1. ACCOUNTING POLICIES

1.1 Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") and its interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

1.2 Basis of preparation

The consolidated and separate financial statements are prepared on the historical-cost basis, adjusted for the fair valuing of certain assets and liabilities. The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements.

The following standards and interpretations are effective for the current financial year but did not have an impact on the Group (which includes the consolidated and separate financial statements) for the year ended 30 June 2011:

- IFRS 1 – *Amendments to IFRS 1 First-time Adoption of IFRS – Additional exemptions for first time adopters, and Limited exemption from comparative IFRS 7 disclosures.*
- IFRS 2 – *Amendments to IFRS 2 Share-based Payment – Group cash-settled share-based payment arrangements.*
- IAS 24 – *Amendments to IAS 24 Related Party disclosures.*
- IAS 32 – *Financial Instruments: Presentation – Classification of rights issues.*
- IFRIC 19 – *Extinguishing financial liabilities with equity instruments.*
- May 2008, April 2009 and May 2010 Improvements to IFRS.

The financial statements are presented in South African Rands and all values are rounded to the nearest million (R'000 000), except where otherwise indicated.

1.3 Judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The key assumptions concerning the future and key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, relates to the following:

Inventory obsolescence provision

The Group determines whether there is obsolete inventory on an annual basis. This requires an estimation of the expected future saleability of inventory items based on historical experience, an analysis of market and fashion trends and a review of the ageing of the inventory items. Details pertaining to carrying values and write-offs are provided in note 18.

Impairment of land and buildings

The Group determines whether any of the land and buildings are impaired at each reporting date. This requires consideration of the current and future economic and trading environment; available valuation information and the physical state of the land and buildings, to ascertain if there are indications of impairment to those owned by the Group. No impairments were recorded during the current financial year, and carrying values are disclosed in note 13.

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 6. The carrying value of the share option reserve at year end is R5 million (2010: R3 million) and expense recognised for the year is R11 million (2010: R3 million).

1. ACCOUNTING POLICIES *(continued)*

1.4 Basis of consolidation

The consolidated financial statements incorporate the results and financial position of the Company, its subsidiaries, its associates, the Share Incentive Trust, the BEE Trust and its joint venture interests.

Subsidiaries are those companies in which the Group has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the operations. The results of subsidiaries are included from the effective dates of acquisition, being the dates on which the Group obtains control, until the dates that control ceases. The identifiable assets and liabilities of companies acquired are assessed and included in the statement of financial position at their fair values as at the effective dates of acquisition.

All intragroup balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

All companies in the Group maintain consistent accounting policies and have the same year ends.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retaining earnings, as appropriate.

Joint ventures are those enterprises over which the Group exercises joint control in terms of a contractual agreement. Investments in jointly controlled entities are accounted for by way of the proportionate consolidation method whereby the Group's proportional share of the assets, liabilities, revenue, expenses and cash flows of joint ventures are combined on a line-by-line basis, with similar items in the financial statements of the Group. Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entities. The results of joint ventures are included from the effective dates of their acquisition and up to the effective dates of their disposal, or a date on which joint control ceases.

1.5 Business combinations and goodwill

New acquisitions are included in the Group's financial statements using the acquisition method whereby the assets, liabilities and contingent liabilities are measured at their fair value. The purchase consideration is allocated on the basis of fair values at the date of acquisition.

Goodwill is initially measured at cost and represents the excess of the purchase consideration over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill carried in the statement of financial position is not amortised. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the acquisition. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of the cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of that operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

1.6 Investment in subsidiaries and joint ventures *(as accounted for on an entity level within the Group)*

Investment in subsidiaries and joint ventures are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Investments are carried at cost, less impairment.

The carrying value of the subsidiaries is reviewed for impairment at every reporting date. Where necessary, the value of the investment is impaired to the greater of the fair value less costs to sell or the value in use.

The difference between the net proceeds on disposal and the carrying amount of investments is charged to profit or loss in the statement of comprehensive income.

1.7 Treasury shares

Shares in Italtile Limited held by the Group are classified in equity attributable to equity holders of the parent as treasury shares. These shares are treated as a deduction from the issued and weighted average number of shares. Dividends received on treasury shares are eliminated on consolidation. No gain or loss on the purchase, sale, issue or cancellation of the Group's listed shares is recognised in the statement of comprehensive income. Consideration received or paid with regards to treasury shares is recognised in equity.

1. **ACCOUNTING POLICIES** *(continued)*

1.8 Foreign currencies

The consolidated and separate financial statements are presented in rands, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to profit or loss with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The Group has investments in foreign subsidiary companies which are classified as foreign operations with functional currencies that are different to that of the Group. The financial statements of these subsidiaries are translated for incorporation into the Group financial statements as follows:

- Assets and liabilities at the rates ruling at the reporting date.
- Statement of comprehensive income items at a weighted average rate for the period.
- Cash flow items at a weighted average rate for the period.
- Equity items at the appropriate historical rate.

Exchange differences are taken directly to a foreign currency translation reserve which is disclosed in other comprehensive income in the statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income, relating to that particular foreign entity, is recognised in profit or loss.

1.9 Property, plant and equipment

All buildings, including investment properties, are carried at cost less accumulated depreciation and accumulated impairment.

A valuation to open market value for existing use is done on an annual basis for disclosure and impairment purposes.

All plant and equipment, excluding aircraft, is stated at cost less accumulated depreciation and accumulated impairment.

Aircraft are carried at fair value less accumulated depreciation. Revaluations are done with sufficient regularity to ensure that the carrying amount at the reporting date does not differ materially from its fair value. Any surplus arising on revaluation is recognised within other comprehensive income, except to the extent that it reverses a previous deficit recognised in profit or loss. Any deficit arising on revaluation is recognised in profit or loss, except to the extent that it reverses a previous revaluation surplus recognised in other comprehensive income. The asset revaluation reserve is transferred to retained earnings on derecognition of the underlying asset.

Depreciation is calculated on the straight-line basis estimated to write each asset down to estimated residual value over the term of its useful life at the following annual rates:

• Buildings	2%
• Plant and machinery	16,6% to 25%
• Vehicles	20% to 25%
• Computer equipment	20% to 33,3%
• Furniture and fittings	16,6% to 33,3%
• Aircraft	20%

Depreciation commences when the asset is available for use. The useful lives, methods of depreciation and residual values are reviewed, and adjusted if appropriate, at each financial year end. Land is not depreciated.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

1. ACCOUNTING POLICIES *(continued)*

1.9 Property, plant and equipment *(continued)*

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset. In addition, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition of assets are determined by reference to their carrying amount and the net disposal proceeds and are taken to the statement of comprehensive income in the year the asset is derecognised.

1.10 Inventory

Inventory is valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and costs necessary to make the sale. Cost is determined on a weighted average cost method and excludes cash discounts, rebates and relevant indirect taxes.

1.11 Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax

Deferred income tax is provided on the liability method, on recognised temporary differences at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, other than in the circumstances described below. Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward or unused tax assets and unused tax losses can be utilised, other than in the circumstances described below. Furthermore, deferred tax assets are reviewed at each reporting date. The carrying amount is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not recognised where they arise from goodwill arising on acquisition or from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Secondary tax on companies (STC)

STC is provided in respect of expected dividend payments, net of dividends received or receivable, and is recognised as a taxation charge in the year in which the dividend is declared. Where applicable, non-resident shareholders' taxation is provided in respect of foreign dividends receivable. To the extent that it is probable that entities within the Group with STC credits will declare dividends of its own against which unused STC credits can be utilised, a deferred tax asset is raised.

