

# ITALTILE Limited

(ITLTILE)  
(ITE)  
ISIN: ZAE000003679

## COMMENTARY

The group reported turnover of R533,2 million for the six months ended 31 December 2001, an improvement of 31% over the prior comparable reporting period (2000: R407,4 million). Trading profit increased 35% to R50,1 million (2000: R37,0 million), while headline earnings per share improved 33% to 191 cents (2000: 144 cents). The group remains ungeared, with the balance sheet reflecting cash reserves of R92 million.

A significant portion of turnover growth continues to be derived from established operations. Management believes that the ceramic tile market in South Africa is still evolving and offers potential in both the developed and undeveloped sectors of the market. Margins firmed during the period under review and cost control remains a continuous focus.

Italtile remains the leading global purchaser of ceramic tiles, which affords the group a competitive edge in securing the best products at the best prices. In its procurement activities, the company is consistently vigilant in its search for enhanced value in new products and markets.

## AFRICAN OPERATIONS

An ongoing programme of in-store enhancements and system improvements, complemented by improved product mix, contributed to sound results for our local operations.

The group's strategy of holding quality stock to support forward sales proved prudent, given the sustained high demand for product over this reporting period.

CTM continues to be the brand of choice in the value-for-money segment of the market, evidenced by the division's sound performance over the past six months.

In order to entrench its position as the fashion leader in the premium-end market, the Italtile division will continue to secure leading-edge product for the discerning customer. Management foresees significant potential in this market segment.

In the company's preliminary profit announcement dated 14 August 2001, it was announced that the group had launched an empowerment vehicle, consisting of 50/50 partnerships between existing franchisees and black partners, aimed at increasing black ownership, while ensuring mentoring and skills transfer.

The group now trades out of 16 group-owned CTM stores, 44 franchised CTM stores, four empowered franchise CTM stores and 11 group-owned Italtile stores.



The group is currently represented in South Africa, Botswana, Namibia, Swaziland, Lesotho and Tanzania. Further expansion into Africa will be realised with the introduction of operations in Malawi and Zambia, scheduled for 2002. The group continues to actively explore opportunities in other sub-Saharan markets.

The group made further investments in its property portfolio, bringing the value to R199 million. This investment is in line with company philosophy that group-owned and franchised stores should operate out of company-owned premises. The highly visible store locations situated in prime positions serve to support group brands. CTM's first Super-Store will be located in Fourways, Johannesburg, and is expected to be trading by mid-2002.



## INTERNATIONAL OPERATIONS

The company has been trading in Australia for 30 months and has completed the first phase of penetration, namely creating and establishing brand presence, and consolidating operations. Set-up costs have been absorbed, and in line with management forecasts, the Australian operations reported a profit. Management is confident that profitability is sustainable and is positive about the growth potential of this market.

The group retains its nine CTM store presence across three states, Queensland, New South Wales and Victoria, having closed one poorly located store in Melbourne. The company does not anticipate opening any further stores during the current year, but is considering franchising certain of the operations in due course.

## PROSPECTS

Italtile reported in its preliminary profit announcement that it would be enhancing its existing franchise model to incorporate a joint venture element. This arrangement aims to add value to the business while encouraging entrepreneurship. Negotiations have been finalised to convert existing group owned stores to this model, and by June 2002 it is anticipated that two CTM and three Italtile joint venture franchises will be operational.

The second phase of this programme will be implemented after July 2002 and will see further group owned stores converted to joint ventures. Having consolidated its position as a major franchisor, the company's long term goal is to ensure that the bulk of the business vests in the hands of franchisees. This strategy is centred on the improved responsiveness with which franchisees react to a changing market.

## ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the prior reporting period.

## DIVIDEND

The Board has declared an interim dividend of 35 cents, an improvement of 21% (2000: 29 cents). The group will retain its cover at approximately five times.

## DIVIDEND ANNOUNCEMENT

The directors have declared an interim dividend (number 71) of 35 cents per share to all shareholders. The last day to trade ("CUM" the dividend) in order to participate in the dividend will be Friday, 1 March 2002. The shares of Italtile Limited will commence trading "EX" dividend from the commencement of business on Monday, 4 March 2002 and the record date will be Friday, 8 March 2002. Payment will be made on or about Monday, 11 March 2002. Share certificates may not be dematerialised or rematerialised between Monday, 25 February 2002 and Friday, 8 March 2002, both days inclusive.

