







An array of improvements were made in the core areas of the business, serving to achieve increased customer satisfaction and deliver pleasing double digit growth.



Overview

At the end of the prior financial year, management's stated goal was to intensify the best practice programmes implemented in the business to continue to capitalise on growth opportunities. A range of key focus areas were identified, including investment in people and processes, innovation in products and technology, and enhancement of efficiencies and cost containment, to ensure that the Group improved profitability and gained and retained market share.

In this regard, management believes that good progress has been achieved, although it has set challenging new goals to attain even higher benchmarks in the forthcoming year.

Through interventions such as CTM's 9 Key Disciplines and Italtile Retail's The Italtile Way, the Group entrenched its focus on fundamental retail principles, aimed at standardising and promoting performance consistency of the offering – across the brands, in all stores, across the regions – to ensure in-store satisfaction for customers.

An array of improvements were made in the core areas of the business, including range management (fashion and pricing); merchandising, display and marketing (focused on promoting complete product solutions depicted through design lifestyles, which improved the average basket size); stock management (centred on procurement processes, improved warehousing and cooperation between stores); cost containment (in logistics, administration and stock control); training; and technology (further development of the CTM webstore, and point-of-sale and handheld scanner technology in store).

As a result of these enhancements and the unwavering commitment to improvement by the people who are integral to the success of the Group, pleasing double digit growth was reported, including in previously under-performing regions.

Financial review

Trading conditions

During the review period, the ratio of household debt to disposable income continued to rise, serving to constrain consumer discretionary spend further in an economy which has recorded deteriorating growth over several years. In the construction sector the renovations market was slightly more buoyant than the new-build market, which remained subdued in the context of negative sentiment and restrained public and private sector investment.

Whilst the middle income market appeared less resilient than the top and bottom-end earners, consumers across the spectrum were price sensitive and acutely conscious of value-for-money offerings.

The devaluation of the currency over the period had a significant impact on industry participants and trading behaviour. The weak exchange rate served to squeeze retailers' working capital reserves and margins, and independent opportunistic traders with unsustainable business models were particularly hard hit. Whilst further rationalisation occurred, these trading conditions also served to restrict access to the industry to new entrants.

Other consequences of this currency volatility and aggressive price competition were stock shortages, and range gaps both in price and fashion, as operators attempted to cut costs further.

The strength of the Group's well-established business model, underpinned by its integrated supply chain and strong cash reserves were critical to its continued growth in this testing environment. The stated policy of ensuring the right stock at the right time, place and

price, together with an uncompromising focus on quality, ensured that Italtile entrenched its position as a leading retailer in the sector.

Results

Continuing operations

Following the disposal of non-core businesses (disclosed in detail on page 115 of this report), the results of these entities have been recorded as discontinued operations for the period. Accordingly, the financial information presented below refers to continuing operations only.

System-wide turnover for the period rose 17% to R4,46 billion (2013: R3,82 billion), with turnover growing at a higher rate year-on-year in the second six months than the first six months. Operating margins were also firmer in the latter half of the period attributable to intensified cost containment and increased average selling prices. Trading profit grew 23% to R751 million (2013: R611 million) as a result of improved store profitability including the contribution of nine franchised stores converted to Group-owned stores.

Earnings per share and headline earnings per share which grew 19% and 24% respectively were impacted by a R17 million IFRS 2 charge, of which R11 million is a once-off charge, related to an equity-settled staff share incentive scheme implemented in the prior comparative period. In addition, an impairment of R20 million (2013: R5 million) was recorded for the Group's property portfolio in Australia, a reflection of continued adverse economic conditions in that country. This has been excluded from headline earnings.

Due to its deliberate strategy to capture costs in the supply chain in order to support competitive pricing in the stores, the Group succeeded in containing average selling price increases in line with inflation.

Inventory levels increased to R408 million (2013: R335 million), primarily due to stockholdings of new stores which were added to the network. One of the Group's key competitive advantages is the consistent availability of an extensive range of fashionable merchandise. Stock control is therefore a priority challenge for management to ensure that stock turn continuously improves to enhance product life cycles and provides for the addition of new ranges. Inventory management has been identified as a key focus area in the forthcoming period and unrelenting attention will be paid to improving on this discipline across the business.

Capital expenditure of R166 million (2013: R168 million) was incurred primarily to enhance the Group's property investment portfolio through the acquisition of four new properties and an ongoing store upgrade programme across the network. This investment, together with the net special dividend of R467 million paid during the period, resulted in net cash reserves of R249 million at the end of the period.

The Group's net asset value was 242 cents (2013: 251 cents).

Investment in associates

Ceramic Industries Limited (Ceramic)

The 20% strategic investment in its largest supplier of tiles, sanitaryware and baths once again delivered tactical advantages in supporting the Group's growth programme. In the context of the weaker Rand and Italtile's stated goal to promote an 'always in stock' policy for customer convenience, this relationship with Ceramic served to enable consistent supply of local high quality, affordable products.

During the period, increased production volumes were achieved across Ceramic's tile and sanitaryware factories. Improved sales and profitability were also attained, attributable to the decision to produce narrower ranges which ensured continuous availability of higher volumes of in-demand product; the currency devaluation which favoured local producers; and an increase in average selling prices.

Ceramic's Australian manufacturing operation also delivered improved results, trading profitably in the last quarter of the review period.