Offset of tax assets and liabilities

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense items, as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other receivables or other payables in the statement of financial position.

1. ACCOUNTING POLICIES *(continued)*

1.12 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.13 Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable and is recognised when the significant risks and rewards of ownership are transferred to the buyer. It excludes cash discounts, rebates and relevant indirect taxes.

Revenue from fixed property rental is turnover-related and recognised when the sale of goods, takes place.

Interest is recognised on a time proportion basis which takes into account the effective yield on the asset over the period it is expected to be held.

Dividends are recognised when the right to receive payment is established.

Revenue from franchise income and royalties is recognised on the accrual basis in accordance with the substance of the agreement.

Flight income is recognised when the services are delivered. It excludes cash discounts, rebates and relevant indirect taxes.

1.14 Employee benefits

Retirement benefits

Defined-contribution plan

Current contributions to the retirement benefit plan are the best estimate of current service costs and are charged against income as services are rendered by the employee.

1.15 Equity participation plan

Selected employees, including directors, of the Group receive remuneration in the form of share options, whereby they render services in exchange for rights over shares. The cost of share options is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black-Schöles option-pricing model, further details of which are given in note 6. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Italtile Limited.

The cost of the share options is recognised, together with a corresponding increase in shareholders' equity, over the vesting period ending on the date on which the performance conditions are fulfilled and the employees become fully entitled to take up the share options. The cumulative expense recognised for share options granted at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the number of share option grants that will ultimately vest in the opinion of the directors of the Group, at that date. This is based on the best available estimate of the number of share options that will ultimately vest. No expense is recognised for share options that do not ultimately vest.

Where the terms of the share options are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transactions, as a result of the modification, as measured at the date of modification.

Where a share option is forfeited prior to vesting, any expense previously recognised for the award is reversed immediately. Where an award is cancelled, other than an award cancelled by forfeiture when the vesting conditions are not satisfied, it is treated as if it vested on the date of cancellation, and any expense not yet recognised, is recognised immediately. If a new share option is substituted for the cancelled share option, and designated as a replacement share option on the date that it is granted, the cancelled and new share option grant are treated as if they were a modification of the original grant, as described above.

The dilutive effect of outstanding options is reflected as a share dilution in the computation of diluted earnings per share (refer to note 10).

1. **ACCOUNTING POLICIES** *(continued)*

1.16 Financial instruments

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, available-for-sale investments, trade and other receivables, trade and other payables, and interest-bearing loans and borrowings.

Classification

The Group's financial assets and financial liabilities are classified as follows:

Description of asset/liability	Classification
Investments	Available-for-sale
Loan to BEE Trust	Loans and receivables
Trade and other receivables	Loans and receivables
Cash and cash equivalents	Loans and receivables
Interest-bearing loans and borrowings	Financial liability carried at amortised cost
Trade and other payables	Financial liability carried at amortised cost

Measurement

All financial instruments are recognised at the time the Group becomes party to the contractual provisions of the instruments. Financial instruments are initially measured at fair values. Directly attributable transaction costs are included in the fair value, unless it is classified as fair value through profit or loss. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Investments that are considered available-for-sale financial assets are carried at fair value, except for unlisted equity investments which are carried at cost as a reliable measure of fair value cannot be determined. All movements are recognised in other comprehensive income, until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in other comprehensive income is recognised in profit or loss. Objective evidence of impairment would include a significant or prolonged decline in the fair value of an investment below its carrying value. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from other comprehensive income to profit or loss. Reversals of impairment recognised previously in respect of equity instruments classified as available-for-sale are not recognised in profit or loss.

Cash and cash equivalents that have a fixed maturity date are subsequently measured at amortised cost using effective interest rates. Cash and cash equivalents that do not have a fixed maturity are subsequently measured at fair value.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, trade and other receivables are subsequently carried at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when trade and other receivables are derecognised or impaired, as well as through the amortisation process. In relation to trade receivables, a provision for impairment is made where there is objective evidence (such as probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable. If there is objective evidence that an impairment loss on other receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the receivable is reduced through the use of an allowance account. The amount of the loss is recognised in profit or loss.

Trade and other payables are subsequently measured at amortised cost.

Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derivative financial instruments

The Group uses foreign exchange contracts to manage its risks associated with foreign currency fluctuations. It is the Group's policy not to trade in derivative financial instruments. Details of the Group's financial risk management objectives and policies are set out in note 33.

All derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Any gain or loss from remeasuring the derivative financial instrument to fair value is recognised immediately in the statement of comprehensive income.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

1. **ACCOUNTING POLICIES** *(continued)*

1.16 Financial instruments *(continued)*

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flow from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender of substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offset of financial instruments

Financial assets and liabilities are set off against each other where there is an intention to settle the amounts simultaneously, and a currently enforceable legal right of set-off exists.

1.17 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset.

Group as a lessee

Assets leased in terms of agreements, which are considered to be finance leases, are capitalised. Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the Group, as lessee. Assets subject to finance leases are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the minimum lease payments, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated at the same rates and on the same basis as equivalent owned assets. Should there be no reasonable expectation that the Group will obtain ownership by the end of the lease term, the depreciation period is the shorter of the estimated useful life of the asset and the lease term. Where the carrying amount of an asset is greater than its estimated recoverable amount (ie the higher of value in use and fair value less costs to sell), it is written down immediately to its recoverable amount, based on the value in use or fair value less costs to sell. Lease finance charges are amortised over the duration of the leases, using the effective interest rate method and reflected in finance cost in the statement of comprehensive income.

All other leases are treated as operating leases and the relevant rentals are charged to profit or loss in a systematic manner related to the period of use of the assets concerned, on a straight-line basis.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

1. ACCOUNTING POLICIES *(continued)*

1.18 Dividends paid

Dividends paid are recognised as appropriations of reserves in the statement of changes in equity at the dates of declaration.

1.19 Investment in associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'income from associates' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

1.20 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Group's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the Group is still assessing the possible impact.

IAS 1 – Financial statement presentation (Amendment)

The amendment is effective for annual periods beginning on or after 1 January 2012 and requires that items of other comprehensive income be grouped in items that would be reclassified to profit or loss at a future point and items that will never be reclassified. This amendment only effects the presentation in the financial statements.

IAS 12 – Income taxes (Amendment)

The amendment is effective for annual periods beginning on or after 1 January 2012 and introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis should be adopted. This amendment will have no impact on the Group after initial application.

IAS 19 – Post employee benefits (Amendment)

The amendments are effective for annual periods beginning on or after 1 January 2013. There are changes to post employee benefits in that pension surpluses and deficits are to be recognised in full (no more deferral mechanisms) and all actuarial gains and losses recognised in other comprehensive income as they occur with no recycling to profit or loss. Past service costs as a result of plan amendments are to be recognised immediately.

Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement.

1. ACCOUNTING POLICIES *(continued)*

1.20 Standards issued but not yet effective *(continued)*

IFRS 1 – First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2011. The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. A further amendment to the standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS.

IFRS 7 – Financial Instruments: Disclosures – Transfer of financial assets (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where:

- financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- financial assets are not derecognised in their entirety – The amendments may be applied earlier than the effective date and this fact must be disclosed. Comparative disclosures are not required for any period beginning before the effective date.

IFRS 9 – Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected by the end of 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Group at the date of adoption, it is not practical to quantify the effect.

IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model with a new definition of control that applies to all entities. The changes will require management to make significant judgement to determine which entities are controlled and therefore required to be consolidated by the parent. Therefore, IFRS 10 may change which entities are within a Group.

