28 100	28 100	27 800	3 570
14 May	28 600	28 600	28 500	10 392
15 May	28 500	28 700	28 500	1 928
16 May	28 600	28 605	28 600	2 700
17 May	29 000	29 000	29 000	1 000
18 May	28 800	29 000	28 800	1 206
21 May	28 800	28 800	28 800	–

Date	Closing price	High	Low	Volume traded
Daily				
2007				
22 May	31 000	31 000	28 900	39 791
23 May	30 000	30 000	30 000	28
24 May	30 000	30 000	30 000	–
25 May	32 000	32 000	32 000	500
28 May	32 000	32 000	32 000	–
29 May	32 000	32 000	32 000	854
30 May	32 000	32 000	32 000	–
31 May	31 100	31 100	31 100	39 171
1 June	31 500	31 500	31 500	1 000
4 June	31 800	32 000	31 800	4 683
5 June	32 000	32 000	32 000	102
6 June	31 900	31 900	31 900	65
7 June	30 000	31 800	30 000	272
8 June	31 800	32 000	31 800	4 683
11 June	30 000	30 000	30 000	–
12 June	30 000	30 000	30 000	1 577

INFORMATION ON DIRECTORS AND MANAGEMENT OF THE GROUP

Director, age and qualification	Address	Occupation and experience
G A M Ravazzotti (63) Chairman	The Italtile Building Corner William Nicol Drive and Peter Place Bryanston	Mr Ravazzotti was the founder of the company in 1969 and is chairman of Ceramic Industries Limited.
P D Swatton (48) – British BCompt (Hons), CA(SA) Chief Financial Officer	The Italtile Building Corner William Nicol Drive and Peter Place Bryanston	Mr Swatton joined the company in 1988 and was appointed as Chief Financial Officer in February 1992. He has had 18 years' service with Italtile during which time he was Chief Executive Officer for two and a half years.
G P E Ravazzotti (35) Chief Executive Officer	The Italtile Building Corner William Nicol Drive and Peter Place Bryanston	Mr Ravazzotti was appointed to the board in October 2004 and has had six years' service with Italtile.
J Couzis (53) – Greek Non-executive Director	12 Knightsbridge Gardens Corner Otto du Plessis and Parel Vallei Roads Somerset West	Mr Couzis was appointed to the board in 1988. He retired as Chief Executive Officer of Italtile in 2001, a position he held since 1992, to become a non-executive director. He has had 24 years' experience in the ceramic tile industry and previously held various positions in the IT field.
D H Rabin (56) Dip Law Non-executive Director	22 Fredman Drive Sandton	Mr Rabin was appointed to the board in 1990 and appointed as chairman in December 2004. He relinquished the role of chairman with effect from 1 July 2006. Mr Rabin is an admitted attorney of the High Courts of South Africa and Lesotho. He has held directorships in several listed companies. He was previously a partner at Godfrey, Rabin and Partners Attorneys, Werksmans and a founding partner of Rabin, van den Berg and Pelkowitz, whose corporate advisory business was sold to Brait SA in 2000. Mr Rabin served on the main board of Brait and as chairman of Brait's advisory division until the formation of Rabin and Associates in July 2003.
S Gama (39) BComm (Hons) AEP, CAIB(SA) Independent Non-executive Director	No. 6 Lotus Street Gallo Manor Sandton	Mr Gama was appointed to the board in 2004. He was the Chief Executive Officer of the National Ports Authority of South Africa, the Chairman of the Port Management Association of Eastern and Southern Africa and serves on the boards of the International Association of Ports and Harbours. During 2005, he was appointed as the Chief Executive Officer of Spoornet.
W van der Merwe (38) NDip (Property Development and Housing Management) Manager – Property Division	The Italtile Building Corner William Nicol Drive and Peter Place Bryanston	Mr van der Merwe joined Italtile in 1999 from a major construction company to lead the groups growing property division. He has had 18 years' experience in the property development field.

The remuneration and benefits paid to the directors of Italtile for the year ending 30 June 2006 were as follows:

Director	Remuneration R'000	Fees R'000	Benefits R'000	Performance bonus R'000	Expense allowance R'000	Pension, provident fund or medical aid contributions R'000	Commission R'000	Gain on exercised share options R'000	Total R'000
G A M Ravazzotti#	650	–	–	1 258	–	–	–	17 325	19 233
P D Swatton	807	–	81	1 260	–	152	–	6 475	8 775
G P E Ravazzotti	679	–	65	757	–	128	–	1 703	3 332
J Couzis*	–	140	67	–	–	–	–	8 850	9 057
D H Rabin*	–	125	–	–	–	–	–	–	125
S I Gama*^	–	140	–	–	–	–	–	–	140

Paid to Rallen (Proprietary) Limited, the company that this director represents for his services as director of Italtile (Proprietary) Limited.

* Non-executive director.

^ Paid to the National Ports Authority, the employer of this director.

There are no existing contracts relating to directors' and managerial remuneration, royalties and secretarial and technical fees.

Details of share options outstanding and exercised by executive and non executive directors are as follows:

Director	Options held at 30 June 2006	Allocated during the year	Date of allocation	Number of shares exercised	Date exercised	Balance at last practicable date	Exercisable number of shares	Allocation price	First
<i>Exercisable</i>									
G A M Ravazzotti	–	–	–	–	–	–	–	–	–
P D Swatton	–	–	–	–	–	–	–	–	–
J Couzis	–	–	–	–	–	–	–	–	–
D H Rabin	–	–	–	–	–	–	–	–	–
S I Gama	30 000	–	–	–	–	30 000	–	R105	25% (1 November 2007) and 75% (1 November 2009)
G P E Ravazzotti	105 000	–	–	45 000	21 August 2006	60 000	–	R80	25% (4 February 2007) and 75% (4 February 2008)

ITALTILE'S CORPORATE GOVERNANCE REPORT

APPLICATION OF GOVERNANCE CODES

The directors of Italtile fully endorse the spirit of transparency, integrity and accountability as advocated in the King Committee report on corporate governance.

BOARD OF DIRECTORS

In terms of the Group's long term succession plan, effective 1 July 2006, Mr Giovanni Ravazzotti, resumed his former role as Group Executive Chairman and Mr Gian-Paolo Ravazzotti assumed the position of Chief Executive Officer of the Group. Accordingly, Mr Derek Rabin relinquished his role as Chairman and resumed his previous role as a non executive director of the Group.

Italtile Limited and its subsidiaries have unitary board structure, comprising three executive directors and three non-executive directors, one of which is independent. The Board meets regularly and maintains full and effective control in directing the Group towards achieving its vision.

In terms of its charter, the Board is ultimately accountable for the formulation and execution of strategies to meet the Group's objectives, operational performance, financial results of the Group's risk management, financial controls and director selection and evaluation.

The Board works to a formal agenda covering areas of operational performance, strategy and growth initiatives. Board papers are circulated prior to every meeting. A clear division of responsibilities exists which maintains a balance of power and authority.

The Board has also delegated certain specific responsibilities to Board subcommittees, which are detailed more fully below.

The Board as a whole is responsible for the selection and appointment of non-executive directors in accordance with the criteria set out in the Board charter. Selection will be voted on, after the Board collectively or individually has conducted a formal interview with the candidate.

The directors bring together a wealth of experience and expertise from varying fields to ensure the Group retains proper direction and control over its business activities.

One third of the Board retires by rotation each year. If requested to serve a further term by the Board, those retiring directors can offer themselves for re-election by the shareholders. In addition any director appointed during the year must retire at the annual general meeting held immediately after his appointment.

The Board meets each quarter and on an ad-hoc basis should the need arise.

Directors have unrestricted access to the Company secretary, executive management and, at the expense of the Company, outside counsel in the execution of the duties and responsibilities.

REMUNERATION OF DIRECTORS

The remuneration committee ensures the provision of executive remuneration packages and director's fees that are competitive in relation to that of other South African retail companies.

No service contract exists between the Company and any of its directors.