This all-round improved performance across the business resulted in a 70% growth in profitability and an increase in contribution to Group profit of R24 million for the full year (2013: R9 million).

Ezeetile

The Group holds an effective 46% strategic stake in this business, a national manufacturer of grout, adhesive and related products.

Wide-ranging enhanced business processes and systems were implemented in the operation over the past year, and whilst improved efficiencies have resulted, the restructuring remains to be completely bedded down before the full benefits of the programme will be realised. Whilst increased imported raw material costs and higher fuel charges also had a negative impact on results, the business reported growth for the period, contributing R5 million (2013: R3 million) to Group profits.

Italtile Australia

The Group's seven store CTM retail operation was disposed of via a facilitated management buyout in October 2013. Italtile has retained and continues to manage the five Group-owned properties out of which the stores traded. This business has contributed to income from July 2014, although the sum is immaterial. Management's longer-term strategy is to dispose of these properties once the market recovers.













Italtile Retail's status as a style icon demands that management continuously and consistently drives research-led innovation in merchandise selection and display to ensure an optimal in-store experience for customers.

ITALTILE
LIVE BEAUTIFULLY

Italtile Retail

Overview and performance matrix

Nature of business	Leading fashion retailer of exclusive ranges of tiles, bathware and related products.	
Target market	LSM 7 – 10 Discerning consumers in the upper middle and premium-end segment and professional projects market.	
Number of stores	8	
Key performance indicators	Trends 2014	Trends 2013
Sales	↑	↑
Average price inflation	↑	↓
Margins	↓	↓
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Trend-setter and leading buyer of exclusive high quality fashionable international and local products. Widely recognised as industry front-runner in environmentally sensitive products. Well-established specialist expertise and nationwide network.	
Strategic positioning	Live beautifully.	

Acknowledged as a style-leader in the premium home improvement market, Italtile Retail continued to benefit from its unique positioning as a comprehensive one-stop offering in a market segment characterised by product-specific specialist retailers.

This division improved sales and profitability and accomplished good progress in a range of key focus areas. Whilst growth was achieved across the merchandise categories, particularly strong sales were reported in the Bath Shop. Intensive cost containment ensured that margins did not deteriorate significantly in the context of currency devaluation and the deliberate decision to broaden the brand's range to appeal to the middle-income market – the gain in market share in this segment endorses this strategy.

The pleasing performance reported by the business is attributable to the following:

- The unwavering goal to deliver an enhanced shopping experience for customers which was attained through continuous improvements in showroom layouts (including client-friendly offerings such as 'chill-out' areas), improved merchandising, and increased accessibility of educational product information;
- The ongoing introduction of cutting-edge fashion ranges on-trend with international vogue. The brand's position as product leader in the environmentally sensitive sector was also enhanced with additional consumption-efficient brassware and sanitaryware ranges, which are increasingly demanded by the professional and projects market;
- Partnership promotions which were conducted with internationally acclaimed companies such as Laufen and Cotto, raising the profile of those offerings in the market and driving sales in the Bath Shop;
- The brand undertook a marketing metamorphosis, best depicted by the introduction of the Italtile Style Book, an advertising feature comprising six consecutive pages published monthly in five leading local home design magazines. The Style Book, which includes a Trend Radar page has been welcomed by clients and cements Italtile Retail's position as a fashion-leader in the market;
- Webstore enhancements were implemented, including a showroom walk-through and enhanced product display and selection functionality, making the site more customer-friendly. Response time to customer enquiries was also significantly improved. Management plans to invest further to upgrade its e-commerce platform to world-class standards in 2015;
- The Commercial Projects division, under the dedicated management of a joint-venture partner, reported strong growth of the brand's non-residential business in Gauteng. Amongst the prestigious projects completed were several designer apartment blocks, a bespoke shopping centre and a number of premium-end office buildings for the financial services and hospitality industries; and
- The Italtile Way, the brand's best practice benchmark programme centred on continuous improvement in customer service, was extended from the in-store component of the business to the Commercial Projects division and all warehouse facilities, with rewarding results.

Illustrating its commitment to the local market and its valued clients, Italtile Retail served as a lead sponsor of the 25th World Congress of the International Union of Architects held in Durban in August 2014. The Congress brought together architects from around the world to debate their common concerns and interests – with a specific focus on African knowledge, challenges and opportunities. Deemed a resounding success, Italtile Retail's existing and prospective clients were delighted with the access to international thought-leaders which this Congress sponsorship afforded.

Priorities and prospects

Italtile Retail's position as a style icon demands that management continuously and consistently drives research-led innovation in merchandise selection and display. In the period ahead, intensive focus on range matrixes and product life cycles will ensure optimal stock management, thereby improving the in-store experience for customers.

In a sophisticated and competitive market place, premium service remains one of the key differentiators of this business. Management's commitment to benchmark customer service will continue to be reinforced through best practice recruitment, development and retention of personnel.

The positive inroads made by the Commercial Projects division in Gauteng endorses management's goal to extend this offering nationally, and augmentation of capacity to achieve that ambition is currently underway.

Italtile's store in Nelspruit will be relocated to new premises in the second quarter of the 2015 financial year, and pending council approval, Italtile's store in Somerset West will also be revamped during the year. Both stores will be subject to the brand's new retail design formula aimed at optimising the shopping experience. New stores are planned for opening in the second half of the 2015 financial year, in Northriding, Gauteng, and in the 2016 financial year in Polokwane, Limpopo.









