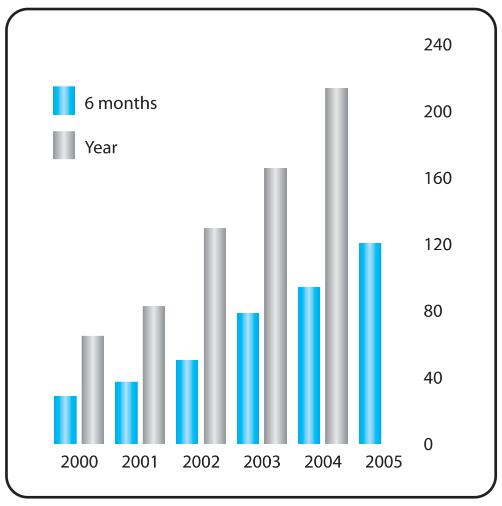
Interim Profit Announcement

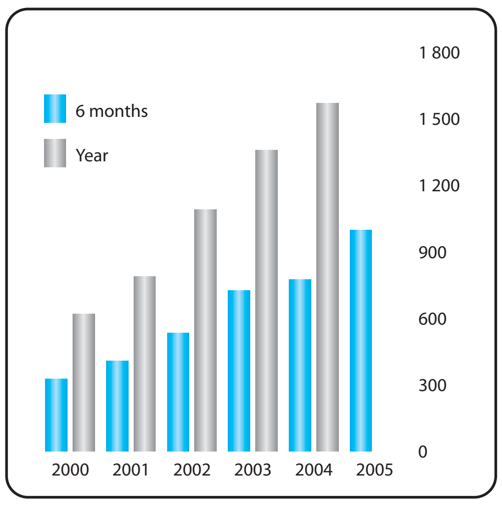
Unaudited Group Results for the six months ended 31 December 2004



Trading profit – R MILLION

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

ITALTILE Limited



System wide turnover – R MILLION

Commentary

RESULTS

Represented by sector-leading brands, **CTM** and **Italtile**, Italtile Limited remains South Africa's principal retailer of ceramic tiles, bathware and related products, trading through a national network of 72 stores.

With the significant growth of its bathware component, supported by the acquisition of specialist tap importer and distributor, International Tap Distributors, the group's traditional profile has evolved from a niche tile retailer to a specialist home-enhancement fashion retailer, whose offering includes a suite of tiling and bathware products catering to consumers across the spectrum from entry-level to premium end. This enhanced offering has impacted results favourably, by broadening the group's target market and promoting margin growth.

Complementing increased market share, favourable trading conditions and brand dominance enabled the group to deliver a strong set of results for the six months ended 31 December 2004. Group and franchise turnover improved 29% to R997 million (2003: R775 million), while trading profit increased 28% to R120,2 million (2003: R93,9 million). Headline earnings per share grew 24% to 463,9 cents (2003: 374,3 cents).

The effective tax rate increased to 31,3% as a result of STC applied in the review period on the special dividend declared in August 2004 relating to the prior reporting period.

The group remains ungeared with the exception of an R8 million property bond facility in Australia.

TRADING ENVIRONMENT

The buoyant retail environment experienced during the reporting period continues to benefit the industry. Stable interest rates and positive consumer confidence have translated into a sustained, flourishing new residence and DIY renovation market.

The period under review presented the initial signs of a trend to consolidation in the industry, which will likely result in a more structured marketplace. Constrained shipping capacity has resulted in limited and erratic supply of imported product, placing limitations on the small participants.

Imported product continued to impact the local market, particularly in the middle to upper price range. The lower end of the market was to some extent cushioned from this impact by the competitive role of local suppliers and shipping constraints on high mass low value goods.

The group's doctrine of nurturing its long-standing relationships with traditional suppliers was rewarded with reliable, sustained supplies of competitively priced, sound quality product.

AFRICAN OPERATIONS

Both CTM and Italtile delivered improved profitability derived predominantly from volume growth, and whilst an average basket price increase of 3% was implemented, the company has been able to maintain certain price points dating back to 1991.