IFRS 11 – Joint Arrangements

IFRS 11 replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Ventures. IFRS 11 uses some of the terms that were used in IAS 31 but with different meanings which may create some confusion as to whether there are significant changes. IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement compared to the legal form in IAS 31. IFRS 11 uses the principle of control in IFRS 10 to determine joint control which may change whether joint control exists. IFRS 11 addresses only two forms of joint arrangements; joint operations where the entity recognises its assets, liabilities, revenues and expenses and/or its relative share of those items and joint ventures which is accounted for on the equity method (no more proportional consolidation).

IFRS 12 – Disclosure of Interest in Other Entities

IFRS 12 includes all the disclosures that were previously required relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities as well as a number of new disclosures. An entity is now required to disclose the judgements made to determine whether it controls another entity.

The Group will need to consider the new definition of control to determine which entities are controlled or jointly controlled and then to account for them under the new standards. IFRS 10, 11 and 12 will be effective for the Group 1 July 2013.

IFRS 13 – Fair Value Measurement

IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. The Group will need to consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the Group 1 July 2013.

1. ACCOUNTING POLICIES *(continued)*

1.20 Standards issued but not yet effective *(continued)*

IFRIC 14 – Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment corrects an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

Improvements to IFRSs (issued in 2010)

The following summarises the six amendments included that will be effective for June 2012 year ends:

IFRS 1 – First-time Adoption of International Financial Reporting Standards

These improvements are mostly effective from 1 January 2011. The items below are a summary of some of the more significant changes.

- *Accounting policy changes in the year of adoption* – The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting, it has to explain those changes and update the reconciliations between previous GAAP and IFRS.
- *Revaluation basis as deemed cost* – The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such remeasurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity).

IFRS 7 – Financial Instruments Disclosures

The amendment clarifies disclosures by emphasising the interaction between quantitative and qualitative disclosures and nature and extent of risks associated with financial instruments.

IAS 1 – Presentation of Financial Statements – Clarification of statement of changes in equity

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied retrospectively.

IFRIC 13 – Customer Loyalty Programmes – Fair value of award credit

The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is applied retrospectively.

IAS 34 – Interim Financial Statements – Significant events and transactions

The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around circumstances likely to affect fair values of financial instruments and their classification.

2. DEFINITIONS

2.1 System-wide turnover

Aggregated turnover of the Group-owned and franchised stores.

2.2 Cost of sales

Cost of sales is calculated as the weighted average cost of inventory, including distribution costs incurred in bringing the inventory to the retail locations together with stock losses.

2.3 Sales and distribution costs

Sales and distribution costs include costs incurred in bringing inventory to the retail locations and ensuring the saleability thereof.

2.4 General and administrative expenses

General and administrative expenses are those overhead expenses that have not been allocated to inventory valuation.

2.5 Cash and cash equivalents

The cash and cash equivalent amounts comprise cash in hand, deposits held on call with banks and highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant changes in value.

2.6 Treasury shares

Shares in Italtile Limited held by the entities in the Group.

2.7 Cash-generating unit

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		3. REVENUE		
		Total revenue comprises:		
		Turnover	**1 521**	1 354
		Rental income	**91**	83
		Finance revenue	**12**	16
7	594	Dividend income	**25**	26
		Royalty income from franchising	**78**	73
		Other franchise income	**27**	24
		Flight income	**1**	1
5	3	Management fee		
12	597		**1 755**	1 577
		Turnover represents net sales, excluding value added tax and intercompany sales. All the rental income pertains to properties that are leased to franchised stores. These rentals are turnover related and can therefore not be predetermined.		
		4. COST OF SALES		
		Cost of sales consists largely of the cost of inventories recognised as an expense.	**895**	784
		5. TRADING PROFIT		
		Trading profit is stated after taking into account the following items:		
		Auditors' remuneration		
—#	—#	– Audit fee	**3**	3
—#	—#	– Expenses	**—#**	—#
—#	—#		**3**	3
		Depreciation		
		Owned and leased		
		– Buildings	**8**	7
		– Plant and machinery	**7**	7
		– Vehicles	**2**	1
		– Aircraft	**—#**	—#
		– Computer equipment	**3**	2
		– Furniture and fittings	**25**	22
			45	39

#Less than R1 million.

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		5. TRADING PROFIT *(continued)*		
		Operating lease payments		
		– Properties	15	14
		All the operating leases pertain to properties that are rented and then sublet to Group-owned and franchised stores. The subrentals are based on 6,3% of turnover and can therefore not be predetermined. At current levels they exceed abovementioned obligations.		
		Contingent lease payments were determined, based on escalated contractual rentals charged by third parties. Certain leases have renewal terms. There are no trading restrictions on any of the leases.		
		Total of future minimum contracted operating lease payments:		
		Within 1 year	11	12
		Within 2 – 5 years	8	16
		Later than 5 years	2	6
			21	34
		Directors' emoluments		
		Refer to page 52 of the directors' report for detail disclosures.		
		Employee remuneration		
		– Salaries and wages	93	95
		– Profit share	22	21
		– Contributions to retirement benefits	8	8
			123	124
		Other		
–	81	Impairment reversal of investments and loans		
		Profit/(loss) on sale of property, plant and equipment	2	(1)

6. SHARE-BASED PAYMENTS

Share Incentive Trust

In terms of the Share Incentive Trust, shares are offered on a combined option and deferred sale basis. Options vest over a period of five years. An agreement of deferred sale is automatically constituted on acceptance of the offer. All shares must be taken up by way of a purchase and delivery by no later than five years after the grant date. The exercise price of the option is not less than the market value of the ordinary shares on the day prior to the date of grant and the option is exercisable provided that the participant has remained in the Group's employ until the option vests. Should the participant resign before these vesting dates, the options will be forfeited. An exception may be made in the case of termination of employment as a result of death or retirement. Options are settled in equity once exercised and subsequently taken up.

In terms of a resolution passed at a shareholders' meeting on 12 January 1993, the directors are authorised to make available for the purposes of the scheme a maximum aggregate number of 136 470 068 ordinary shares (2010: 136 470 068), representing 13% (2010: 13%) of the issued share capital. The scheme exists for the directors and senior management of the Company with a limit of 15 400 000 shares which any one participant may acquire.

The following assumptions were used in valuing the various option grants on grant date:

Expected volatility	18% to 24%
Risk-free interest rate	8,19% to 8,54%
Expected dividend yield	1,90% to 2,07%
Expected life (years)	5,5

The expected life of the options is based on historical data and expected future trends and is not necessarily indicative of exercise patterns that may occur. The expected volatility of 18% to 24% reflects the assumption that the historical volatilities of 18% to 24% are indicative of future trends.

No share options were granted over the year to 30 June 2011 (2010: nil). Included in the expenses in the profit and loss for the year is Rnil (2010: Rnil) relating to the current year share option expense for the Share Incentive Trust.

All outstanding allocations were fully redeemed in 2010, with the redemption of 2 310 000 share allocations at an average subscription price of R2,39 per share. There were no further movements in 2010 or 2011.

Had the participant resigned from the Group prior to the commencement dates as indicated above, the shares for options would not have been awarded, payment not required and the options forfeited.