CTM's raison d'être is to provide an unparalleled shopping experience for customers, and all operating activities undertaken in-store are focused on enhancing the brand's competitive value proposition.



CTM

CTM

Overview and performance matrix

Nature of business	Leading specialist retailer of tiles, laminate boards, taps, sanitaryware, bathroom furniture and accessories.	
Target market	LSM 5 – 8 Middle income DIY customers and small builders.	
Number of stores	83 (in South and East Africa).	
Key performance indicators	Trends 2014	Trends 2013
Sales	↑	↑
Average price inflation	↑	↑
Margins	↔	↔
Net profit	↑	↑
Stock turn	↑	↔
Key differentiators	Unrivalled local and international buying power. Year-round value offering. Integrated supply chain ensuring consistent availability of stock.	
Strategic positioning	Big savings. More style.	

CTM performed markedly better in the second six months of the year than the first six months, and most of the brand's regions recorded double digit growth for the full review period. Particularly notable was the improvement reported by the coastal markets, which have lagged growth in the inland regions for several years. In general, Group-owned stores outperformed franchised stores.

In the context of Rand weakness, the brand benefited from the strength of its supply chain which ensured uninterrupted supply of well-priced imported product across the merchandise categories, and also guaranteed consistent availability of good quality local tile products, supporting CTM's 'always in-stock' policy.

During the period the brand retained its market share across the merchandise categories and made substantial progress in improving tile sales volumes, which had underperformed management's expectations in the prior year. The average product basket size improved, as did sales of complete product solutions and higher value items, which underpinned margin maintenance.

The brand's middle income market (the bulk of its customers) continued to display price sensitivity, reflected in lower volume growth in categories which implemented the largest increase in average selling prices (ASP). CTM's overall ASP increased 1% ahead of inflation: the brand was able to contain price increases due to the strategic decision to sacrifice margins in the integrated supply chain to support the Group's customers.

Rest of Africa

Despite trading difficulties experienced in East Africa due to logistics constraints, political instability, intense competition and the ongoing challenge to source suitable store operators, the region delivered positive results. In particular, the two-store Kenyan operation delivered good results, benefiting from improved stock availability and range, increased staff competencies, intensified marketing and enhanced exposure to the projects market.

One new franchised store was opened in Tanzania. Pending availability of suitable properties, the plan is to acquire an additional site in Nairobi and develop a new store.

Significant developments

To provide an unparalleled shopping experience for customers is CTM's raison d'être. All operating activities undertaken in store were focused on enhancing the brand's competitive value proposition, which comprises quality, style, service and price. Accordingly, a range of improvements were made across the products, processes and people in the business:

- A turnaround in the brand's largest merchandise category, tileware, was achieved, largely based on enhanced analytical review of trading information which provided better understanding of the core range matrix. In addition, improved collaboration between the supply chain and the retail operation afforded growth opportunities.
- The brand's value-quality positioning 'Big Savings. More Style' is an important differentiator from competitor offerings. Extensive research, including focus group feedback, reveals that consumers report being favourably impressed with CTM's high quality fashionable offering at affordable prices. This perception is endorsed by the in-store experience where lifestyle displays showcase cross-range merchandising and demonstrate the brand's unique value-fashion proposition. Additionally, research confirms that brand status is top of mind for consumers, particularly in one of the Group's strongest target markets – the black middle class. Consequently high-profile aspirational brands such as Kilimanjaro, Tivoli and ProGrip enjoy strong affinity from shoppers.
- Improvements in technology and systems were implemented which afforded more efficient sales processing and stock management.
- Webstore activity increased substantially: whilst consumers are still using this vehicle primarily to narrow down their choice of retailers to visit and select their preferred products to view in-store, CTM grew its number of unique users to 734 298 (2013: 483 257) and exceeded management's forecasts for direct sales and the conversion of online quotes to sales.
- Promotional campaigns including 'Get it all this summer' and 'Hot style, cool savings' implemented during the year yielded good results. Whilst promotional items enticed consumers into the stores, upselling of a broad basket of items ensured that margins remained firm.

- CTM benefited from extensive in-house procurement expertise, and customer demand for international vogue trends was satisfied with highly fashionable tiles (natural-finish wood-, cement- and stone-look ranges) and modern, minimalist square-line design sanitaryware, brassware and cabinets.

Priorities and prospects

The market in which CTM trades will remain highly competitive and in the context of a deteriorating economy, management is mindful that the brand's imperative is to retain its top-of-mind leadership position. Accordingly, a range of opportunities have been identified which will be pursued vigorously in the forthcoming period including:

- Better analysis of retail science and market- and in-store information to gain competitive advantage and deliver improved customer service;
- Standardisation of best practice across the store network through improved measurement and quantification of benchmarks and goals;
- To win the war for talent by ensuring the brand is an employer of choice and has the right people with the right skills sets. This will be achieved through improved recruitment, analysis, training and management of core competencies and entrenchment of key disciplines;
- Growth of the brand's Bathroom Boulevard market share by continuing to build on the bathware offering. The recent 'Big Big Bathroom Surprise' promotion held at the end of the period proved the potential to gain traction in this segment;
- A concerted increase in marketing and advertising will be undertaken to support CTM's goal of growing market share across its merchandise categories;
- Whilst still in its infancy, the webstore tool is already playing an important role as a research portal in advance of physical store visits; provides enhanced market reach and is a valuable in-store enabler. Management is optimistic that ongoing development will ensure this offering continues to add value and increases its contribution to sales growth; and
- As part of CTM's expansion programme, the goal is to grow the store network to put the brand within easy access of greater numbers of customers. In this regard, blueprints for smaller format stores have been developed to optimally align store size and offering with trading densities. This strategy holds exciting potential to spread the brand's footprint, while ensuring that existing stores are not affected by increased competition.