BOARD COMMITTEES

AUDIT COMMITTEE

The committee operates within written terms of reference confirmed by the Board, which include:

- Compliance with applicable legislation.
- Matters relating to the maintenance of adequate books and records, internal controls, accounting policies and financial reporting and disclosure.
- Approval of the scope of the external audit, review of audit reports and fees.
- Compliance with the code of corporate governance.

The external auditors have unrestricted access to the audit committee.

The audit committee has adopted guidelines as to the extent of fees paid for non-audit services provided by the external auditors, so that these fees do not become so significant as to call into question the external auditor's independence of Italtile.

REMUNERATION COMMITTEE

The committee operates within written terms of reference confirmed by the board, which include:

- Group's remuneration policy.
- Short-term and long-term incentives policies for directors, executive management and staff.

CODE OF ETHICS

Italtile has documented a formal code of ethics. The Group, through a system of values and standards, is committed to the promotion of ethical behaviour and the compliance with laws and regulations towards being a good corporate citizen.

The Board plays an oversight role in ensuring that management throughout the organisation assumes responsibility for training, mentoring staff on the Group's values and standards and, where appropriate, ensuring compliance.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for risk management. It regularly assesses the financial and non-financial risks in the context of the Group's business environment with a view to their mitigation or elimination through the Group's strategies and processes. The Group's most significant areas of risk are:

- Currency risk

The foreign currency exposures on imported product are actively managed. All foreign liabilities are matched with forward exchange contracts, upon confirmation of import orders.

- Computer-based business processes

All Italtile's major business processes are computer-based. Italtile has a formally documented and tested disaster recovery plan.

- Credit risk

Trade credit is available through the Italtile division. Strict credit granting criteria are in place and the trade debtor's book is insured through a reputable insurance company.

Italtile operates within an established framework of values designed to create an environment where decentralised autonomy is coupled with accountability for operational and financial objectives matched with centralised leadership.

The Board believes that an adequate system of internal control is in place, which mitigates identified areas of significant risk, to an acceptable level.

STAKEHOLDER COMMUNICATION

Italtile is committed to the principle of transparency in its dealings with key stakeholders. A working partnership between the Group, its suppliers, franchisees, employees and members of the community forms the basis of a mutually beneficial association.

The annual report deals adequately with disclosures pertaining to financial statements, auditor's responsibility, accountability, accounting records, internal control, risk management, accounting policies, adherence to accounting standards, going-concern issues and adherence to codes of conduct.

CORPORATE SOCIAL RESPONSIBILITY

Italtile is keenly aware of its responsibility to the broader society in which it operates. A sustainable business is only built upon foundation of partnership that enriches society as a whole.

OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety remains a priority with compliance reviewed on a quarterly basis by an independent third party. No serious accidents were reported throughout the Group during the year.

ENVIRONMENTAL MANAGEMENT

The nature of Italtile's business is such that it has little negative impact on its environment. Italtile generates no effluent or noise pollution.

In the construction of its stores, Italtile takes great care in harmonising each building with its surroundings in order to provide staff, customer and community a pleasing, safe and clean environment. As far as possible Italtile provide facilities to prevent vehicle congestion in the neighbourhoods in which we are situated.

HUMAN CAPITAL DEVELOPMENT

As indicated by the Group's financial results, Italtile has continued its trend of rapid financial growth. This in itself presents challenges to the organisational leadership and places great demands on staff.

- As a consequence, the following have been identified as the Group's key strategic themes:
 - To match the demographics of the organisation with the diverse markets in which we trade, a representative task team drives the Group's employment equity plan, and ensures stated milestones are being met.
 - Worker participation – Italtile employs a number of participating mechanisms within the organisation, whereby relevant financial information is shared and participation in operational decision-making is encouraged. The Group has implemented a profit incentive scheme in which all members of staff share in trading profits generated.
 - To develop the level of entrepreneurship within the Group, it is a stated objective to have all trading operations either in an outright franchise or in a partnership within Italtile.
 - To continuously enhance the delivery and effectiveness of training in order to improve the foundation of skills within the organisation.

SOCIAL RESPONSIBILITY

Italtile continues to invest, across all nine provinces in South Africa and neighbouring countries, in education, training and skills transfer through the Italtile training academy which has provided tiling, technical and business skills to many previously unemployed individuals.

Italtile has made significant donations to children's AIDS hospices and environmental organisations.

DETAILS OF THE BEE PARTNERS

The shareholders of Mafumbuka comprise:

The Phithikeza Trust, which is a family trust established for the benefit of the Gama family. The beneficiaries of the trust are Xolani J Gama, Vuyiswa L Gama, Phumulani Gama, Lusanda Y Molefe and Aphelele N Gama. Siyabonga Gama, Nana Queeneth Gama and Elizabeth Nitshingila are the trustees of the trust. Further information relating to these trustees is provided below.

Ingcuge Women's Projects Organisation, an empowerment group co-operative comprising 60 women who are involved in community projects (such as home-based HIV/AIDS care and employment generation for rural women in poultry farming, pottery and beadwork) located primarily in the northern KwaZulu-Natal town of Dundee.

The executives of Mafumbuka:

Siyabonga Gama currently serves and will continue to serve on the board of directors of Italtile as a non executive director. Mr. Gama has extensive experience in international banking and finance having worked for JP Morgan in the United States in corporate and structured finance and for the Standard Bank of South Africa Limited in the areas of retail and commercial banking. Gama has held leadership positions as Vice President of the International Association of Ports and Harbours responsible for the Africa/Europe region, President of the Pan African Association for Ports Cooperation and Chairman of the Port Management Association of Eastern and Southern Africa. He worked for Portnet for a period of 10 years during which time he rose to the position of Chief Executive. Siyabonga is credited with the successful transformation and repositioning of Portnet into the National Ports Authority and South African Port operations. He is at present the chief executive of Spoornet, a member of the Transnet Group Executive Committee and is President of the Union of African Railways.

Khulu Ntshingila has extensive management and executive experience in the retail, fuels and FMCG sector. He has held executive positions at Total, both locally and internationally, and Tiger Brands over the past 18 years. Khulu has joined Italtile in an executive capacity.

Nana Queeneth Gama has extensive banking experience in the agricultural, retail and commercial sectors.

Mpika Manyathi has enjoyed widespread consulting experience in the strategy and process groups of Deloitte in Chicago and South Africa.

Elizabeth Ntshingila is an educator and Deputy Principal at Talana High School. She has made a huge impact in her work as community builder and youth motivator and is a leading light in the empowerment of disadvantaged people.

The executives of Aka Capital:

Dr Reuel Khoza is, *inter alia*, non-executive Chairman of Nedbank Group Limited, President of the Institute of Directors, Chairman of the Nepad Business Foundation and was previously non-executive Chairman of Eskom for eight years. In addition to board membership of some of Aka Capital's investee companies, he is a member of South African State President Thabo Mbeki's Economic Advisory Panel, and also a member of The Honorary International Investor Council of the President of Nigeria.

Sam Nematswerani is a Chartered Accountant and has over ten years experience in accounting, auditing and merchant banking. In addition to board membership of some of Aka Capital's investee companies, he is a non-executive director of the JSE.

Gary Morolo is Chairman of Datacentrix Holdings Limited, a listed Aka Capital investee company. In addition to board membership of some of Aka Capital's investee companies, Gary is a former board member of the Financial Services Board, which he served for about ten years in a non-executive capacity.