Black economic empowerment transaction

The Company issued 88 000 000 shares in terms of a Black Economic Empowerment, or BEE, transaction on 11 February 2008. The shares were issued at R4,57 per share, which represented a discount of 17% to the volume weighted average price of the Company's shares over the month of March 2007. The transaction was funded by way of the Company subscribing to preference shares in the empowerment vehicles. These preference shares attract dividends at a rate of 70% of the prevailing prime interest rate. Any dividends paid on the Company's shares to the empowerment vehicles will be firstly used to fund the preference share dividends payable to the Company, and then to redeem a portion of the outstanding preference shares.

The BEE partners may not sell or otherwise encumber the shares for a period of seven years, after which the Company will have the pre-emptive right to reacquire the shares at 83% of the trade weighted average price at which the Company's shares traded on the JSE during the 10-trading days immediately preceding the date of purchase. The Company may force a repurchase of the shares after eight years have elapsed, again at 83% of the trade weighted average price at which its shares traded on the JSE during the 10-trading days immediately preceding the date of purchase. The cash proceeds from this sale will be used to settle any remaining obligations in terms of the preference shares.

For further details on this transaction, refer to the circular dated 20 June 2007.

6. **SHARE-BASED PAYMENTS** *(continued)*

The economic substance of this transaction is that the BEE partners have received an equity-settled call option over the Italtile Limited shares, which matures in eight years' time. The cost of the transaction has been valued accordingly by using a Monte Carlo simulation model and using the following inputs:

Share price	R3,03
Exercise price	R4,57
Volatility	28%
Time to maturity	8 years
Risk-free interest rate	9,89%
Prime interest rate	13,21%
Dividend yield	2%

The model is not particularly sensitive to the risk-free and prime interest rate assumptions, as any change in the one would generally be offset by a change in the other. The predicted volatility is based on an analysis of the historic Italtile Limited share price volatility, over the last seven years.

The total cost of the transaction was determined as R25 million, which was recognised in the 2008 financial year (no additional costs have subsequently been recognised).

As disclosed in the directors' report on page 53, a decision was taken during the current year to cancel this BEE transaction. The directors are currently in the process of structuring a new BEE transaction to be placed before shareholders during the 2012 financial year for their consideration and approval.

Long-term incentive plan

During the current financial year, a long-term incentive plan was adopted by the Company, in accordance with which selected directors and employees of the Group are entitled to receive notional share awards. These awards vest as follows: 25% after three years, and 75% after five years. The exercise price is determined in accordance with the rules of the scheme.

The plan has been classified as an equity-settled share-based payment scheme and has been fair valued using a modified Black-Schöles model. The following assumptions and inputs were used in valuing the notional awards on grant dates:

Grant date	14 August 2009	1 October 2010
Notional share award	4 850 000	2 200 000
Share price on grant date	R3,35	R3,70
Interest rate (Source: Standard Bank)	Zero yield curve (7,06% to 8,36%)	Zero yield curve (5,98% – 7,28%)
Dividend	R0,11 per share per annum	R0,11 per share per annum

The movement in the number of awards during the years is as follows:

	Number of awards 2011	2010
At 1 July	**4 850 000**	–
Awarded during the year	**2 200 000**	4 850 000
Vested and exercised during the year	**(2 275 000)**	–
Cancelled during the year	**(275 000)**	–
At 30 June	**4 500 000**	4 850 000

The exercise price of awards exercised during the year was R4,12 per award.

The weighted average vesting period of awards outstanding at year end is 2,97 years (2010: 3,62 years).

The fair value of the awards granted over the year to 30 June 2011 is R7 million (2010: R14 million). Included in the expenses in the profit and loss for the year is R11 million (2010: R3 million) relating to the current year share-based payment expense for this scheme.

Notes to the financial statements continued

for the year ended 30 June 2011

COMPANY 2011 Rm's	COMPANY 2010 Rm's			GROUP 2011 Rm's	GROUP 2010 Rm's
		7.	**FINANCE REVENUE**		
			Bank interest receivable	12	16
			Dividends from unlisted equity investments	25	26
7	48		Dividend income from special purpose entities		
7	48		Total finance revenue	37	42
		8.	**FINANCE COST**		
			Bank loans and overdraft	23	26
			Finance charges payable under finance leases	1	1
			Total finance cost	24	27
		9.	**TAXATION**		
			Current taxation		
1	—		– Normal tax (including foreign taxes)	117	114
—	—		– Deferred tax	2	(3)
9	12		– Secondary tax on companies	11	12
10	12			130	123
%	%		Reconciliation of tax rate	%	%
28,0	28,0		Standard tax rate – South Africa	28,0	28,0
			Adjusted for:		
(22,5)	(28,0)		Exempt income	(1,5)	(1,8)
5,5	—		Other differences, including effect of foreign tax rates and prior period over/under provisions	(1,2)	1,2
107,7	2,0		Secondary tax on companies	2,4	3,0
118,7	2,0		Effective tax rate	27,7	30,4

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		10. EARNINGS PER SHARE		
		Earnings per share and diluted earnings per share is based on the income attributable to ordinary shareholders of R321 million (2010: R273 million).		
		The calculation of earnings per share is based on 919 995 338 (2010: 827 785 764) weighted average number of shares in issue during the period, excluding weighted average treasury shares.		
		The calculation of diluted earnings per share is based on:		
		Weighted average number of shares in issue for basic earnings per share	**919 995 338**	827 785 764
		Potentially dilutive ordinary shares resulting from options outstanding	**2 291 715**	1 802 242
		Weighted average number of shares for diluted earnings per share	**922 287 053**	829 588 006
		88 000 000 share options in issue to BEE partners (refer to note 6) are anti-dilutive at the current share price levels and have been excluded from the diluted earnings weighted average number of shares.		
		11a HEADLINE EARNINGS PER SHARE		
		The calculation of headline and diluted headline earnings per share is based on the income attributable to ordinary shareholders – as used in the calculation for basic earnings, adjusted in terms of Circular 03/09, "Headline Earnings".		
		Reconciliation of headline and diluted headline earnings		
		Basic earnings	**321**	273
		Loss on sale of land and buildings	**(2)**	1
		Gross amount	**(2)**	1
		Taxation	**—#**	—#
		Share attributable to non-controlling shareholders	**—**	—
		Headline and diluted headline earnings	**319**	274

#Less than R1 million.

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		11a HEADLINE EARNINGS PER SHARE *(continued)*		
		Refer to note 10 for further details and calculations related to weighted average number of shares and diluted weighted average number of shares used to calculate headline and diluted headline earnings per share.		
		11b ADJUSTED HEADLINE EARNINGS PER SHARE		
		As a consequence of the special dividend declaration on 18 February 2010, as disclosed in note 12c and 21, 123 532 370 shares were issued in lieu of dividend at the option of shareholders. This has impacted on the comparability of certain figures; in particular headline earnings per share. As a result, adjusted headline earnings per share has been presented for comparative purposes (assuming the share issue in lieu of dividend took place at the beginning of the 2010 financial year).		
		Adjusted headline earnings per share is based on headline earnings as disclosed in note 11a and the following share numbers:		
		Number of shares (excluding weighted average treasury shares) in issue prior to special dividend	**919 995 338**	796 987 283
		Unweighted number of shares issued in lieu of dividend	**–**	123 532 370
			919 995 338	920 519 653