TopT made solid progress in building on its growing reputation as a one-stop home-finishing supplier, and fine-tuned its pay-off line to 'Every price a LOW price', reinforcing the brand's positioning as the low-cost industry leader.



TopT

Overview and performance matrix

Nature of business	Retailer of home-finishing products including tiles, paint, ceiling décor, taps, sanitaryware, hardware and accessories.	
Target market	LSM 3 – (lower) 7 Entry-level value offering strategically situated in under-serviced rural areas and outlying markets in close proximity to urban townships.	
Number of stores	24	
Key performance indicators	Trends 2014	Trends 2013
Sales	↑	↑
Average price inflation	↑	↑
Margins	↓	↔
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Flexible, opportunistic home-finishing product range. Affordability and availability of stock and accessibility to market. Strong community relationships.	
Strategic positioning	Every price a LOW price.	

TopT continued to gain traction in its markets, reporting strong sales for the year. The brand made solid progress in building on its growing reputation as a one-stop home-finishing supplier, and its ability to ensure consistent availability of good quality, affordable merchandise gave it a competitive edge in a market characterised by less formalised, independent traders.

The store operators' indepth understanding of their local communities and continuous engagement on the sales floor to educate and inform consumers continued to promote TopT's brand equity and word of mouth referral business is increasingly becoming the norm.

During the period the brand fine-tuned its pay-off line to 'Every price a LOW price', reinforcing TopT's positioning as the low-cost leader in the industry.

New product categories continued to be added to the mix, including curtain rails, door handles and PVC ceiling panels, in response to consumer demand. Promotion of favourably priced 'combos' (including comprehensive bathroom solutions), were also well received. This flexibility and responsiveness to potential growth opportunities continued to boost the brand's average basket size and value.

During the year, TopT introduced a private label paint range, Tuff PVA, which enjoyed strong support; given the positive consumer response to this initiative, the intention is to expand the in-house product range.

Five new stores were opened during the reporting period, in Empangeni and Vryheid in KwaZulu-Natal, Kuruman in the Northern Cape Province, and Burgersfort and Matoks in Limpopo Province. The brand is now represented in six provinces.

Priorities and prospects

TopT's goal is to open between five and ten new stores per year, pending availability of suitable sites, franchise partners and store operators. The brand's expansion strategy is based on extending its presence in its current markets and cautiously exploring opportunities to enter new markets, such as the Eastern Cape.

In order to achieve this ambitious roll-out plan and cement the brand's status as the leading destination for low-cost home-finishing products in the entry-level market, the business model has undergone rigorous evaluation. This research-driven process has revealed a range of opportunities in the business to improve existing systems and processes (including logistics and stock management) and supplier relationships.

In the period ahead management will intensify focus on establishing optimum store sizes, locations, and formats aligned with trading densities.

Increased attention will also be paid to improving product range matrixes and identifying new categories to meet proven consumer demand (this will include the introduction of further private label products which will reinforce TopT's value proposition and build brand- and store affinity).

In a low-cost operating model, training is critical to ensure that the limited number of personnel employed in-store are multi-skilled. Accordingly, human capital development will be prioritised to ensure higher levels of customer service.

Central to TopT's structure and expansion programme is an empowerment component which requires that each store franchisee must partner with a local black equity partner. This strategy is in line with the Group's commitment to developing entrepreneurship in the business, and in return, affords good insight into local communities where personalised service drives new referral business. Management is cognisant that sourcing and retaining suitable franchisees and equity partners will be critical to the success of this brand's planned five-year roll-out programme.

International Tap Distributors (ITD)

Overview and performance matrix

Nature of business	Importer and distributor of brassware and accessories.	
Target market	CTM, Italtile Retail and TopT store network.	
Key performance indicators	Trends 2014	Trends 2013
Sales	↑	↑
Average price inflation	↑	↑
Margins	↓	↓
Net profit	↓	↔
Stock turn	↑	↑
Key differentiators	Integral component of the Group's supply chain. Long-standing relationships with international suppliers and extensive import experience. State-of-the art robotic warehouse facility.	

ITD reported record turnover for the period reflecting increased sales through the Group's retail brands, and market share was gained in both existing and new markets.

Whilst average price increases rose sharply across the industry in the context of Rand weakness, this business implemented a deliberate strategy to support the Group's competitive value offering by absorbing higher input costs, thereby sacrificing margins.