TABLE OF ENTITLEMENTS

Number of Italtile shares held	Entitlement to sub-divided shares	Number of Italtile shares held	Entitlement to sub-divided shares	Number of Italtile shares held	Entitlement to sub-divided shares
1	44	41	1 804	67	2 948
2	88	42	1 848	68	2 992
3	132	43	1 892	69	3 036
4	176	44	1 936	70	3 080
5	220	45	1 980	71	3 124
6	264	46	2 024	72	3 168
7	308	47	2 068	73	3 212
8	352	48	2 112	74	3 256
9	396	49	2 156	75	3 300
10	440	50	2 200	76	3 344
11	484	51	2 244	77	3 388
12	528	52	2 288	78	3 432
13	572	53	2 332	79	3 476
14	616	54	2 376	80	3 520
15	660	55	2 420	81	3 564
16	704	56	2 464	82	3 608
17	748	57	2 508	83	3 652
18	792	58	2 552	84	3 696
19	836	59	2 596	85	3 740
20	880	60	2 640	86	3 784
21	924	61	2 684	87	3 828
22	968	62	2 728	88	3 872
23	1 012	63	2 772	89	3 916
24	1 056	64	2 816	90	3 960
25	1 100	65	2 860	91	4 004
26	1 144	66	2 904	92	4 048
27	1 188	53	2 332	93	4 092
28	1 232	54	2 376	94	4 136
29	1 276	55	2 420	95	4 180
30	1 320	56	2 464	96	4 224
31	1 364	57	2 508	97	4 268
32	1 408	58	2 552	98	4 312
33	1 452	59	2 596	99	4 356
34	1 496	60	2 640	100	4 400
35	1 540	61	2 684	1 000	44 000
36	1 584	62	2 728	10 000	440 000
37	1 628	63	2 772	100 000	4 400 000
38	1 672	64	2 816		
39	1 716	65	2 860		
40	1 760	66	2 904		



(Incorporated in the Republic of South Africa)
(Registration number 1955/000558/06)
Share code: ITE ISIN: ZAE000003679
("Italtile" or the "company")

Directors:

Giovanni Ravazzotti**

Gian-Paolo Ravazzotti†

Peter Swatton‡

John Couzis*

Siyabonga Gama*

Derek Rabin*

** *Chairman*

† *Chief Executive Officer*

‡ *Chief Financial Officer*

* *Non-executive*

NOTICE OF GENERAL MEETING OF ITALTILE SHAREHOLDERS

Notice is hereby given that a general meeting of shareholders of the company will be held at the offices of the company at The Italtile Building, corner William Nicol Drive and Peter Place, Bryanston, 2021 at 10:00 on Thursday, 12 July 2007 ("**the general meeting**"), for the purpose of considering and, if deemed fit, passing with or without modification, the resolutions set out below.

Any term used in this Notice of General Meeting and defined in the circular to Italtile shareholders to which this Notice is attached to and forms part of shall bear the meaning assigned to it in the circular.

SPECIAL RESOLUTION 1

"**RESOLVED THAT** the company alter its authorised and issued share capital by subdividing every share of no par value in the company's current authorised and issued share capital into 44 ordinary shares of no par value having the rights set out in the new Articles of Association referred to in Special Resolution 2 below."

The reason for and effect of Special Resolution 1 is to alter the company's authorised and issued share capital by subdividing each ordinary share of no par value in the current authorised and issued share capital of the company into 44 ordinary shares of no par value and thereby promote liquidity in the trading of the company's shares on the JSE.

This special resolution is subject to at least 75% of the votes cast by Italtile ordinary shareholders present in person or represented by proxy at the general meeting and Special Resolution 2 below being passed.

SPECIAL RESOLUTION 2

"**RESOLVED THAT** the Articles of Association of the company be substituted entirely with the new Articles of Association, a copy of which will be available for inspection at the offices of the company, tabled at the general meeting and initialled by the chairperson of the general meeting for identification purposes."

The salient features of the new Articles of Association are set out in the Annexure marked “**Annexure A**” attached to this notice of general meeting.

The reasons for Special Resolution 2 are, *inter alia*, to authorise the company to repurchase, by way of special resolution and in terms of Sections 85 and 89 of the Companies Act, shares issued by it, to reflect the company’s new capital structure in the Memorandum of Association and otherwise to generally update the company’s articles of association.

With effect from the date on which Special Resolution 2 is passed and registered, the current Articles of Association will be rendered obsolete and shall no longer govern the affairs of the shareholders of the company. The new Articles of Association will govern such affairs.

This special resolution is subject to at least 75% of the votes cast by Italtile ordinary shareholders present in person or represented by proxy at the general meeting being cast in favour thereof.

SPECIAL RESOLUTION 3

“**RESOLVED THAT** the company subscribe for the BEECo preference shares for an aggregate subscription price of R266 400 000, which subscription constitutes financial assistance by the company to the BEECo’s to enable the BEECo’s to acquire shares in the company pursuant to the BEE transaction as detailed in the circular to Italtile shareholders dated 20 June 2007, to which this notice of general meeting is attached to and forms part of.”

Special Resolution 3 is subject to Special Resolution 2 being passed and section 38(2A) of the Companies Act coming into effect. Italtile shareholders are advised that this section will allow the company to provide financial assistance for the purchase of shares issued by it, thereby enabling Italtile to subscribe for the preference shares. As at the last practicable date, although section 38(2A) has been enacted, no effective date has yet been declared.

The reason for and effect of Special Resolution 3 is to authorise the company to subscribe for the preference shares in order to provide financial assistance for the acquisition by the BEECo’s of shares in the company pursuant to the BEE transaction.

This special resolution is subject to at least 75% of the votes cast by Italtile ordinary shareholders present in person or represented by proxy at the general meeting (excluding the votes held by Mr Siyabonga Gama who is a related party or any other shareholder and its associates which may benefit by virtue of them being related parties) being cast in favour thereof.

SPECIAL RESOLUTION 4

In terms of sections 85 and 89 of the Companies Act, a company or its subsidiaries may, by way of a special resolution, approve the repurchase of that company’s shares if authorised thereto in terms of its articles of association.

“**RESOLVED THAT**, in accordance with the authority set out in the company’s Articles of Association, the directors of the company be and are hereby granted specific approval, subject to satisfying the requirements of sections 85(2) and 89 of the Companies Act and the JSE Listings Requirements at any time that this specific approval is exercised (including in respect of the working capital requirements of the group), to acquire or procure that any of the company’s subsidiaries acquire, from time to time, up to the total amount of the BEE shares from the BEECo’s and the BEE Trust utilising cash resources available to it at the time, at a price per share equal to 83% of the trade weighted average price at which Italtile shares traded on the JSE Limited during the 10 trading days immediately preceding the date of receipt of a written offer made by any of the BEECo’s or the BEE Trust to Italtile in respect of any or all of the BEE shares.”

The exercise by the directors of Italtile of the authority granted in terms of this specific approval is subject to the condition that in the event that it is required in terms of the JSE Listings Requirements at any time that Italtile enters into a specific repurchase as contemplated, the board must appoint an independent professional expert acceptable to the JSE to provide an opinion as to whether the price proposed to be paid for the relevant transaction shares is fair and reasonable to shareholders, and the board shall not proceed with the specific repurchase if the independent expert finds that the price is not fair and reasonable.

The reason for the special resolution is to approve the entering into of a specific repurchase by the company and/or any of its subsidiaries. The effect thereof will be that Italtile will have authority and approval to undertake a specific repurchase.

This special resolution is subject to Special Resolutions 1, 2, 3 and 5 being passed and at least 75% of the votes cast by Italtile ordinary shareholders present in person or represented by proxy at the general meeting (excluding the votes held by Mr Siyabonga Gama who is a related party or any other shareholder and its associates which may benefit from the repurchase by virtue of their being related parties) being cast in favour thereof.

SPECIAL RESOLUTION 5

In terms of sections 85 and 89 of the Companies Act, a company or its subsidiaries may, by way of a special resolution, approve the repurchase of that company's shares if authorised thereto in terms of its articles of association.

“RESOLVED THAT, in accordance with the authority set out in the company's Articles of Association, the directors of the company be and are hereby granted specific approval, subject to satisfying the requirements of sections 85(2) and 89 of the Companies Act and the JSE Listings Requirements at any time that this specific approval is exercised (including, in respect of the working capital requirements of the group), to acquire or procure that any of the company's subsidiaries acquire, from time to time, 100% of the issued shares in either of the BEECo's utilising cash resources available to it at the time, at a price equal to 83% of the value of the BEE shares held by the BEECo at the time of the offer determined by multiplying the trade weighted average price at which Italtile shares traded on the JSE during the 10 trading days immediately preceding the date of receipt of the offer by the number of BEE shares held by the BEECo minus the total of all liabilities owing by the BEECo as at the date of payment of the purchase price due by Italtile in respect of the BEE shares including the amounts owed by the BEECo to Italtile in terms of the BEECo preference shares.”