Pursuant to its conviction that the local market affords significant growth opportunities in existing markets, the group did not open any new stores, but did increase the footprint of certain stores, particularly in the Gauteng region.

The group's strategic focus on positioning itself as a one-stop destination retailer, offering comprehensive tile and bathware packages in both its divisions, proved very successful. Consumers have readily accepted the group's enhanced offering which incorporates presentation of a complete lifestyle and fashion concept.

The group has acquired controlling interests in International Tap Distributors and Earlyworks, distributors of taps and tiling tools respectively. By integrating these businesses into the group's supply chain, both CTM and Italtile are guaranteed of a consistent, high quality supply of product. A significant degree of the improved performance can be attributed to this development. Increasing alignment in the industry will promote important opportunities for these businesses, which are expected to continue to yield solid returns for the group.

Improved access and exposure to bath- and sanitaryware products is giving rise to an increasingly discerning South African consumer, demanding quality, fashionable merchandise.

Whilst CTM's core philosophy remains value for money, the brand has cast off its dated perception of a cash and carry warehouse providing low cost product catering predominantly for the entry-level market. Viewed by its target audience as an aspirational brand, CTM offers a good quality product at competitive prices, thereby capitalising on the opportunity to grow its customers through the brand across the spectrum. With the introduction of lifestyle design displays, the division is seen to be offering an upgraded shopping experience affording fashion advice rather than simply a commodity retailer.

With increased disposable income enjoyed by a broader segment of the population and enhanced acceptance of the product by new markets, the group is planning to invest directly in communities which it has not formerly served.

Recognising that growth lies in the emerging black market, management is currently refining initiatives to support entry into the RDP level housing sector.

A short term shortage of sanitaryware exists in the local market, however management is satisfied that the group is better positioned than most to contend with the challenges this poses.

The values of empowerment and entrepreneurship are the key drivers of successful franchises and given the strong performance track record of the group's franchise network, management has committed to converting all remaining group-owned stores into joint ventures or franchises by the end of 2005. The process of attracting suitable partners is currently underway. Aggressive pursuit of performance underpins the group's business model, and management invests in mentoring and skills transfer and provides financial assistance to facilitate and enhance this performance.

The group is represented through 15 CTM stores in Botswana, Namibia, Swaziland, Lesotho, Malawi, Uganda, Tanzania and Zambia.

Rapid expansion remains constrained by infrastructural and logistical obstacles. The group, intent on capitalising upon the acceptance of CTM and strong demand for its product, will begin making direct investments in fixed property. This will provide franchisees with enhanced trading platforms, thus facilitating sustainable, long term performance.

INTERNATIONAL OPERATIONS

The group's complement of stores in Australia has now risen to 11, with two new outlets having been opened during the fourth quarter of 2004 in New South Wales.

The new stores, replete with a wider product offering, have enjoyed a positive response from customers. Where appropriate, the balance of the group's stores will be modified to meet the same specifications.

Whilst the operation continues to make a modest contribution to group profits, a significantly improved performance is not anticipated for another two to three years.

PROPERTY PORTFOLIO

The company continues to derive a competitive advantage from ongoing investments made in its property portfolio, a strategy aimed at supporting the group's profile as a destination retailer offering an enhanced shopping experience.

The focus during the review period includes investment in the heart of prime real estate in several key areas for future development, as well as the provision of additional trading space for stores situated in the larger catchment areas.

During the period under review R50 million was invested in land and buildings bringing the carrying value of the combined South African and Australian property portfolio to some R359 million. The negative cash flow resulting from this investment is a short term aberration and continued investment in this portfolio will remain a core strategy based on the strong returns delivered.

DIRECTORATE

In accordance with sound corporate governance, the function of Chairman and Chief Executive Officer within Italtile was formally separated with the appointment of Mr Derek Rabin as Non-Executive Chairman in December 2004. Mr Gianni Ravazzotti, founder of the group, had held both positions since June 2001. Mr Ravazzotti will retain the role of Chief Executive Officer. Mr Rabin has been associated with the company for 34 years and was appointed as a Non-Executive Director in 1990. He is an attorney admitted to practice in the High Courts of Lesotho and the Republic of South Africa and is a well known corporate and legal advisor. He has served on the boards of a range of listed companies and his contribution in his new role is welcomed.