For and on behalf of the Board

G A M Ravazzotti  
Executive Chairman

P D Swatton  
Chief Financial Officer

14 February 2002

# INTERIM PROFIT ANNOUNCEMENT

(Rand 000's unless otherwise stated)

## Abridged group income statements

	Unaudited six months to 31 December 2001	Unaudited six months to 31 December 2000	Audited year to 30 June 2001
TURNOVER			
- By group owned stores	305 990	245 587	455 329
- By franchise owned stores	227 162	161 808	332 595
TOTAL	533 152	407 395	787 924
Trading profit before depreciation	56 033	41 116	88 852
Depreciation	(5 923)	(4 049)	(6 497)
Trading profit	50 110	37 067	82 355
Interest received	1 005	712	1 983
Profit on sale of fixed property	0	568	568
Profit before taxation	51 115	38 347	84 906
Taxation	(15 781)	(11 437)	(27 307)
Profit after taxation	35 334	26 910	57 599
Outside shareholders' interest	(314)	(53)	1 011
Earnings attributable to ordinary shareholders	35 020	26 857	58 610
Number of shares in issue (000's)	18 311	18 311	18 311
Earnings per share (cents)	191,3	146,7	320,1
Headline earnings per share (cents)	191,3	143,6	317,0
Dividends per share (cents)	35,0	29,0	60,0
RECONCILIATION OF HEADLINE EARNINGS			
Earnings attributable to ordinary shareholders	35 020	26 857	58 610
Profit on sale of fixed property	0	(568)	(568)
Headline earnings	35 020	26 289	58 042

## Cash flow statement

	Unaudited six months to 31 December 2001	Unaudited six months to 31 December 2000	Audited year to 30 June 2001
Cash flows from operating activities	78 741	39 928	56 401
Trading adjusted for non-cash items	66 331	41 587	94 265
Working capital movements	39 954	15 930	(7 400)
Cash generated from operations	106 285	57 517	86 865
Interest received	1 005	712	1 983
Dividends paid	(5 676)	(5 917)	(10 907)
Taxation paid	(22 873)	(12 384)	(21 540)
Investing activities	(33 537)	(35 139)	(47 362)
To expand operations	(33 537)	(32 319)	(33 328)
To maintain operations	0	(2 820)	(14 034)
Investment of minorities in Italtile Australia	314	2 198	5 865
Net movement in cash and cash equivalents	45 517	6 987	14 904
Cash and cash equivalents at beginning of period	46 660	31 756	31 756
Cash and cash equivalents at end of period	92 177	38 743	46 660

## Abridged group balance sheets

	Unaudited six months to 31 December 2001	Unaudited six months to 31 December 2000	Audited year to 30 June 2001
EMPLOYMENT OF CAPITAL			
Non-current assets	244 573	180 747	209 089
Net current assets	29 562	24 034	25 678
Current assets	139 518	108 052	130 471
Liquid funds	92 177	38 743	46 660
Current liabilities	(179 487)	(105 074)	(123 355)
Other payables and accruals	(16 112)	(12 697)	(22 297)
Shareholders for dividend	(6 534)	(4 990)	(5 801)
	274 135	204 781	234 767
CAPITAL EMPLOYED			
Ordinary shareholders' interest	266 768	200 331	227 714
Outside shareholders' interest	7 367	4 450	7 053
	274 135	204 781	234 767
Net asset value per share (cents)	1 497	1 118	1 282

## Statement of changes in shareholders' equity

	Unaudited six months to 31 December 2001	Unaudited six months to 31 December 2000	Audited year to 30 June 2001
Balance at beginning of period	227 714	178 826	178 826
Net profit for the period	35 020	26 857	58 610
Dividends	(6 409)	(5 310)	(10 986)
Currency translation reserve	10 443	(42)	1 389
Dividends paid to outside shareholders	0	0	(125)
Balance at end of period	266 768	200 331	227 714

REGISTERED OFFICE The Italtile Centre, cnr Peter Place and William Nicol Drive, Bryanston 2021 (PO Box 1689, Randburg 2125)  
TRANSFER SECRETARIES Computershare Services Limited, Edura, 41 Fox Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107)

DIRECTORS G A M Ravazzotti (Executive Chairman), P D Swatton\*\*, J Couzis\*, G Cousins, D H Rabin, B G van Rooyen, S Galli (alternate)  
\*\*British \*Greek

Refer to Italtile's corporate website at [www.Italtile.com](http://www.Italtile.com)