The exercise by the directors of Italtile of the authority granted in terms of this specific approval is subject to the condition that in the event that it is required in terms of the JSE Listings Requirements at any time that Italtile enters into a specific repurchase as contemplated, the board must appoint an independent professional expert acceptable to the JSE to provide an opinion as to whether the price proposed to be paid for the relevant transaction shares is fair and reasonable to shareholders, and the board shall not proceed with the specific repurchase if the independent expert finds that the price is not fair and reasonable.

The reason for the special resolution is to approve the entering into of a specific repurchase by the company and/or any of its subsidiaries. The effect thereof will be that Italtile will have authority and approval to undertake a specific repurchase.

This special resolution is subject to Special Resolutions 1, 2, 3 and 4 above being passed and at least 75% of the votes cast by Italtile ordinary shareholders present in person or represented by proxy at the general meeting (excluding the votes held by Mr Siyabonga Gama who is a related party or any other shareholder and its associates which may benefit from the repurchase by virtue of their being related parties) being cast in favour thereof.

ORDINARY RESOLUTION 1

“RESOLVED THAT the company issue to the BEECo's and the BEE Trust in aggregate 2 000 000 Italtile ordinary shares as follows:

- 600 000 Italtile ordinary shares to be issued to Arrow Creek;
- 800 000 Italtile ordinary shares to be issued to Four Arrows; and
- 600 000 Italtile ordinary shares to be issued to the BEE Trust,

which issue constitutes a specific issue of shares for cash in terms of the JSE Listings Requirements.”

This ordinary resolution is subject to at least 75% of the votes cast by Italtile ordinary shareholders present in person or represented by proxy at the general meeting (excluding the votes held by Mr Siyabonga Gama who is a related party or any other shareholder and its associates which may benefit from the repurchase by virtue of their being related parties) being cast in favour thereof.

ORDINARY RESOLUTION 2

“RESOLVED THAT the Italtile Share Appreciation Rights Scheme, a copy of which shall be tabled at the general meeting and initialled by the Chairman for the purposes of identification, be and is hereby approved and adopted by the company.”

This ordinary resolution is subject to a majority of the votes cast by Italtile ordinary shareholders present in person or represented by proxy at the general meeting being cast in favour thereof.

ORDINARY RESOLUTION 3

“RESOLVED THAT the Italtile Long-Term Incentive Plan, a copy of which shall be tabled at the general meeting and initialled by the Chairman for the purposes of identification, be and is hereby approved and adopted by the company.”

This ordinary resolution is subject to a majority of the votes cast by Italtile ordinary shareholders present in person or represented by proxy at the general meeting being cast in favour thereof.

ORDINARY RESOLUTION 4

“**RESOLVED THAT**, subject to the fulfilment of all of the conditions precedent and the implementation of the BEE transaction, Sam Nematswerani be and is hereby appointed a director of the company.”

ORDINARY RESOLUTION 5

“**RESOLVED THAT**, subject to the fulfilment of all of the conditions precedent and the implementation of the BEE transaction, Gary Morolo be and is hereby appointed as an alternate director to Sam Nematswerani.”

ORDINARY RESOLUTION 6

“**RESOLVED THAT** any of the directors of the company be and are hereby authorised to do all things and sign all documents required to give effect to the resolutions set out above.”

This ordinary resolution is subject to a majority of the votes cast by Italtile ordinary shareholders present in person or represented by proxy at the general meeting being cast in favour thereof.

FORM OF PROXY

A form of proxy is attached for the convenience of any shareholder holding certificated shares who cannot attend the shareholder general meeting or who wishes to be represented thereat. Forms of proxy may also be obtained on request from the company's registered office. The completed forms of proxy must be deposited at or posted to the office of the transfer secretaries of the company, Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) so as to arrive by no later than 10:00 on Wednesday, 11 July 2007. Any member who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the general meeting should the member subsequently decide to do so.

Shareholders who have already dematerialised their shares through a CSDP or broker and who wish to attend the shareholders' general meeting must instruct their CSDP or broker to issue them with the necessary Letter of Representation to attend.

Dematerialised shareholders, who have elected own-name registration in the sub-register through a CSDP and who are unable to attend but who wish to vote at the shareholders' general meeting must complete and return the attached relevant form of proxy and lodge it with the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, PO Box 61051, Marshalltown, 2107 to be received by no later than 10:00 on Wednesday, 11 July 2007.

Dematerialised shareholders, who have not elected own-name registration in the sub-register through a CSDP and who are unable to attend but who wish to vote at the shareholders' general meeting should ensure that the person or entity (such as a nominee) whose name has been entered into the sub-register maintained by a CSDP or broker completes and returns the attached relevant form of proxy in terms of which they appoint a proxy to vote at the shareholders' general meeting.

By order of the board

Routledge Modise

Company Secretary

Registered office

The Italtile Building
Corner William Nicol Drive and Peter Place
Bryanston
2021

SALIENT FEATURES OF THE COMPANY'S NEW ARTICLES OF ASSOCIATION

General

The Company is a public company with limited liability registered pursuant to the Companies Act. Companies are regulated generally by the Companies Act and specifically by their constitutional documents that consist of a memorandum of association and articles of association. The Company operates in conformity with its constitutional documents. Since its shares are listed on the JSE, its constitutional documents must also comply with the JSE Listings Requirements.

This section summarises the material provisions of the Companies Act, the Company's memorandum of association and articles of association and JSE Listings Requirements.

Object, capacity and powers

The Company's principal objective (as recorded in the memorandum of association) is to be an investment holding company. Pursuant to the Companies Act, the capacity of any company includes unlimited objects ancillary to its main object. To obtain its main object and its ancillary objects, a company has plenary powers, including certain common powers listed in schedule 2 to the Companies Act. A company may, however, in its memorandum of association exclude any of these powers. Italtile's memorandum of association does not contain any such exclusion.

Pursuant to the Companies Act, certain powers of a company may only be exercised by its shareholders (as opposed to its directors). Examples include an alteration of a company's memorandum of association and articles of association and a resolution to dispose of the whole or substantially the whole of the undertaking or assets of the company. Save as aforesaid, the division of powers between the shareholders and directors of a company is regulated by the company's articles of association.

The Articles provide that the Company's directors may exercise all their powers save to the extent to which any particular power has been reserved for the shareholders of the Company pursuant either to the Companies Act or to the Articles themselves. In particular, the directors have unlimited borrowing powers as described in paragraph 5 below.

In relation to the powers reserved for the shareholders of the Company, the Companies Act provides that certain of those powers may only be exercised by the adoption of a special resolution. A special resolution is a resolution adopted by at least 75% of the votes cast at a general meeting at which a quorum of shareholders is present. A quorum for the adoption of the special resolution is made up of members who between them hold no less than one quarter of the votes exercisable by all members at the general meeting of the Company.

The Companies Act prohibits companies from entering into certain transactions. Included in these prohibited transactions is a giving of financial assistance by a company for the purpose of the acquisition or subscription of shares in the company or its holding company.

A company may pay commission to any person in return for their subscription of shares in the company. In addition, a company may pay commission to a person for procuring any such subscriptions. The company's articles of association must, however, provide the payment of such commission and the commission may not exceed 10% of the subscription price of the applicable shares or any lesser rate fixed by the company's articles of association. The Articles authorise the Company to pay such commission and limit the amount thereof to 10% of the issued price of the applicable shares. The Companies Act provides that if a company agrees to pay commission in respect of any subscription for any of its shares it must disclose the amount of that commission in writing to the Registrar of Companies prior to payment thereof.