In addition, two executive directors were appointed to the board during the review period, namely Mr Christian Trumpelmann, Chief Operating Officer for CTM and Mr Gian-Paolo Ravazzotti, Chief Operating Officer for Italtile.

PROSPECTS

It is anticipated that the retail trading environment will remain positive in the short term. Consumer confidence buoyed by positive sentiment and stable interest rates will continue to drive the new residential and renovation markets.

Management's customary strategic focus on optimal cash flow and inventory management will remain paramount. By leveraging its price competitive position as a major global tile purchaser, continuing to invest in its brands, and aggressively promoting the bathware component of the business, the group expects to expand market share and maintain growth.

ACCOUNTING POLICY

This report has been prepared in accordance with the same principles as contained in AC127 – Interim Financial reporting. The principles adopted herein are consistent, in all material respects, with those applied in the most recently published Annual Financial Statements and comply with the requirements of Statements of South African Generally Accepted Accounting Practice.

DIVIDEND

An interim dividend of 110 cents has been declared, an improvement of 57% (2003: 70 cents). Following the declaration of the special dividend in August 2004, the Board has taken a strategic decision to reduce its cover from 5 times to 4 times. This decision is based on the group's current cash position and its strong ability to generate cash. Management is satisfied that it has adequate cash resources to fund future activities.

DIVIDEND ANNOUNCEMENT

The directors have declared an interim dividend (number 77) of 110 cents per share to all shareholders recorded in the books of Italtile Limited. The last day to trade "cum" the dividend will be Friday, 25 February 2005. The shares of Italtile Limited will commence trading "ex" dividend from the commencement of business on Monday, 28 February 2005 and the record date will be Friday, 4 March 2005. Payment will be made on Monday, 7 March 2005. Share certificates may not be rematerialised or dematerialised between Monday, 28 February 2005 and Friday, 4 March 2005, both days inclusive.

For and on behalf of the Board

G A M Ravazzotti
Chief Executive Officer

P D Swatton
Chief Financial Officer

10 February 2005

Turnover analysis

(Rand 000's unless otherwise stated)

For the six months ended 31 December 2004

	% Increase	**Unaudited six months to 31 December 2004**	Unaudited six months to 31 December 2003	Audited year to 30 June 2004
GROUP AND FRANCHISED TURNOVER				
– By group-owned and joint ventured stores		**522 296**	391 006	799 892
– By franchise-owned stores		**474 546**	383 747	751 998
TOTAL	28,7	**996 842**	774 753	1 551 890

Abridged group income statements

(Rand 000's unless otherwise stated)

For the six months ended 31 December 2004

	% Increase	**Unaudited six months to 31 December 2004**	Unaudited six months to 31 December 2003	Audited year to 30 June 2004
Trading profit before depreciation		**130 505**	99 572	229 052
Depreciation		**(10 308)**	(5 654)	(15 395)
Trading profit	28,0	**120 197**	93 918	213 657
Net investment income		**5 522**	4 350	8 209
Goodwill amortised				(64)
Profit before taxation	27,9	**125 719**	98 268	221 802
Taxation		**(39 472)**	(29 848)	(66 888)
Profit after taxation	26,1	**86 247**	68 420	154 914
Outside shareholders' interest		**(3 290)**	(2 136)	(4 119)
Earnings attributable to ordinary shareholders	25,2	**82 957**	66 284	150 795
Number of shares in issue (000's)		**17 860**	17 691	17 646
Earnings per share (cents)	24,0	**464,5**	374,7	854,6
Headline earnings per share (cents)	23,9	**463,9**	374,3	856,3
Ordinary dividend per share (cents)		**110,0**	70,0	160,0
Special dividend per share (cents)				140,0
RECONCILIATION OF HEADLINE EARNINGS				
Earnings attributable to ordinary shareholders		**82 957**	66 270	150 795
(Profit)/loss on sale of fixed assets		**(110)**	(45)	241
Goodwill amortised				64
Headline earnings	25,1	**82 847**	66 225	151 100
RECONCILIATION OF SHARES IN ISSUE				
Total number of shares issued		**18 677**	18 677	18 677
Share Incentive Trust shares		**817**	986	1 031
Shares in issue to external parties		**17 860**	17 691	17 646