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		12a DIVIDENDS PAID IN THE CURRENT YEAR		
52	46	Final 2010 – No 88		
		Paid 2011: 5 cents per share (2010: 5 cents)	46	40
		Interim 2011 – No 89		
62	55	Paid 2011: 6 cents per share (2010: 6 cents)	55	48
114	101	Total – 11 cents per share (2010: 11 cents per share)	101	88
		12b DIVIDENDS DECLARED IN RELATION TO CURRENT YEAR PROFIT		
		Interim – No 89		
62	55	6 cents per share (2010: 6 cents per share)	55	48
		Final – No 90		
62	52	6 cents per share (2010: 5 cents per share)	55	46
124	107	Total – 12 cents per share (2010: 11 cents per share)	110	94
		12c SPECIAL DIVIDEND		
		A special dividend of 60 cents per ordinary share payable to shareholders was declared on 18 February 2010, the default being cash but shareholders had the option to choose to acquire additional shares at 325 cents per share in lieu of the special cash dividend, or to elect a combination of both cash and shares.		
		The results of the dividend, following election of shareholders, was as follows:		
–	401	Shares in lieu of dividend – 123 532 370 shares at 325 cents per share	–	401
–	144	Cash dividend – 240 665 383 shares at 60 cents per share	–	77
–	545	Total	–	478

	Land and buildings* Rm's	Plant and machinery Rm's	Vehicles Rm's	Aircraft Rm's	Computer equipment Rm's	Furniture and fittings Rm's	Total Rm's
13. PROPERTY, PLANT AND EQUIPMENT							
2011							
Owned and leased							
Beginning of year							
– assets at cost	868	44	9	31	21	166	1 139
– accumulated depreciation	(21)	(27)	(3)	(1)	(17)	(118)	(187)
– net book value	847	17	6	30	4	48	952
Current year movements							
– additions	88	6	5	—	13	23	135
– devaluation	—	—	—	(8)	—	—	(8)
– disposals	(8)	—#	(1)	(22)	—#	(3)	(34)
– depreciation	(8)	(7)	(2)	—#	(3)	(25)	(45)
– translation	5	1	—#	—	—#	—#	6
Balance at end of year	924	17	8	—	14	43	1 006
Made up as follows:							
– assets at cost	953	49	13	—	33	179	1 227
– accumulated depreciation	(29)	(32)	(5)	—	(19)	(136)	(221)
– net book value	924	17	8	—	14	43	1 006

** Constituting owner- and related-party occupied properties.*
#Less than R1 million.

Buildings with a cost of R856 million were valued on 30 June 2011 by independent professional valuers (authorised and registered in terms of the Property Valuers Professional Act No. 47 of 2000), to a replacement value for existing use of R1,2 billion.

A register of the Group's land and buildings is available for inspection at the Company's registered office.

The aircraft purchased during 2009 was held under a finance lease as disclosed in note 23. The aircraft was pledged as security for the related finance lease, and was the only leased asset. The aircraft was revalued on 31 January 2011 by the Pilatus Centre Southern Africa, using the information of the Aviation Blue Book.

	Land and buildings* Rm's	Plant and machinery Rm's	Vehicles Rm's	Aircraft Rm's	Computer equipment Rm's	Furniture and fittings Rm's	Total Rm's
13. PROPERTY, PLANT AND EQUIPMENT *(continued)*							
2010							
Owned and leased							
Beginning of year							
– assets at cost	827	42	6	31	20	149	1 075
– accumulated depreciation	(14)	(28)	(3)	(1)	(15)	(100)	(161)
– net book value	813	14	3	30	5	49	914
Current year movements							
– additions	41	10	4	—	2	20	77
– disposals	(11)	—#	(1)	—	(1)	(1)	(15)
– depreciation	(7)	(7)	(1)	—#	(2)	(22)	(39)
– translation	11	—#	1	—	—#	2	15
Balance at end of year	847	17	6	30	4	48	952
Made up as follows:							
– assets at cost	868	44	9	31	21	166	1 139
– accumulated depreciation	(21)	(27)	(3)	(1)	(17)	(118)	(187)
– net book value	847	17	6	30	4	48	952

Constituting owner- and related-party occupied properties.
#Less than R1 million.

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COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		14.1 INVESTMENTS		
		Unlisted		
8	8	Investment in subsidiaries		
9	8	Equity instruments – at cost	4	9
218	218	Preference shares		
235	234	Directors' valuation of unlisted investments	4	9
		Investments in subsidiaries are carried at cost less accumulated impairment. A list of subsidiaries appears on page 95.		
		Unlisted equity instruments have no reliable measure of fair value as there is no active trading market for these instruments, therefore these investments are carried at cost less accumulated impairment.		
		The fair value of the unlisted preference shares approximates the carrying amount as these instruments attract a floating rate of interest. R58 million of a prior year impairment of R121 million was reversed in the prior year.		
		14.2 INVESTMENTS IN ASSOCIATES		
		During the year, the Group began accounting for an existing investment in Ezee Tile, a national manufacturer of adhesive, grout and related products, in accordance with the equity accounting requirements of IAS 28 – *Investments in associates*. Management is of the opinion that significant influence over the operations of Ezee Tile was attained during the year, triggering the requirement to apply equity accounting for such.		
		Cost	15	–
		Share of profits, post commencement of equity accounting	7	–
			22	–

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		14.2 INVESTMENTS IN ASSOCIATES *(continued)*		
		The following tables illustrate the summarised financial information of the Group's investment in Ezee Tile:		
		Statement of financial position:		
		Non-current assets	6	–
		Current assets	66	–
		Non-current liabilities	(1)	–
		Current liabilities	(23)	–
		Equity	48	–
		Statement of comprehensive income:		
		Turnover	238	–
		Profit for the year	21	–
		Profit attributable to ordinary shareholders of Italtile Limited	8	–
		Less: Dividends	1	–
		Share of associated companies' income	7	–
		15. LONG-TERM ASSETS		
70	73	Loan to BEE trust		
		Lease premiums	24	18
70	73		24	18

In order to raise funds necessary to purchase BEE shares (refer to note 6), the Company has funded the BEE trust by way of a loan. This loan accrues interest at the prime lending rate from time to time. Interest will start accruing once the BEE Trust starts issuing shares to employees.

The loan to BEE Trust has been impaired down to its recoverable amount. The value of the impairment was R47 million in the 2009 financial year, of which R23 million was reversed in the 2010 financial year.

Lease premiums are paid in advance on land leases that have a duration of between 35 and 50 years.

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		16. GOODWILL		
		Made up as follows:		
		– cost	6	6
		– impairment	—	—
		– Net book value	6	6
		There has been no movement in the balance in the current and previous financial year.		
		17. DEFERRED TAXATION		
		Deferred tax assets	8	6
		Deferred tax liabilities	(6)	(2)
			2	4

The deferred tax balance is made up as follows:

	Opening balance Rm's	Charged through statement of comprehensive income Rm's	Closing balance Rm's
Deferred tax asset:			
Accruals	7	—#	7
Property, plant and equipment	2	—#	2
Assessed loss	4	(2)	2
Deferred tax liability:			
Property, plant and equipment	(9)	—#	(9)
Prepayments	—#	—#	—#
Net deferred tax asset	4	(2)	2

Deferred tax assets and liabilities are only offset when the income tax relates to the same legal entity or fiscal authority.

The tax rate applied to South African entities is 28% (2010: 28%) for normal taxation and 10% (2010: 10%) for STC. Australian entities are taxed at 30% (2010: 30%).

#Less than R1 million.

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		18. INVENTORIES		
		Finished goods and merchandise	241	232
		Inventory losses recognised as an expense totalled R8 million for the year (2010: R11 million). This expense is included in the general and administration expenses line item on the face of the statement of comprehensive income.		
		19. TRADE AND OTHER RECEIVABLES		
		Trade receivables	101	88
		Sundry debtors	34	22
450	562	Amounts owing by subsidiary		
450	562		135	110

For terms and conditions relating to Group related-party receivables, refer to note 34.