1. DIRECTORS

- 1.1 Subject to the provisions of the Companies Act unless otherwise determined by a general meeting, the number of directors shall not be less than four.
- 1.2 A general meeting of the directors shall have the power, from time to time, to appoint anyone as a director, either to fill a vacancy in the directors or as an additional director, and the appointment of any director so appointed shall cease at the conclusion of the next annual general meeting unless it is confirmed at that annual general meeting.

- 1.3 The continuing directors may act notwithstanding any vacancy in their number, but if and for so long as their number is reduced below the minimum number of directors required to act as such for the time being, the continuing directors may act only to:
 - 1.3.1 increase the number of directors to the required minimum; or
 - 1.3.2 summon a general meeting for that purpose, provided that if there is no director able or willing to act then any member may convene a general meeting for that purpose.
- 1.4 Neither a director nor an alternate director shall be obliged to hold any qualification shares.
- 1.5 The remuneration of the directors of the Company shall, from time to time, be determined by the remuneration committee of the Company, established by the board of directors of the Company in accordance with corporate governance principles.
- 1.6 Any director who serves on any executive or other committee or who devotes special attention to the business of the Company or who goes or resides outside South Africa for any purposes of the Company, or who otherwise performs services which, in the opinion of the remuneration committee of the Company, are outside the scope of the ordinary duties of a director, may be paid such extra remuneration, in addition to or in substitution for the remuneration to which he may be entitled to as a director, as the remuneration committee of the Company may determine. The directors shall also be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company and in attending meetings of the directors or of committees of the directors or of the Company.

2. ALTERNATE DIRECTORS

- 2.1 Each director may by written notice to the Company:
 - 2.1.1 nominate any one person in the alternative (including any of his co-directors) to be his alternate subject to the approval of the other directors of that alternate, which approval shall not be unreasonably withheld;
 - 2.1.2 at any time terminate such appointment.
- 2.2 An alternate director shall (except as regards the power to appoint an alternate and remuneration) in all respects be subject to the terms and conditions existing with reference to the other directors of the Company and each alternate director shall:
- 2.3 be entitled to receive notice of all meetings of the directors or any committee of the directors of which his appointer is a member; and
- 2.4 be entitled to attend or act or vote at any such meeting only if the director to whom he is an alternate is not present, provided that:
 - 2.4.1 he may attend a meeting of directors at which the director to whom he is an alternate is present if the other directors agree thereto;
 - 2.4.2 any person attending any meeting of directors as a director in his own right and/or as an alternate for one or more directors shall have one vote in respect of each director whom he represents, including himself if he is a director;
 - 2.4.3 be entitled to sign a resolution passed otherwise than at a meeting of directors in terms of these articles only if the director to whom he is an alternate is then absent from the town in which the office is situated, or is incapacitated;
 - 2.4.4 subject to the foregoing, generally exercise all the rights and discharge all the functions, powers and duties of the director to whom he is an alternate in the absence or incapacity of that director;
 - 2.4.5 in all respects be subject to the terms and conditions existing with reference to the appointment, rights and duties and the holding of office of the director to whom he is an alternate, but shall not have any claim of any nature whatsoever against the Company for any remuneration of any nature whatsoever.

- 2.5 The appointment of an alternate director shall terminate:
- 2.5.1 when the director to whom he is an alternate director:
 - 2.5.1.1 ceases to be a director; or
 - 2.5.1.2 terminates his appointment;
 - 2.5.2 if the directors reasonably withdraw their approval to his appointment.
- 2.6 In the event of the disqualification or resignation of any alternate director during the absence or inability to act of the director whom he represents, the vacancy so arising shall be filled by the chairman of the directors, who shall appoint a person to fill such vacancy subject to the approval of the board.

3. POWERS AND DUTIES OF THE DIRECTORS

- 3.1 Subject to the limitation imposed by these Articles, the management of the business and the control of the Company shall be vested in the directors who, in addition to and without limitation of the powers expressly conferred upon them by the Companies Act or these Articles, may exercise or delegate to any one or more persons the doing of all such acts (including the right to sub-delegate) as may be exercised or done by the Company and are not in terms of the Companies Act or by these Articles expressly directed or required to be exercised or done by a general meeting, subject, nevertheless, to that management and control:
- 3.1.1 not being inconsistent with; and
 - 3.1.2 being in compliance with,
- any resolution passed by a general meeting. No such resolution passed by a general meeting shall invalidate any prior act of the directors or any delegatee.
- 3.2 It is hereby declared pursuant to the provisions of Section 228 of the Companies Act that although the directors shall have power to enter into a provisional contract for the sale or alienation of the whole or substantially the whole of the undertaking of the Company, or the whole or the greater part of the assets of the Company, such contracts shall only become binding on the Company in the event of the specific transaction proposed by the directors being authorised or ratified in terms of a resolution passed by a majority of the votes cast at a general meeting convened for that purpose. All the provisions of these articles as to general meetings shall apply *mutatis mutandis* to meetings convened under this article for such purpose.
- 3.3 The directors may give pensions, gratuities and allowances to and make payments for or towards the insurance of any persons who are employees or ex-employees including directors or ex-directors of the Company and the wives, widows, families and dependents of such persons and may establish and maintain any non-contributory pension, provident and benefit funds for the benefit of any such persons and may make contributions to any such funds and pay premiums for the purchase of any such gratuity, pension or allowance or life assurance or other benefit.

4. MANAGING DIRECTOR

- 4.1 The directors may from time to time appoint one or more of their body to the office of managing director/ chief executive officer of the Company for such term, not exceeding five years at any one time, and subject to the provisions of Section 225 of the Companies Act at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another) as a disinterested quorum of directors may think fit and may revoke such appointment, subject to the terms of any agreement entered into in any particular case. A director so appointed shall not, while holding such office during the period of any such agreement, be subject to retirement by rotation, or be taken into account in determining the rotation of retirement of directors; but his appointment shall terminate if he ceases for any reason to be a director.
- 4.2 A disinterested quorum of directors may from time to time entrust to and confer upon a managing director or manager, for the time being, such of the powers and authorities vested in them as they may think fit, and may confer such powers and authorities for such time and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions, as they deem expedient, and they may confer such powers and authorities either collaterally or to the exclusion of, or in substitution for, all or any of the powers and authorities of the directors and may from time to time revoke or vary all or any of such powers and authorities.

5. BORROWING POWERS

- 5.1 The directors may exercise all the powers of the Company to borrow money and to mortgage or encumber its undertaking, property or any part thereof and to issue debentures or debenture stock (whether secured or unsecured) and other securities (with such special privileges, if any, as to allotment of shares or stock, attending and voting at general meetings, appointment of directors or otherwise as may be sanctioned by a general meeting), whether outright or as security for any debt, liability or obligation of the Company or of any third party but subject to any statutory requirements and the rules and regulations of the JSE as amended from time to time.
- 5.2 No special privileges as to:
- 5.2.1 allotment of the shares in the Company; or
 - 5.2.2 the attending and voting at general meetings; or
 - 5.2.3 the appointment of directors,
- or otherwise, shall be given to the holders of loan stock or debentures of the Company save with the sanction of the Company in general meeting.