Abridged group balance sheets

(Rand 000's unless otherwise stated)

	Unaudited six months to 31 December 2004	Unaudited six months to 31 December 2003	Audited year to 30 June 2004
ASSETS			
Non-current assets	**384 517**	305 417	329 686
Fixed assets	**379 086**	299 886	324 204
Other long-term assets	**5 431**	5 531	5 482
Current assets	**424 989**	325 198	425 413
Inventories	**127 854**	82 909	134 179
Trade and other receivables	**76 366**	82 248	68 382
Cash and cash equivalents	**220 769**	160 041	222 852
Total assets	**809 506**	630 615	755 099
EQUITY AND LIABILITIES			
Capital and reserves	**546 096**	437 487	499 673
Stated capital	**27 175**	27 175	27 175
Non-distributable reserve	**1 887**	7 213	717
Treasury shares	**(42 944)**	(42 434)	(46 032)
Retained profit	**559 978**	445 533	517 813
Outside shareholders' interest	**26 237**	13 740	14 663
Non-current liabilities	**8 830**	10 006	8 674
Deferred tax	**425**	534	444
Long-term liabilities	**8 405**	9 472	8 230
Current liabilities	**228 343**	169 382	232 089
Trade and other payables	**176 220**	131 314	211 022
Taxation	**52 123**	38 068	21 067
	809 506	630 615	755 099
Net asset value per share (cents)	**3 205**	2 551	2 915

Segmental reporting

(Rand 000's unless otherwise stated)

For the six months ended 31 December 2004

	Retail	**Franchising and properties**	**Other**	**Inter group**	**Group**
Unaudited period to December 2004					
Revenue*	**617 271**	**100 651**	**28 826**	**(146 782)**	**599 966**
Segment results	**40 090**	**69 644**	**10 463**		**120 197**
Unaudited period to December 2003					
Revenue*	428 146	79 622	26 896	(88 996)	445 668
Segment results	28 766	55 201	9 951		93 918

**Revenue defined as inclusive of turnover rental and royalties.*

Cash flow statements

(Rand 000's unless otherwise stated)

For the six months ended 31 December 2004

	Unaudited six months to 31 December 2004	Unaudited six months to 31 December 2003	Audited year to 30 June 2004
Cash flow from operating activities	**49 339**	52 361	154 812
Cash flow from investing activities	**(59 881)**	(49 879)	(88 047)
Cash flow from financing activities	**8 459**	4	(1 468)
Net movement in cash and cash equivalents	**(2 083)**	2 486	65 297
Cash and cash equivalents at beginning of period	**222 852**	157 555	157 555
Cash and cash equivalents at end of period	**220 769**	160 041	222 852

Statements of changes in equity

(Rand 000's unless otherwise stated)

For the six months ended 31 December 2004

Group	**Stated capital**	**Translation reserve**	**Treasury shares**	**Retained profit**	**Total**
Balance at 30 June 2003 restated	27 175	7 059	(38 207)	393 432	**389 459**
Net profit for the period				150 795	**150 795**
Dividends paid				(26 414)	**(26 414)**
Currency translation difference		(6 342)			**(6 342)**
Unallocated shares in share trust			(8 050)		**(8 050)**
Accumulated surplus in share trust			225		**225**
Balance at 30 June 2004	27 175	717	(46 032)	517 813	**499 673**
Net profit for the period				82 957	**82 957**
Dividends paid				(40 792)	**(40 792)**
Currency translation difference		1 170			**1 170**
Unallocated shares in share trust			5 258		**5 258**
Accumulated deficit in share trust			(2 170)		**(2 170)**
Balance at 31 December 2004	**27 175**	**1 887**	**(42 944)**	**559 978**	**546 096**

Notes:

– There are no material contingent liabilities or assets at 31 December 2004.

– Capital commitments at 31 December 2004

	R'000
Contracted	18 658
Authorised, not contracted	32 631
	51 289

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

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

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

BASTION GRAPHICS