Trade receivables are non-interest-bearing and are generally on 30-day terms.

The fair value approximates the carrying value due to the short-term nature of these balances (trade receivables and sundry debtors).

The amounts owing by subsidiary represent amounts owing by Italtile Ceramics Limited. These amounts are unsecured, carry no interest and are payable on demand. Outstanding balances are settled from time to time based on the cash flow requirements of the various entities.

As at 30 June 2011, trade receivables at nominal value of R3 million (2010: R4 million) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	Total Rm's
At 30 June 2009	4
Charge for the year	–#
At 30 June 2010	4
Utilised during the year	(1)
At 30 June 2011	3

As at 30 June 2010, the ageing analysis of trade receivables is as follows:

			Past due, not impaired		
	Total Rm's	Current (not impaired) Rm's	30 – 60 days Rm's	60 – 90 days Rm's	> 90 days Rm's
2011	101	96	1	1	3
2010	88	81	2	2	3

#Less than R1 million.

Allowances have been raised on debt older than 90 days.

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		20. CASH AND CASH EQUIVALENTS		
1	—#	Cash at banks and on hand	193	250
		Short-term deposits	646	461
1	—#		839	711
		Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.		
		The fair value approximates the carrying value due to the short-term nature of these balances.		
		21. STATED CAPITAL		
		Authorised		
		3 300 000 000 ordinary shares of no par value		
		Issued		
818	818	1 033 332 822 (2010: 1 033 332 822) ordinary shares of no par value	818	818
		Number of shares in issue to external parties:		
1 033 332 822	1 033 332 822	Total shares in issue	1 033 332 822	1 033 332 822
1 033 332 822	909 800 452	Opening balance	1 033 332 822	909 800 452
—	123 532 370	Share issue in lieu of dividend	—	123 532 370
		Treasury shares: Share incentive trust	(26 290 909)	(24 290 909)
		BEE transaction	(88 000 000)	(88 000 000)
1 033 332 822	1 033 332 822	In issue to external parties	919 041 913	921 041 913

All unissued shares are under the control of the directors until the next annual general meeting.

Share issue *in lieu* of dividend

As a consequence of the special dividend, as disclosed in note 12c, 123 532 370 shares were issued *in lieu* of dividend during the 2010 financial year, resulting in an increase of R401 million in the stated capital balance.

#*Less than R1 million.*

22. NON-DISTRIBUTABLE RESERVE	Capital Redemption Reserve Fund Rm's	Aircraft revaluation Rm's	Foreign currency translation reserve Rm's	Total Rm's
Balance as at 30 June 2009	9	6	33	48
Translation of foreign entities			2	2
Balance as at 30 June 2010	9	6	35	50
Translation of foreign entities			7	7
Aircraft devaluation		(6)		(6)
Balance as at 30 June 2011	9	—	42	51

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		23. INTEREST-BEARING LOANS AND BORROWINGS		
		Finance leases		
		Aircraft This finance lease bore interest at prime less 2,25% per annum, with a residual value of R12 million. The lease was settled on 25 February 2011.	—	11
		Loans		
		Rand The loan bears interest at prime less 2% per annum (2010: 2,4%), and is repayable on 9 July 2013. The loan is secured by a cession of all shares and claims in Allmuss Properties (Pty) Limited.	300	300
		Australian Dollars Loans secured by a first mortgage over property that has a current value of R64 million (2010: R57 million). The first loan of R21 million bears interest at 8,4% per annum, and matures on 5 October 2012. The second loan of R10 million bears interest of 6,5% per annum, and matures on 31 October 2011.	31	31
			331	342
		Current portion of interest-bearing debt	(10)	—
		Non-current portion of interest-bearing debt	321	342

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		23. INTEREST-BEARING LOANS AND BORROWINGS *(continued)*		
		The fair value of the long-term borrowings approximates the carrying value, as the current market rates of interest do not differ materially from those specified in the loan agreements.		
		24. TRADE AND OTHER PAYABLES		
		Trade payables	152	161
2	1	Accruals/other payables	65	41
2	1		217	202
		For terms and conditions relating to related parties, refer to note 34.		
		Trade payables are non-interest-bearing and are normally settled on 30-day terms.		
		Accruals/other payables are mostly non-interest-bearing and have an average term of three months.		
		The fair value of all trade and other payables approximates the carrying value, due to the short-term nature of these balances.		

25. PROVISIONS

	Leave pay Rm's	Incentive bonus Rm's	Total Rm's
Balance as at 30 June 2009	6	16	22
Provision utilised	(1)	(10)	(11)
Provision raised	4	19	23
Balance as at 30 June 2010	9	25	34
Provision utilised	(2)	(10)	(12)
Provision raised	3	6	9
Balance as at 30 June 2011	10	21	31

Leave pay is provided on accumulated leave balances at year end based on employees' cost to company.

Provision for incentive bonus is expected to be realised when bonuses are paid in the 2012 financial year, and is based on terms as dictated in employment contracts (subject to the final approval from management).

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		26. JOINT VENTURE		
		The Group has a 50% interest in Ser Export s.p.a, a company incorporated in Italy.		
		Impact on Group statement of financial position		
		Current assets	**36**	36
		Non-current assets	**14**	13
		Current liabilities (non-interest-bearing)	**(25)**	(26)
		Impact on Group statement of comprehensive income		
		Income	**44**	47
		Expenses	**(43)**	(46)
		Impact on Group cash flow statement		
		Cash flow from operating activities	**(7)**	2
		Cash outflow from investing activities	**(1)**	—#
		Cash from financing activities	**—**	—
		There are no significant contingent liabilities or commitments in respect of this joint venture for which the Group is responsible (2010: nil).		
		27. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS		
8	675	Profit before taxation	**461**	404
		Adjusted for:		
		Depreciation	**45**	39
		(Profit)/loss on sale of property, plant and equipment	**(2)**	1
(7)	(48)	Finance revenue	**(12)**	(16)
—	(546)	Dividends received	**(25)**	(26)
		Finance cost	**24**	27
—	(81)	Impairment reversal of investments and loans	**—**	—
2	3	Share-based payment expense and other non-cash movements	**(3)**	7
(5)	(3)	Management fee received		
		Working capital changes		
		Increase in inventories	**(9)**	(40)
—	—	(Increase)/decrease in trade and other receivables	**(25)**	28
1	—	Increase/(decrease) in trade and other payables	**12**	(2)
(1)	—	Cash generated by operations	**466**	422

#Less than R1 million.

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		28. TAXATION PAID		
1	1	Net amount prepaid/(unpaid) at beginning of year	19	(6)
(10)	(12)	Charged per statement of comprehensive income	(130)	(123)
—	—	Deferred tax expense	2	(3)
(1)	(1)	Net amount prepaid at end of year	(7)	(19)
(10)	(12)	Amounts paid	(116)	(151)
		29. DIVIDENDS PAID		
(114)	(646)	Charged per statement of changes in equity	(101)	(566)
		Dividends paid to non-controlling interests	(8)	(3)
(114)	(646)	Amounts paid	(109)	(569)

30. BUSINESS COMBINATIONS

Cedar Point Trading and TopT Ceramics

During the 2010 financial year, two new entities were incorporated to house existing businesses within the Group. Cedar Point Trading 326 (Pty) Limited was formed to house the ELF laminate and Earlyworks businesses, whereas TopT Ceramics (Pty) Limited was formed to house the TopT retail business. Both entities have a non-controlling interest, and on consolidation of these entities an initial non-controlling interest of R16 million has been recognised.