6. DISCLOSURE OF DIRECTORS' INTERESTS

- 6.1 No director or intending director shall be disqualified by his office from contracting with the Company either as vendor, purchaser, lender, underwriter, guarantor for commission or profit on any shares or securities or liability of the Company or of any company in which the Company may be interested or in any other manner whatsoever, nor shall any such contract or arrangement entered into by or on behalf of the Company in which any director shall in any way be interested, nor any contract or agreement entered into with any company or partnership of or in which any directors shall be a member, director or partner or otherwise interested, be or be liable to be invalidated or void by any such reason or by reason of the board not constituting an independent executive, nor shall any director so contracting or being so interested or acquiring any benefit under any contract or arrangement made or entered into by or on behalf of any person, company or partnership in relation to the affairs of the Company be liable to account to the Company for any profits or benefits realised by or under such contract or arrangement by reason of such director holding that office or by reason of the fiduciary relationship thereby established and any director or directors so interested or acquiring any such benefits shall be entitled to vote at the meeting of the board of directors or otherwise in relation to such contract as freely as if he or they were not interested and he shall be reckoned for the purpose of constituting a quorum of directors. Nevertheless, any director or directors so interested or acquiring any benefit shall disclose the fact of his possessing any interest, whether as director or member or otherwise, whether or not it appears on the face of the contract or arrangement, in accordance with the provisions of sections 234 and 240 (both inclusive) of the Companies Act. Subject to the provision of section 234(3) of the Companies Act, a general notice in writing given to the directors by a director to the effect that he is a member of a specified company or firm and is to be regarded as interested in any contract which may, after the date of the notice, be made with that company or firm, shall be deemed to be a sufficient disclosure in relation to any contract or proposed contract so made or to be made.
- 6.2 Subject to compliance with the provisions of the Companies Act, a director shall not be liable (in the absence of any agreement to the contrary) to account to the Company for any profit or other benefit arising out of any contract entered into by the Company in which he is directly or indirectly interested.
- 6.3 A director shall, if he has, in accordance with the Companies Act, disclosed his interest (if it is material) in the relevant contract or arrangement:
- 6.3.1 be counted in a quorum for the purpose of a meeting of directors at which he is present to consider any matter; and
 - 6.3.2 be entitled to vote in regard to any matter;
- relating to any existing or proposed contract or arrangement in which he is interested, other than a contract or arrangement regulating his holding of any office or place of profit under the Company or a subsidiary of the Company.

7. DISQUALIFICATION OF DIRECTORS

- 7.1 A director shall cease to hold office as such if he:
- 7.1.1 is prohibited from being or is removed as or is disqualified from acting as a director of the Company in terms of the Companies Act;
 - 7.1.2 gives notice to the Company of his resignation as a director with effect from the date of, or such later date as is provided for in, such notice;
 - 7.1.3 absents himself from meetings of directors for six consecutive months without the leave of the other directors, and they resolve that his office shall be vacated, provided that this provision shall not apply to a director who is represented by an alternate who does not so absent himself;
 - 7.1.4 is or becomes of unsound mind;
 - 7.1.5 is removed before the expiration of his period of office by a resolution of all his co-directors with effect from the date of, or such later date as is provided for in such resolution;
 - 7.1.6 becomes retired in terms of the provisions contained in Article 36; and
 - 7.1.7 files a petition for the surrender of his estate, or an application for an administration order, or if his estate is sequestrated, or if he commits an act of insolvency as defined in the insolvency law for the time being in force or if he makes any arrangements or composition with his creditors generally.

8. PROCEEDINGS OF DIRECTORS

- 8.1 The directors may:
- 8.1.1 meet, adjourn, and otherwise regulate their meetings as they think fit and any director shall be entitled to convene or direct the secretary to convene a meeting of the directors;
 - 8.1.2 determine what notice shall be given of their meeting and the means of giving that notice, provided that any such prior determination may be varied, depending on the circumstances and reasons for the directors' meeting in question.
- 8.2 Unless otherwise determined by the Company in general meeting, or by a meeting of the directors (at which all the directors are present), the quorum necessary for the transaction of the business of the directors shall be a majority of directors.
- 8.3 The continuing directors may act notwithstanding any casual vacancy in their body, so long as there remain three directors duly qualified to act, but if the number falls below three, the remaining director or directors shall fill up such casual vacancy and except for the purpose of filling such vacancy, the director or directors shall not act so long as the number is below.
- 8.4 If there is/are no director or directors able and willing to act at a meeting of the directors, then any two members may summon a general meeting for the purpose of appointing a director. A director who is not within South Africa shall not be entitled to notice of any such meeting, but notice shall be given to all duly appointed alternate directors who may at the time be within South Africa.
- 8.5 A director unable to attend a director's meeting may authorise any other director to vote for him at that meeting, and in that event the director so authorised shall have a vote for each director by whom he is so authorised in addition to his own vote. If both the directors so authorised and an alternate of the director who granted the authority are present at the meeting, the alternate shall not be entitled to vote on behalf of the absent director. Authority in terms of this article must be in writing and must be handed to the person presiding at the meeting at which it is to be used.
- 8.6 Questions arising at any meeting shall be decided by a majority of votes and in the case of an equality of votes or a deadlock at any meeting of directors, the chairman shall not have a second or casting vote.

- 8.7 The directors may elect a chairman and a deputy chairman of the directors and determine the period not exceeding one year for which each is to hold office. If more than one deputy chairman is elected, the directors shall, upon their election, determine the order of their seniority. At any meeting of directors, the chairman of the directors, or if he is not present or willing to act as such, the most senior deputy chairman present and willing to act as such, shall act as chairman. If no chairman or deputy chairman has been elected, or is present within 15 (fifteen) minutes after the time appointed for holding the meeting, the directors present at any directors' meeting shall choose one of their number to be chairman of the meeting.
- 8.8 A meeting of the directors at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions by or under these articles or the regulations of the Company for the time being vested in or exercisable by the directors generally.
- 8.9 Subject to the provisions of the Companies Act, a resolution in writing, including through the medium of telefax, signed by all the directors (or their alternates, if applicable) for the time being who are present at the time when the resolution in question is signed by the first of such directors anywhere in South Africa and whose number is a majority of the directors for the time being in office and not less than that of a quorum for a meeting of directors, and inserted in the minute book, shall be as valid and effective as if it has been passed at a meeting of directors duly called and constituted. Any such resolution may consist of several documents, each of which may be signed by one or more directors or their alternates, if applicable, including faxed copies. The resolutions shall be deemed to have been passed on the date on which it was signed by the last director who signed it unless a statement to the contrary is made in that resolution.
- 8.10 Subject to the provisions of the Companies Act, proceedings may be conducted by utilising conference telephone facilities and/or conference video facilities, provided that the quorum is met. A resolution agreed to during the course of such proceedings shall be as valid and effectual as if it had been passed at a meeting of the directors duly called and constituted. The secretary of the Company shall, as soon as is reasonably possible after such meeting by telephone or video conference, as the case may be, has been held, be notified thereof by the relevant parties to the meeting, and the secretary shall prepare a written minutes thereof.

9. EXECUTIVE DIRECTORS

The directors may from time to time appoint one or more of the directors as executive directors of the Company, on such terms and conditions, as to remuneration and otherwise (but for a maximum period of five years in the case of any one appointment) as may be determined from time to time by a disinterested quorum of directors, provided that the appointment of any executive director shall, without prejudice to any claim of any nature whatever which any such director may have against the Company, cease if for any reason he ceases to be a director.

10. ROTATION OF DIRECTORS

- 10.1 The directors shall retire from office in the following manner:
- 10.1.1 At each annual general meeting of the Company one-third of the directors (excluding the managing director(s) and any director(s) referred to in paragraphs 4 and 9) or, if their number is not three or a multiple thereof, then the number nearest to but not less than one-third of the directors shall retire from office;
- 10.1.2 the directors to retire in terms of paragraph 10.1.1 shall be those who have been longest in office since their last election provided that if more than one of them were elected directors on the same day, those to retire shall be determined by lot unless those directors agree otherwise between themselves;
- 10.1.3 a retiring director shall be eligible for re-election, and, if re-elected, shall be deemed not to have vacated his office;
- 10.1.4 the annual general meeting at which a director retires may elect another person to fill the vacated office, and if it is not so filled the retiring director shall, if he has offered himself for re-election, be deemed to have been re-elected unless the annual general meeting expressly resolves not to fill such vacated office or not to re-elect such retiring director;
- 10.1.5 no person other than a retiring director shall be eligible for re-election as a director at any annual general meeting unless the directors recommend otherwise, or unless not less than seven clear days before the date appointed for the annual general meeting the retiring director or a member who is entitled to attend and vote at such annual general meeting shall have lodged written notice signifying his candidature for the office or the intention of such member to propose him as a director;

10.1.6 the power to elect directors at general meetings other than annual general meetings shall be exercisable only when special notice has been given of the intended resolution exercising such power;

10.1.7 the Company may by ordinary resolution in general meeting from time to time increase or reduce the number of directors and may also determine in what manner or location such increased or reduced number is to go out of office. Whenever such increase is made, the members of the said meeting, or failing them, the directors, may fill the new seats so created.