Range and stock management

ITD's improved sales volumes and enhanced market share are a reflection of the following initiatives and developments:

- Good progress was achieved in rationalising and refreshing the product range;
- Record brassware sales were reported through the CTM stores. Promotional campaigns including 'Hot style, cool savings' and 'Get it all this summer', contributed to this performance, and reinforced the positive perception of the brand's year-round value offering;
- Tivoli, the Group's private-label brand, continued to build customer affinity and is now a serious challenger for leadership in its market niche. Given the robust response from consumers, additional products were added to the range, including Tivoli concealed cisterns. This exclusive, complete-solution offering was favourably received by customers and endorses management's strategy to enter this new market segment;
- A gain in market share in the Commercial Projects segment via increased sales of amongst others, the custom-designed Idral range, through Italtile Retail;
- Introduction of the Eco range of basin mixers and shower heads which feature reduced flow-rates, and cater to growing environmental awareness amongst consumers;

- Enhanced service to the Group's stores through improvements in the agent network;
- A reduction in overheads through improved efficiencies, and despite retaining a constant staff complement; and
- Refinements made in the supply chain which led to ITD improving its pricing and offering to its retail customers.

Warehouse

During the period the second phase of the R4 million robotic warehouse upgrade was completed. This investment in cutting-edge technology resulted in improved efficiency in the business by increasing output and accuracy of stock management.

Priorities and prospects

Whilst stock holding has been reduced compared to the prior year, current levels remain high. Management's primary strategy will be to enhance analysis of trading information aimed at improving product life-cycle management and supporting the Group's policy of 'right product at the right time, place and price' in alignment with customer demands.

One of ITD's significant differentiators is its exclusive (versus open-market) offering to its customers. The business will continue to build on this strategic advantage by developing a private-label brand range for TopT in the forthcoming period.

Cedar Point

Overview and performance matrix

Nature of business	Importer and distributor of tiling tools, laminated floor boards, cabinets, accessories and décor.	
Target market	CTM and TopT store network.	
Key performance indicators	Trends 2014	Trends 2013
Sales	↑	↑
Average price inflation	↑	↔
Margins	↓	↓
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Integral component of supply chain across merchandise categories. Strong relationships with international suppliers. Leading buyer and supplier of high quality European laminated floor board range in South Africa.	

Cedar Point delivered increased turnover for the period and net profit in line with management forecasts, given margin squeeze experienced as a result of the weaker exchange rate and the strategic decision to support competitive pricing in the stores.

This division's improved performance is a reflection of:

- Good growth achieved in the laminate flooring segment, where Cedar Point holds a market leadership position in a fiercely competitive environment. High quality product, good value pricing and a wide range of in-demand larger size boards made an important contribution to sales;
- Strong sales of mosaics and décor, primarily attributable to new, highly fashionable product lines;
- Improved ranges across the other merchandise categories including cabinets;
- Better control of automated ordering in the stores; and

- Increased productivity achieved through efficiency enhancements in the warehouse.

Cedar Point has recently sourced new ranges of trend-setting mosaics, décor and wall-hung cabinets and will be launching those shortly. Management is enthusiastic about the competitive advantage which this highly fashionable merchandise will afford the business.

Priorities and prospects

Under new management, appointed at the start of the reporting period, the business was subject to a comprehensive operational review during the year, culminating in clearly defined goals and strategies.

The focus areas outlined by management for the year ahead centre on growing the business through improvements in customer service, inventory management and cost containment. This will be achieved through:

- Ensuring consistent availability of the right stock in the stores;
- Improved use of in-house computer programmes and systems to enhance understanding of product life cycles and stock management;
- Development of the skills and competencies of employees in the business and recruitment of fit-for-purpose personnel to complement existing resources;
- Enhanced analysis of trading information to enable standardisation of merchandise ranges, per store size and type, aligned to customer demands;
- Optimising efficiencies in the supply chain from source to customer; and
- Development of unique strategies designed to service the specific needs of each of the Group's three retail brands.

Distribution Centre

Overview and performance matrix

Nature of business	Procures stock for the Group's retail brands, Cedar Point and ITD and is the single largest importer of polished and glazed porcelain tiles in South Africa. Provides warehousing, distribution, logistics and foreign exchange services to the Group.	
Target market	The Group's retail store network and integrated suppliers.	
Key performance indicators	Trends 2014	Trends 2013
Sales	↑	↑
Margins	↔	↓
Net profit	↑	↑
Stock turn	↑	↔
Key differentiators	Long-standing relationships with international suppliers and transport agents. Extensive (+30 years) import experience. Strong financial position facilitates optimal investment in inventory.	

In the context of further devaluation of the currency and increased freight costs, the major challenges for this business were to continue to source aspirational, affordable imported products and contain overheads to support the retail operations through consistent supply of high quality, well-priced merchandise.

Good management of the purchasing function and transport costs enabled the division to report increased sales and trading profit, and a gain in market share was also recorded.

Towards the end of the prior year, a new Distribution Centre was established in Cape Town with the intention of streamlining distribution and stockholding of imported product and containing shipping costs. This initiative has delivered the desired results and also improved the offering to stores in the region.

In the tile category, polished porcelain, which is a core range, remained popular among local consumers, while demand for glazed porcelain also grew. International fashion trends continued to find favour in the South African market, specifically natural-finish wood and stone-look tiles. The business was successful in sourcing stylish economical product which was well received in the market and is expected to continue to gain traction in future.

In the other product categories additional select ranges of mosaics, décor and cabinets were supplied to Cedar Point to supplement the division's offering and advance its market presence.