COMPANY 2011 Rm's	COMPANY 2010 Rm's		GROUP 2011 Rm's	GROUP 2010 Rm's
		31. COMMITMENTS		
		Capital commitments		
		Capital expenditure for land and buildings, computer equipment and other fixed assets:		
		Contracted	27	77
		Authorised but not contracted for	83	63
			110	140
		Capital expenditure will be financed from own resources.		

31. COMMITMENTS *(continued)*

Finance lease commitments

The Group had finance lease commitments for the aircraft as disclosed in note 13 and 23. The Group did have the option to purchase the asset at the end of the lease. There were no escalation clauses. Future minimum lease payments under the finance lease, together with the present value of the minimum lease payments, were as follows at the end of the 2010 financial year:

	2010	
	Minimum payments Rm's	Present value of payments (note 23) Rm's
Within one year	1	1
After one year but not more than five years	13	10
Total minimum lease payments	14	11
Less amounts representing finance charges	(3)	
Present value of minimum lease payments	11	

The outstanding capital balance was settled in full on 25 February 2011.

Operating lease commitments

Refer to note 5 for details of lease commitments.

32. EMPLOYEE BENEFITS

The Group participates in the Alexander Forbes Retirement Fund. This is an umbrella fund arrangement created for the provision of retirement benefits. The fund is a defined-contribution plan and is governed by the Pension Fund Act, 1956 (Act No 24 of 1956).

The financial position of the Alexander Forbes Retirement Fund (Provident Section): Italtile Limited is currently reviewed on a monthly basis. As at 30 June 2011, the fund was found to be in a sound financial position.

At 30 June 2011, 870 (2010: 881) employees of the Group and Franchises were members of the Fund, to which the Group contributed R14 million (2010: R14 million) and the employees Rnil (2010: Rnil).

The Fund is open to all permanent staff with their participation thereof being a condition of employment. Their dependants are eligible for death benefits accruing from the Fund in the event of the member's death. All permanent full-time employees of franchise stores are required to participate in the Fund.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Group

The Group's principal financial liabilities, other than derivatives, comprise bank loans and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets, such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risk arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below. The Group's primary objective of risk management is to reduce the uncertainty over future cash flows.

Company

The Company's principal financial liabilities, comprise loans given to subsidiary companies and the BEE Trust. The Company's financial assets comprise cash and short-term deposits, which arise directly from its investments.

The main risk arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

The Company's primary objective of risk management is to reduce the uncertainty over future cash flows.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk

The Company's and Group's exposure to the risk of changes in market interest rates relates primarily to the finance revenue generating ability of cash surpluses, servicing of Group long-term loans due to floating interest rates and preference shares held by the Company. To manage this risk, management constantly review cash placements and contract in financial expertise to ensure preferential interest rates are obtained for surplus funding.

As part of the process of managing the Group's interest rate risk, interest rate characteristics of new borrowings are positioned according to expected movements in interest rates.

The Australian dollar denominated loans (refer to note 23) attract a fixed rate of interest whereas the Rand denominated loan bears interest at a floating rate. The following table demonstrates the Group's sensitivity to a change in interest rates with all other variables held constant, of the Group's profit before tax (through the impact of floating rate borrowings):

Group	**2011 Rm's**	2010 Rm's
+1%	**4**	3
–1%	**(4)**	(3)

The Company is not sensitive to fluctuations in interest rates.

Full details of interest rates relating to borrowings are detailed in note 23.

Foreign currency risk

As the Group operates in various countries and undertakes transactions denominated in foreign currencies, exposures to foreign currency fluctuations arise.

Approximately 16% (2010: 25%) of cost of sales are denominated in the currencies other than the Group's functional currency. The Group requires all of its operating units to use forward currency contracts to eliminate the currency exposures on any individual transaction for which payment is anticipated on terms after the Group has entered into a firm commitment for a purchase, for which no letter of credit has been issued. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy not to apply hedge accounting, or to trade in derivatives.

Forward exchange contracts outstanding at the reporting date all fall due within 3 months (2010: 4 months), have a settlement value of R12 million (2010: R5 million) and are denominated in Euros and US Dollars with average exchange rates of R9,96: €1 and R6,83: US$1 (2010: R9,71: €1).

Exchange rates utilised to convert financial information are as follows:

	2011		2010	
	Weighted average rate for the year	**Closing rate**	Weighted average rate for the year	Closing rate
ZAR: Australian $	**6,90:1**	**7,24:1**	6,71:1	6,56:1
ZAR: Botswana Pula	**1,03:1**	**1,04:1**	1,14:1	1,10:1
ZAR: Euro	**9,53:1**	**9,82:1**	10,60:1	9,34:1
ZAR: Kenyan Shilling	**0,08:1**	**0,07:1**	0,10:1	0,10:1
ZAR: US$	**6,99:1**	**6,83:1**	7,62:1	7,65:1

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

The exposure and concentration of the Group's foreign currency risk is included in the table below.

	South African Rand Rm's	Australian Dollar Rm's	Euro Rm's	US Dollar Rm's	Other* Rm's	Total Rm's
2011						
Financial assets						
Investments	—	—	4	—	—	4
Trade and other receivables	100	2	25	1	7	135
Cash and cash equivalents	712	20	9	60	38	839
Financial liabilities						
Interest-bearing loans and borrowings	(300)	(31)	—	—	—	331
Trade and other payables	(177)	(6)	(26)	—#	(8)	(217)
2010						
Financial assets						
Investments	5	—	4	—	—	9
Trade and other receivables	84	2	18	3	3	110
Cash and cash equivalents	580	22	17	47	45	711
Financial liabilities						
Interest-bearing loans and borrowings	(311)	(31)	—	—	—#	(342)
Trade and other payables	(154)	(11)	(26)	(1)	(10)	(202)

#Less than R1 million.
**Other includes the Botswana Pula, Kenyan Shilling, Namibian Dollar, Zambian Kwacha and the Lesotho Loti.*

The Company has no exposure to foreign currency risk.

No foreign currency sensitivity analysis has been prepared, as at this stage the Group profit's sensitivity to fluctuations in foreign currency exchange rates is not significant. This assessment will be revisited in future.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

Credit risk arises from the risk that a counterparty may default or not meet its obligations timeously.

Group

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, and, where appropriate, credit guarantee insurance is purchased. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 19. There is no significant concentration of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, as disclosed in note 20.

Company

With respect to credit risk arising from the cash and cash equivalents trade and other receivables, BEE loans and preference shares, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments, as disclosed in notes 14.1, 15 and 20. There is no provision for bad debts against this balance and no impairments recorded, other than those disclosed.

Liquidity risk

Group

The Group monitors its risk to a shortage of funds arising by using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

Adequate cash reserves are invested in a dividend income fund in order to match the repayment profile of the secured rand loan.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and finance leases.

In terms of the Articles of Association the Company's borrowing powers are unlimited.

The table below summarises the maturity profile of the Group's financial liabilities at year end based on contractual undiscounted payments.

Year ended 30 June 2011	On demand Rm's	Less than 3 months Rm's	3 to 12 months Rm's	1 to 5 years Rm's	> 5 years Rm's	Total Rm's
Interest-bearing loans and borrowings	—	6	27	325	—	358
Trade and other payables	—	217	—	—	—	217
	—	223	27	325	—	575

Year ended 30 June 2010	On demand Rm's	Less than 3 months Rm's	3 to 12 months Rm's	1 to 5 years Rm's	> 5 years Rm's	Total Rm's
Interest-bearing loans and borrowings	—	6	19	346	—	371
Trade and other payables	—	202	—	—	—	202
	—	208	19	346	—	573

The Group has cash and cash equivalents of R839 million (2010: R711 million), and unutilised credit facilities of R45 million (2010: R45 million) in respect of which all conditions precedent had been met.