11. VALIDITY OF ACTS OF DIRECTORS AND COMMITTEES

As regards all persons dealing in good faith with the Company, all acts done by any meeting of the directors or of a committee of directors, or by any person acting as a director in terms of these articles, shall notwithstanding that it be afterwards discovered that there was some defect in the appointment or continuance in office of such directors or persons acting as aforesaid, or that they or any of them were disqualified or had ceased to hold office or were not entitled to vote, be as valid as if every such person had been duly appointed or was qualified or had continued to be a director or was entitled to vote, as the case may be.

12. STATUTORY RECORDS

The directors shall comply with all the requirements of the Companies Act as to the keeping of statutory books including those relative to a register of allotments, a register, a register of pledges and bonds, a register of debenture holders, a register of directors, other officers and also the auditors, a register of any material interests of directors, past directors, officers and others in the shares and debentures of the Company, a register of declaration of interest in contracts by directors and officers, a register of attendance of directors' and managers' meetings, a register of fixed assets and a minute book or books. The minutes of a meeting shall record, *inter alia*, the names of all directors present at each meeting of the Company, or of the directors or of any committee, all appointments of officers and all resolutions and proceedings of general meetings and of meetings of directors and committees.

13. AUTHENTICATION OF DOCUMENTS

13.1 Any director or the secretary or any person appointed by the directors for that purpose shall have power to authenticate any documents affecting the constitution of the Company and any resolutions passed by the Company or the directors or any committee and if any books, records, documents or accounts are elsewhere than at the office, the local manager or other officer of the Company having the custody thereof shall be deemed to be a person appointed by the directors aforesaid.

13.2 A document purporting to be a copy of a resolution of the directors, or of any committee, or an extract from the minutes of a meeting of the directors, or of any committee, which is certified as such in accordance with the provisions of the last preceding article shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that such extract is a true and accurate record of a duly constituted meeting of the directors or of such committee.

14. CONVERSION OF SHARES INTO STOCK

14.1 The Company in general meeting may by special resolution convert any shares into stock and may re-convert any stock into any number of paid-up shares.

14.2 When any shares have been converted into stock, the holders of such stock may transfer their respective interests in such manner as the Company in general meeting shall direct, but in default of any such direction then in the same manner, and subject to the same Articles as the shares from which the stock arose might prior to conversion have been transferred, or as near thereto as circumstances permit. But the directors may from time to time fix the minimum amount of stock transferable, and restrict or forbid the transfer of fractions of such minimum, but the minimum, shall not exceed the nominal amount, in the case of shares of par value, or the issue price in the case of shares of no par value, of the shares from which the stock arose, and direct that fractions of such minimum shall not be dealt with, but with power, nevertheless, at their discretion, to waive such rules in any particular cases.

- 14.3 The stock shall confer on the holders respectively the same privileges and advantages as regards participation in profits and voting at meetings of the Company, and for other purposes, as would have been conferred by shares of equal amount, but so that none of such privileges or advantages, except the participation in the profits of the Company, shall be conferred by such proportionate part of stock as would not, if existing in shares, have conferred such privileges and advantages and save as aforesaid all the provisions herein contained shall, so far as circumstances permit, apply to stock as well as to shares. No such conversion shall affect or prejudice any preference or other special privilege.
- 14.4 Such of the Articles as are applicable to shares (other than those relating to share warrants) shall apply to stock.

15. VOTES OF MEMBERS

- 15.1 On a poll taken at a general meeting, a person entitled to more than one vote need not, if he votes, use all his votes, or cast all the votes he uses in the same way.
- 15.2 The persons entitled to attend and vote at general meetings shall be:
- 15.2.1 the members, subject however to the provisions of these Articles as regards joint holders of shares;
 - 15.2.2 bearers of share warrants to the extent and in the manner and subject to the provisions of Article 9.4 of these Articles;
 - 15.2.3 a person entitled under Article 14 of these articles to have his name entered in the register;
 - 15.2.4 representatives of the persons referred to in Articles 15.2.1 and 15.2.3 above duly appointed in the manner prescribed in Article 24.4 of these articles;
 - 15.2.5 proxies of the persons referred to in Articles 15.2.1, 15.2.2, 15.2.3 and 15.2.4 above duly appointed in the manner prescribed in Article 15.5 of these Articles except that such proxy shall not be entitled to vote on show of hands.
- 15.3 Every such person referred to in Article 15.2 shall also be entitled to speak at such meetings and to demand a poll.
- 15.4 Any company or other body corporate holding shares conferring the right to vote may, by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any general meeting of the Company or at any meeting of holders of any class of shares of the Company, as provided by section 188 of the Companies Act and such representative shall be entitled to exercise the same powers on behalf of the Company or other body corporate which he represents as that company or body corporate could exercise if it were an individual member of that Company. The directors may, but shall not be obliged to, require proof to their satisfaction of the appointment or authority of such representative to act.
- 15.5 Any person referred to in Articles 15.2.1, 15.2.2 and 15.2.3 of these Articles and not being a company or body corporate as referred to in the preceding Article 15.4, may appoint one person, whether a member or not, to act as his proxy at any meeting of the Company or any adjournment thereof. The appointment of a proxy shall be made by means of a proxy form or by a power of attorney.

16. LOAN CAPITAL

The Company shall be entitled to raise loan capital subject to the provisions of section 166 of the Companies Act and in the case of the issue of commercial paper, subject to the provisions of the Commercial Paper Regulations of the Banks Act, No. 94 of 1990, by the creation and issue of debentures, both secured and unsecured, but the exercise of such powers shall always be subject to the provisions of Articles 13 and 31 of these articles.

17. DEBENTURES

- 17.1 Subject always to the provisions of Article 12 and of the Companies Act and in particular and without derogating from the generality of the foregoing, subject to the provisions of sections 124, 125 and 222 of the Companies Act, debentures may be issued to such persons and on such terms and conditions and with such rights and privileges attached thereto as the directors may determine; provided that where debentures are to be issued which

are convertible into ordinary or preference shares, no such debentures may be issued unless, prior to the issue thereof, the holders of shares of the class into which such debentures are convertible, have been invited to take up such debentures on the same terms and conditions as they were otherwise to be issued, or unless the Company in general meeting (having first obtained the approval of the JSE) has sanctioned such issue.

- 17.2 Subject to any relevant provisions, if any, of the memorandum of association and these Articles and without prejudice to any special rights previously conferred on the holders of any existing debentures or class of debentures, any debentures may be issued at par or at a discount or at a premium, and with such preferred, deferred or other special rights, or such restrictions, whether in regard to interest voting, redemption, surrender and drawings, or otherwise, as the directors may from time to time determine; provided that no special privileges as to attending and voting at a general meeting and the appointment of directors or otherwise, shall be given, save with the sanction of the Company in general meeting.

18. WINDING-UP

If the Company is wound up whether voluntarily or compulsorily:

- 18.1 the assets remaining after payment of the liabilities of the Company and the costs of winding up shall be distributed amongst the members in proportion to the number of shares respectively held by them, subject to the rights of any members to whom shares have been issued on special conditions and subject to the Company's right to apply set-off against the liability, if any, of members for unpaid capital or premium;
- 18.2 the liquidator, with the authority of a special resolution, may divide amongst the members in specie or kind the whole or any part of the assets and whether or not those assets consist of property of one kind or different kinds.