Priorities and prospects

Management anticipates continued Rand weakness in the forthcoming months. To negate this impact consistent attention will be paid to identifying opportunities to improve purchasing practices and contain overheads, amongst them shipping costs.

In the year ahead, Distribution Centre's primary role will remain to underpin the retail brands' respected reputation for its value and quality offering for customers.

Information Technology

Overview and performance matrix

Nature of business	To provide relevant, effective IT solutions to enable an optimal user and shopping experience in the Group's supply chain and retail stores by ensuring simplicity for the end-user, maintenance of data integrity, and minimising downtime and risk.
Target market	The Group's retail operations and support services businesses.
Key performance indicators	Continual enhancement of the SAP system to unlock efficiencies, thereby enabling growth. Management of potential downtime and system failure risk, with record low downtime reported. Roll-out of technology. Improved interactivity of retail websites.

The IT environment provides extensive scope to enhance the Group's offering to its customers and unlock strategic opportunities through improved utilisation of existing systems and trading information to achieve its growth objectives.

During the year, four major projects were completed on schedule and within budget. Capital expenditure of R9 million (2013: R5,2 million) was incurred.

Significant developments

- *Full functionality of CTM's online shopping facility*

Following conclusion of the final phase of this project during the year, CTM's webstore is now a fully operational online trading store which is integrated into the Group's SAP systems and all CTM stores nationwide. During the period the site experienced significant activity amongst existing and unique users, reflected by online quotes generated of R362 million and a further R12 million in direct online sales.

- *Roll-out of online credit card solution*

This solution which is integrated into the retail stores' desktop ('Point of Sale') POS and mobile POS is designed to reduce check-out time and operator errors, while improving and automating the reconciliation process. The roll-out of this program across the store network was completed in early 2014 and has achieved its objectives.

- *Completion of SAP implementation at Ezeetile*

During the year, SAP was rolled out to a further two of Ezeetile's six branches, in Durban and Cape Town. The implementation of SAP in this supply chain business is designed to streamline Ezeetile's operations and improve inventory management through closer alignment with the Group's systems.

- *Completion of Phase 1 of SAP stock replenishment optimisation project*

Two other supply chain businesses, Cedar Point and ITD, benefited from the introduction of a SAP program developed to optimise stock replenishment. The objective of this initiative is to better utilise SAP functionality to deliver improved stock replenishment planning, thereby reducing stock-outs and enhancing inventory life-cycles.

Priorities and prospects

A range of IT projects will be implemented over the next year to enable the Group to unlock efficiencies and capitalise on growth opportunities in the business.

Amongst them will be continued development of in-store technology to improve the customer shopping experience and enhancement of the SAP system across the business to enable users to access trading information in a more meaningful, user-friendly manner.

Following completion of Phase 1 in the supply chain, Phase 2 of the SAP stock replenishment optimisation project will be rolled out to the retail operations which will contribute to improved inventory management.

A fully functional online webstore facility will be developed and implemented for the Italtile Retail brand, which will benefit from the experience gained from the CTM project and provide this brand with another valuable distribution channel.

Property Investment

Overview and performance matrix

Nature of business	Underpins the Group's retail operations by ensuring that stores are optimally located on high profile destination sites or within easy access of previously under-serviced rural and outlying areas.	
Target market	Italtile Retail, CTM and TopT store network.	
Key statistics	2014	2013
Portfolio market value	R1,9 billion	+R1,6 billion
Total number of stores	115	116
Capex incurred (new and refurbishments)	R96 million	+R100 million
Portfolio changes		
• Properties acquired	4	2
• Properties sold	4	4
New stores opened		
• Italtile	1	—
• CTM	—	2
• TopT	5	4
Stores renovated	11	16

Significant strategic advantage is afforded to the retail operations by the Group's property investment portfolio. This division's mandate is centred on providing an optimal shopping experience for customers, which it achieves through ensuring that branded stores are situated on highly visible, accessible sites and by continuously evaluating and enhancing the quality of its properties to ensure an aesthetically pleasing, well-maintained shopping environment.

The following developments were recorded in the retail divisions in the review period:

Italtile Retail

In September 2013 Italtile The Glen, was opened in the Southern suburbs of Gauteng. The building epitomises the brand's blueprint for all new stores, featuring state-of-the-art design and implementation of the latest Green technology to facilitate substantial energy consumption savings.

CTM

A comprehensive infrastructure maintenance and enhancement programme of existing stores continued to be rolled out across the CTM network. In this regard, extensions and alterations were undertaken at 11 stores nationwide, while five large-scale revamps were undertaken, in Tokai, Brackenfell and Paarl in the Western Cape, Port Shepstone in KwaZulu-Natal and Potchefstroom in North West Province.

TopT

During the period, five new stores were opened, in Empangeni and Vryheid in KwaZulu-Natal, Kuruman in the Northern Cape Province, and Burgersfort and Matoks in Limpopo Province.

To date, TopT has traded primarily out of rental properties and in order to keep pace with the brand's planned robust roll-out programme will continue to do so. However, where feasibility studies prove that a market is sufficiently buoyant to warrant owning a site, and pending availability, the Group may elect to acquire suitable retail properties.

Australian investment

The Group owns and manages five retail properties in Australia. The long-term intention is to dispose of these once the property market improves in that country.