Company

The Company monitors its risk to a shortage of funds arising by using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets and projected cash flows from investments.

In terms of the Articles of Association the Company's borrowing powers are unlimited.

The Company has cash and cash equivalents of R1,4 million (2010: R0,1 million), and no credit facilities. All liabilities are current.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

Group

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure (equity attributable to the equity holders) and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the year ended 30 June 2011 and 2010.

The Group's business model is such that the operations ensure a consistent cash flow. This source is used to find expansion and business growth. In addition, R300 million financing raised by the Group in 2008, which was due for settlement on 9 July 2011 has been rolled over with terms as disclosed in note 23.

The Group monitors capital using a gearing ratio which is defined as interest-bearing debt and borrowings as a percentage of equity attributable to the equity holders of the parent.

	2011 Rm's	2010 Rm's
Interest-bearing debt and borrowings	**331**	342
Equity attributable to the equity holders of the parent	**1 637**	1 422
Gearing ratio (%)	**20**	24

In addition, consideration is given to black economic empowerment, or BEE. The Group finalised a BEE transaction to sell 10,7% of the Group's ordinary share capital to a BEE consortium which includes Italtile's black staff. All conditions precedent were met on 22 February 2008 and 88 000 000 ordinary shares were issued. The BEE transaction fulfils an important component of Italtile's BEE strategy which was initiated with enterprise development and the introduction of black-owned franchisees, following which the Group met all its employment equity targets. With the achievement of these key elements of broad-based BEE, the Group is now well positioned to access segments of the market from which it was previously precluded.

Refer to note 6 for disclosure relating to the restructuring of the BEE transaction.

Company

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure (equity attributable to the equity holders) and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the year ended 30 June 2011 and 2010.

The Company monitors capital using liquidity ratio analysis:

	2011 Rm's	2010 Rm's
Current assets (excluding loans to subsidiaries)	**2**	1
Current liabilities (excluding loans from subsidiaries)	**2**	1
Current ratio (times)	**1**	1

In addition, consideration is given to black economic empowerment, or BEE as disclosed above.

34. RELATED-PARTY TRANSACTIONS

Group

The Group is controlled by Rallen (Pty) Limited which owns 53,9% (2010: 53,6%) of its issued share capital. The Group purchases product from Rallen (Pty) Limited's subsidiary, Ceramic Industries Limited. In addition, the Company pays Rallen (Pty) Limited for directors' remuneration.

Other related parties listed are related due to the sharing of key management personnel.

All related-party transactions are concluded at arm's length. Outstanding balances at year end are unsecured, interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related-party receivables or payables. For the year ended 30 June 2011, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2010: Rnil) nor incurred any bad debt expense in the current year (2010: Rnil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Details of related-party transactions are as follows:

		Aggregate value of transactions		Balances owing at year end	
Related party	Nature of transactions	**2011 Rm's**	2010 Rm's	**2011 Rm's**	2010 Rm's
Ceramic Industries Limited	Inventory purchases	**332**	349	**16**	19
Rallen (Pty) Limited	Management fees	**1**	1	**—#**	—#

Key management personnel comprise only the Board of Directors. Remuneration paid to key management personnel of the Group is therefore detailed in the directors' report (refer to page 52). No balances were owing at year end (2010: nil).

#Less than R1 million.

34. **RELATED-PARTY TRANSACTIONS** *(continued)*

Company

The Company owns 100% of the issued share capital of Italtile Ceramics Limited and receives dividends and management fees from its subsidiary.

The Company receives preference share dividends from Four Arrow Investments 256 (Pty) Limited and Arrow Creek Investments 74 (Pty) Limited. These are special purpose entities set up as part of the BEE transaction.

The Company receives interest from the loan to the Italtile Empowerment Trust. This entity was set up by the Company's Board of Directors as part of the BEE transaction. No interest has been received or accrued as no shares have been issued by the Italtile Empowerment Trust as yet.

All related-party transactions are concluded at arm's length. Outstanding balances at year-end are unsecured, interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related-party receivables or payables. For the year ended 30 June 2010, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2010: Rnil) nor incurred any bad debt expense in the current year (2010: Rnil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Details of related-party transactions are as follows:

		Aggregate value of transactions		Balance owing at year end	
		2011	2010	**2011**	2010
Related party	Nature of transactions	**Rm's**	Rm's	**Rm's**	Rm's
Arrow Creek Investments 74 (Pty) Limited	Preference share dividends	**3**	21	**94**	94
Four Arrows Investments 256 (Pty) Limited	Preference share dividends	**4**	27	**124**	124
Italtile Empowerment Trust	Interest	**—**	—	**70**	73
Italtile Ceramics Limited	Dividends and management fees	**5**	549	**450**	562

Key management personnel comprise only the Board of Directors. Remuneration paid to key management personnel of the Company is therefore detailed in the Directors' report (refer to page 52). No balances were owing at year end (2010: nil).

35. **SEGMENT REPORT**

The Group adopted IFRS 8 – *Operating Segments*, for the year ending 30 June 2010. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. The chief operating decision-maker has been identified as the board of directors.

On this basis, the Group has four operating segments:

Segment	**Nature of business**
Retail	– Retailers of tiles, taps, laminate flooring, sanware and accessories.
Franchising	– Bearer of South African and non-South African trademarks.
Properties	– Property investments.
Supply and support services	– Distributor of taps, laminate flooring, accessories, and tiling tools.
	– Group administration and management services.
	– Outsourced debtor solutions.
	– Aircraft charter.
	– Procurement.

All intersegmental transactions are concluded at arms' length.

35. SEGMENT REPORT *(continued)*

The following measures, as included in the quarterly management report reviewed by the chief operating decision-maker, are used to assess performance:

Income measures (Rm's)	Retail	Franchising	Properties	Support and supply services	Inter-group eliminations	Group
2011						
Turnover	**1 190**	**—**	**—**	**684**	**(353)**	**1 521**
Gross margin	**452**	**—**	**—**	**88**	**—**	**540**
Other income*	**15**	**174**	**160**	**108**	**(171)**	**286**
Overheads	**(390)**	**(87)**	**(33)**	**(39)**	**171**	**(378)**
Trading profit	**77**	**87**	**127**	**157**	**—**	**448**
2010						
Turnover	1 111	—	—	549	(306)	1 354
Gross margin	423	—	—	76	—	499
Other income*	11	166	146	94	(157)	260
Overheads	(364)	(84)	(31)	(48)	157	(370)
Trading profit	70	82	115	122	—	389

Other income includes franchise fees, rentals, royalties and rebates received, as well as profit or loss on disposal of property, plant and equipment.

Asset measures (Rm's)	Retail	Franchising	Properties	Support and supply services	Provisions and inter-group eliminations	Group
2011						
Inventory	**164**	**—**	**—**	**127**	**(50)**	**241**
Trade receivables	**6**	**13**	**20**	**93**	**(31)**	**101**
2010						
Inventory	142	—	—	136	(46)	232
Trade receivables	4	13	16	120	(65)	88

Geographical segment information has not been disclosed as adequate information in this regard is not readily available and preparation thereof would entail undue cost and effort.