19. NOTICES

- 19.1 Subject to the provisions of these articles, a notice shall be in writing, and shall be given or served by the Company upon any member or director either by delivery or by sending it through the post, properly addressed to:
- 19.1.1 a member at his address shown in the register;
- 19.1.2 a director at his postal address shown in the directors' register
- and any such notice to members shall simultaneously be given to the Listings Division of the JSE.
- 19.2 A member may by notice require the Company to record an address within the Republic of South Africa (as it is constituted from time to time) which shall be deemed to be his address for the purpose of the service of notices.
- 19.3 Every such notice shall be deemed, until the contrary is proved, to have been received:
- 19.3.1 if it is delivered by hand, on the date on which it is so delivered;
- 19.3.2 if it is sent by post, on the date on which it would normally be received in the ordinary course of business of the post office.
- 19.4 When a given number of days' notice or notice over any period is required to be given the date on which it is deemed to be received shall not be counted in such number of days or period.
- 19.5 The accidental omission to give notice of a general meeting or of a meeting of directors to or the non-receipt of, or delay in transmission through the post of, any such notice by or to any member or director, as the case may be, shall not invalidate any resolution passed at any such meeting.

20. PRE-EMPTIVE RIGHTS

The JSE Listings Requirements provide that if a company listed on the JSE intends to issue equity securities for cash, it must first offer those securities by rights issue to its existing equity shareholders. The existing shareholders may, however, waive the aforesaid rights of pre-emption and such waiver may either be specific or general. In either case, the waiver must be approved by a 75% majority of the votes cast at a general meeting duly called to approve the resolution regarding a waiver of the pre-emptive rights.



(Incorporated in the Republic of South Africa)
 (Registration number 1955/000558/06)
 Share code: ITE ISIN: ZAE000003679
 (“Italtile” or the “company”)

FORM OF PROXY

For use by shareholders holding certificated shares, dematerialised shareholders who have elected own-name registration, nominee companies of CSDP's and brokers' nominee companies (“shareholders”) at the general meeting of shareholders to be held at the registered offices of the company being The Italtile Building, corner William Nicol Drive and Peter Place, Bryanston, Sandton, 2021 at 10:00 on Thursday, 12 July 2007.

I/We (FULL NAMES IN BLOCK LETTERS PLEASE)

of (ADDRESS)

being the holder/s of ordinary shares, hereby appoint:

1. or failing him/her,
2. of failing him/her,
3. the chairman of the general meeting of shareholders,

as my/our proxy to attend and speak and to vote for me/us and on my/our behalf at the general meeting of shareholders and at any adjournment thereof, in the following manner:

	Number of votes		
	*For	*Against	*Abstain
Special resolution 1 – Sub-division of the company's authorised and issued share capital			
Special resolution 2 – Substitution of the Articles of Association			
Special resolution 3 – Subscription for preference shares in terms of section 38(2A) of the Companies Act			
Special resolution 4 – Specific repurchase			
Special resolution 5 – Specific repurchase			
Ordinary resolution 1 – Specific issue of shares for cash			
Ordinary resolution 2 – Approval and adoption of the Italtile Share Appreciation Rights Scheme			
Ordinary resolution 3 – Approval and adoption of the Italtile Long-Term Incentive Plan			
Ordinary resolution 4 – Appointment of director			
Ordinary resolution 5 – Appointment of director			
Ordinary resolution 6 – Authorisation of directors			

*Mark “For”, “Against” or “Abstain” as required. If no options are marked the proxy will be entitled to vote as he/she thinks fit.

Unless otherwise instructed, my/our proxy may vote or abstain from voting as he/she thinks fit.

Signed this _____ day of _____ 2007

Signature

Assisted by me (where applicable)

(State capacity and full name)

A shareholder entitled to attend and vote at the abovementioned general meeting is entitled to appoint a proxy to attend, vote and speak in his/her stead. A proxy need not be a member of the company.

The completed forms of proxy must be deposited at or posted to the office of the transfer secretaries of the company, Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) so as to arrive by no later than 10:00 on Wednesday, 11 July 2007.

Please read the notes on the reverse side hereof.

Notes:

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space. The person whose name stands first on this form of proxy and who is present at the general meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's instructions to the proxy must be indicated by means of a tick or a cross in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the general meeting as he/she deems fit in respect of all of the shareholder's votes exercisable thereat relating to the resolutions proposed in this form of proxy.
3. The forms of proxy should be lodged at Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 or posted to PO Box 61051, Marshalltown, 2107 so as to be received by no later than 10:00 on Wednesday, 11 July 2007.
4. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
5. The chairman of the general meeting may reject or accept any form of proxy which is completed and/or received, other than in compliance with these notes.
6. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatory/ies.
7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company.
8. Where there are joint holders of shares:
 - 8.1 any one holder may sign this form of proxy; and
 - 8.2 the vote of the senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in the register of members) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint holder(s) of shares.



(Incorporated in the Republic of South Africa)
 (Registration Number 1955/000558/06)
 Share code: ITE ISIN: ZAE000003679
 ("Italtile" or the "company")

FORM OF SURRENDER

Please refer to the notes overleaf before completing this form.

To: Computershare Investor Services 2004 (Proprietary)Limited
 Ground Floor
 70 Marshall Street
 Johannesburg, 2001
 (PO Box 61763, Marshalltown, 2107)

Dear Sirs

I/We, the undersigned, hereby surrender the enclosed documents of title in respect of the Italtile share/s held by me/us in Italtile.

I/We hereby instruct you to post to me/us at my/our risk, replacement certificates or other documents of title in respect of the Italtile share/s on the terms set out in the circular to Italtile shareholders dated on or about 20 June 2007.

Yours faithfully

Signature of shareholder

Assisted by me, her husband (if applicable)

Date

Surname

First names (in full)

Title (Dr, Prof, Mr, Mrs, Miss, Ms, etc)

Postal address (preferably PO Box address) to which certificates should be sent, if other than registered address

Postal code

Telephone number ()

New certificate/s or other documents of title will be sent to the holders concerned within five days from receipt of this form, together with the relevant documents of title, to the address as shown in the company's register of holders, or should such other address appear in this form, to that address.

Share certificate/s surrendered

Name of registered holder (Separate form for each holder)	Certificate number	Number of Italtile shares	For office use only
			Certificate No: Date sent:
			Certificate No: Date sent:
			Certificate No: Date sent:
			Certificate No: Date sent:
			Certificate No: Date sent:
			Certificate No: Date sent:
			Certificate No: Date sent:
			Certificate No: Date sent:
			Certificate No: Date sent:

Total

To be completed by all non-resident Italtile shareholders

I/We surrender and enclose the undermentioned documents of title	
Surname	
First names (in full)	
Title (Dr, Prof, Mr, Mrs, Miss, etc)	
Nominated authorised dealer in the case of an Italtile shareholder who is an emigrant from or non-resident of the common monetary area	
Name of dealer	Account number
Address	
Postal code	
Signature	Stamp and address of agent lodging this form (if any)
Assisted by me (if applicable) (State full name and capacity)	Date

Notes:

1. This form should be properly completed and returned together with the relevant documents of title to the office of the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 or posted to PO Box 61763, Marshalltown, 2107.
2. A separate form is required for each Italtile shareholder.
3. If this form is signed on behalf of a company, pension or provident fund, then it must be accompanied by a certified copy of the resolution authorising the signatories.
4. No receipts will be issued for documents lodged unless specifically requested. In compliance with the requirements of the JSE, lodging agents are requested to prepare special transaction receipt. Signatories may be called upon for evidence of their authority or capacity to sign this form.
5. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries of the company.
6. If a shareholder has become a widow or divorcee subsequent to acquiring the Italtile shares, documentary evidence of such status must be produced unless such evidence has already been registered by the transfer secretaries of the company.
7. Where the Italtile shares are held jointly, this form must be signed by all joint holders.
8. If this form is signed under a power of attorney, such power must be produced unless it has already been registered by the transfer secretaries of the company or the documents bear the stamp of a broker.
9. If the shareholder is a deceased estate, this form must be accompanied by the letters of executorship unless such document has already been lodged with the transfer secretaries of the company or the document lodged bears the stamp of a broker.