Environmental sustainability

A key component of this division's strategy is to consistently improve the environmental sustainability of its portfolio thereby reducing the Group's carbon footprint. Management's goal is to ensure that wherever possible, new and existing stores within the portfolio employ cost-effective, energy efficient practices, including solar technology and optimisation of natural resources.

In this regard, over the past five to eight years this division has installed energy efficient lighting in all new developments and has been retro-fitting the older stores on an ongoing basis. In addition, five sites per year will be retro-fitted with photovoltaic (PV) solar panels, which will contribute up to 40% of each store's total energy requirements. Over the next five years, where feasible, PV panels will be installed in all high consumption stores in the network.

Priorities and prospects

Bureaucratic delays experienced in processing of building planning submissions continue to prove challenging. Management is cognisant of this constraint and ensures employment of experienced resources and scenario planning to counteract this impact on network expansion programmes.

Environmental sustainability of the portfolio will continue to be achieved through ongoing research of local and international best practice trends and implementation of cutting-edge technology and building materials.

In terms of the retail network footprint, a further two new Italtile Retail stores, situated in North Riding in the Northern suburbs of Gauteng and Polokwane in Limpopo Province will be opened in the latter part of the 2015 and 2016 financial years respectively.

Pending market conditions and the availability of suitable sites, the intention is to open a number of CTM stores over the next 36 months. In-depth research has endorsed the demand for stores in previously under-serviced markets or in areas where the Group currently has no presence. In this regard, where good growth potential is evident, smaller format stores – designed to optimally match market size – will be developed.

TopT's expansion programme centres on opening at least five to ten stores per year. The brand's strategy is to increase its presence in existing markets in Limpopo, Mpumalanga, KwaZulu-Natal and Northern Cape Provinces, and assess opportunities to penetrate the Eastern Cape Province in the forthcoming period. Availability of suitable sites in target areas will be a key factor in determining the progress of this programme.

Environment and Sustainability

Overview and performance matrix

Nature of business	Measures, manages and reduces the Group's impact on the environment and promotes its long-term sustainability.
Target audience	The Group's retail operations and support services businesses.
Key performance indicators	
Energy	9,75% saving in consumption achieved (FY2011 to FY2013 = 3,63%).
Water	Goal of 5% reduction in water consumption per year achieved.
Waste/ recycling	Progress made towards target of 10% reduction in waste by end of 2015.
Carbon footprint	Fourth carbon footprint study: decrease of 30% in direct CO_2 emissions per Rand value of turnover (previous study: decrease of 16%).

The Group's Environment and Sustainability agenda is to reduce consumption, increase recycling, promote sustainability of environmentally friendly products and procurement, and develop meaningful social investment programmes. Initiatives undertaken in this regard are detailed below.

Energy management plan

The Group's goal is to reduce energy consumption by 50% by the end of 2017 through utilising efficient technologies, renewable resources and changing behaviour. During the period, seven stores were fitted with photovoltaic (PV) solar panels, which contributed to an energy saving of 9,75% across the business, an important achievement in attaining the 2017 target. These PV systems, which produce 40% of each store's energy requirements, will be fitted in a further six stores in the year ahead. Additional energy savings were achieved by retro-fitting new efficient lighting in some of the Group's older stores; this project will be rolled out to the remaining stores lacking this technology.

Independent metering equipment has also been installed at stores experiencing inaccurate billing, and has made an improvement in management of energy consumption.

Five-year waste minimisation plan

The Group is on track to achieve its target of reducing waste for recycling and waste to landfill by all stores by 10% by the end of the 2015 financial year.

Water management plan

The Group achieved a 5% reduction in water consumption for the year through improved leak detection assessments and solutions in all stores receiving inaccurate or excessive utility accounts.

Products

During the period, CTM increased its range of water-saving products with the introduction of Eco basin mixers and shower heads which offer the option of a reduced water flow-rate. SABS-compliant water-saving mechanisms were also introduced into all toilet cisterns sold and various dual-flush mechanisms were promoted as an alternative to most single flush cisterns. The brand also improved its in-store educational information for customers and staff. As part of an ongoing water-consumption awareness programme, water saving 'Pula' aerators and literature on water saving are available free of charge in the stores.

Italtile Retail, widely recognised as the leading supplier of environmentally sensitive merchandise, introduced additional cutting-edge water- and energy efficient products in its brassware and sanitaryware categories, catering to sustained strong demand from the Professional projects market.

Policies

During the period, this department developed and formalised environmental policies specific to each of the three retail brands, defining benchmarks and targets related to energy and water consumption and reduction. These brand policies are integral to the Group-wide Environmental and Sustainability agenda.

Social investment

Italtile has established a community investment programme to develop and maintain sports grounds in areas lacking sports facilities. This initiative, which reflects the philosophy that physical education and sport can have a positive impact on children, is based on an existing venture, the Soweto sports ground, of which the Group is a sponsor. The current sports field under development is in Thohoyandou, and will be completed in January 2015.

The Corporate Social Responsibility narrative on page 66 of the Corporate Governance report outlines in detail all additional corporate and brand sponsorships and donations made during the year.

Priorities and prospects

All store buildings without water-efficient appliances will be retro-fitted with low consumption taps and shower accessories.

All new stores are and will be constructed with solar water heaters, while all existing electric geysers will be converted to this technology on an ongoing basis. In new stores, water-wise gardens are being planted and each new store design will incorporate a recycling area in the grounds.

