## 1. ACCOUNTING POLICIES continued

### 1.22 Revenue from contracts with customers

#### Group

Revenue is recognised when the Group satisfies performance obligations and transfers control of goods or services to its customers at an amount that reflects the consideration the Group expects to be entitled to in exchange for these goods or services, allocated to each specific performance obligation. Revenue is measured at the fair value of consideration received or receivable.

#### Turnover

Revenue from the sale of goods, or turnover, comprises sales to customers through its owned stores and the Group's supply arrangements. Goods comprise tiles, bathroomware and related products. All turnover is stated exclusive of value added tax.

Turnover is recognised at a point in time when the Group transfers control of goods to its customer at the point of sale and is measured at the fair value of consideration received or receivable, net of trade discounts. Discounts to customers are deducted from turnover. Payment of the transaction price in respect of sale of goods is due immediately when the customer purchases goods and takes delivery.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

#### Company

#### Dividend income

Dividend income is the main source of income, earned in the ordinary course of business. The Company recognises the dividends received from its investment as revenue.

#### Management fee

The Company charges its wholly owned subsidiary a management fee for services rendered by its Board and other related services. The management fees are recognised at a point in time when the services have been rendered.

### 1.23 Other income

#### Royalty and franchise income

The Group earns royalties and other franchise income from its network of franchised stores. Income from franchisees, calculated as a percentage of the sale of goods by franchisees through their point of sale to their customers, in accordance with the substance of the relevant franchise agreement, is recognised at a point in time as franchisee income when the sale that gives rise to the income takes place.

#### Finance income

Interest income is recognised over time as it accrues in the statement of comprehensive income, using the effective interest rate method, by reference to the principal amounts outstanding and at the interest rate applicable. Dividend income is recognised when the shareholder's right to receive payment is established.

#### Property rental income

Property rental income comprises variable rent payments received by the Group based on a contractual percentage of monthly franchisee turnover.

## 2. DEFINITIONS

### 2.1 Turnover

Turnover represents net sales to customers, excluding value added tax and other revenue and income from franchisees.

### 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, net of rebate income and settlement discounts.

In the manufacturing divisions, cost of sales is inclusive of depreciation and employee costs as these are directly related to the cost of manufacture of inventories.

### 2.3 Cash and cash equivalents

Cash comprises cash on hand and deposits held on call with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.4 Treasury shares

Shares in Italtile Limited held by the entities and trusts controlled by the Group.