The Group's fifth carbon footprint study has been commissioned and based on the four-year trend to date and current initiatives in place, it is anticipated that the results will reveal a further reduction in the Group's CO_2 emissions.

Human Resources and Training

Overview and performance matrix

Nature of business	Adding value by recruiting and retaining fit-for-purpose personnel, and developing and empowering this human capital through relevant training and support. Providing an efficient payroll and administration function.	
Target audience	Support Centre, franchisees and employees.	
Key performance indicators	Trends 2014	Trends 2013
Skills training and competencies	↑	↑
Quality of training	↑	↑
Staff attraction and retention	↔	↑
Compliance with employment equity targets	↔	↑

Key to its sustainable business success is the Group's continuous drive to provide a superior shopping experience to its customers in the retail operations. Central to achieving this goal is to ensure that fit-for-purpose personnel are recruited, developed and retained.

Accordingly, during the review period, ongoing focus was paid to priority areas such as:

- Enhanced analysis, measurement and management of performance;
- Identification and quantification of skills gaps and development of interventions to bridge competency shortcomings;
- Closer alignment of training with requirements in the individual retail brand operations;
- Improved engagement with employees to ensure the relevance of training and desired outcomes are achieved; and

- Leadership development through in-house mentorship programmes and external training in association with accredited service providers.

A range of new and upgraded training initiatives were also introduced during the year:

- The Group's Operator Training Programme, in partnership with Stellenbosch University's Business School, has to date produced 11 graduates who presently hold store management positions in the Company. The course, which is structured to develop depth of operational management across the Group, was further refined during the period to include additional modules focusing on business improvement. Nine candidates are currently undertaking the programme.
- Significant value continues to be derived from the tiling, plumbing and laminate flooring courses offered at the Group's Training Academy, aimed at growing product knowledge to improve customer service. During the period 193 candidates (2013: 142) completed the Practical course.

The following courses were introduced at the Academy:

- A weekend DIY course for consumers and customers, focused on the basic principles of tiling, plumbing and laminate flooring.
- A tiling display course for the Group's internal tilers aimed at enhancing the standard of product lifestyle displays in the stores.
- An Adult Training and Education programme which affords basic foundational learning tools, knowledge and skills, providing participants with nationally recognised skills and qualifications.
- Introduction of a high-level Group Health and Safety Committee which drives compliance of the business units with the relevant Health and Safety legislation.

Total spend on training and development programmes increased to R4,3 million (2013: R3,4 million). The total number of training interventions undertaken increased to 1 311 (2013: 1 031), while a total of 178 courses were conducted (2013: 86).

Priorities and prospects

The Group has a high performance culture and ambitious growth targets. Accordingly, intensive focus on human capital development will remain a priority in growing and empowering existing resources within the organisation. This division's strategy to enhance analysis and measurement of performance and closer align training interventions with requirements within the individual brand businesses should afford significant benefits.

Improved processes will also be introduced to attract and recruit new talent in the continuous drive to build the resource pool of high calibre individuals best suited to achieving the Group's expansion objectives.

Outlook

Management anticipates that current trading conditions will persist for the foreseeable future, with industry research indicating that even a limited upturn cannot be anticipated before the second quarter of 2016. Whilst very early signs of improvement in the new-build segment are signified by the increase in building plans passed and mortgages granted, the sustainability of this recovery will only be fully tested when the impact of higher interest rates filters through the system.

Despite this environment, the Group remains optimistic that there are sufficient opportunities to leverage in the business and the industry to enable it to continue to deliver a satisfactory performance for all stakeholders. The overarching focus in the forthcoming period will therefore be to ensure the Group is optimally structured to capitalise on those opportunities to grow the business and its market share.

The immediate goal is to intensify use of business science in the operation to best identify and interrogate the possibilities for growth. Management is confident that this process will provide greater insight into and understanding of the systems, processes and people in the organisation and the prospects for expansion.

- In this regard, a clear strategy is in place for growing each of the three retail brands. These distinct programmes encapsulate opportunities internally, within the individual businesses, as well as externally, exploring opportunities to extend the brands' footprints through new formats in their respective markets.
- Improvements in the supply chain related to procurement and stock management will drive efficiencies and cost containment, thereby providing favourable pricing for customers, improving profitability of the business, and enhancing the return on investment for stakeholders. Intensified focus on this discipline will also foster the Group's goal to be at the forefront of leading-edge fashion trends.
- Enhanced recruitment and training will be another key focus area, with the objective to ensure that the Group has the right people with the relevant skills and competencies to position it for sustainable growth.
- Italtile's reputation for innovation in the industry will be pursued through continuous research into new markets, cutting edge merchandise, and systems and equipment to improve the customer shopping experience.

As the Group celebrates its 45th anniversary, management is satisfied that the combination of its best practice benchmark programmes and improved use of strategic business science will unlock further value and position Italtile for growth in the decades ahead.

Appreciation

Displaying their characteristic team spirit, the management and staff of Italtile once again proved themselves able to meet the challenges presented by the current subdued economic climate. Faced with ambitious growth targets, they embraced opportunities to improve their individual contributions and the performance of the business.

This extraordinary dedication and enthusiasm is reflected in the Group's improved results for the period and provides good cause for optimism in achieving the goals set for the year ahead.