

Notes to the company financial statements

for the year ended 30 June 2009

	2009 Rm's	2008 Rm's
1. REVENUE		
<i>Total revenue comprises:</i>		
Dividend income	207	121
	207	121
2. DIVIDEND INCOME		
<i>Unlisted</i>		
Dividend income from subsidiaries	200	121
Dividend income from special purpose entities	7	— [#]
	207	121
3. PROFIT BEFORE TAXATION		
Profit before taxation is stated after taking into account the following items:		
Auditors' remuneration		
– Audit fee	— [#]	— [#]
– Taxation assurance, other services	— [#]	— [#]
– Expenses	— [#]	— [#]
	— [#]	— [#]

[#]Less than R1 million.

4. SHARE-BASED PAYMENTS

Black economic empowerment transaction

The Company issued 61 600 000 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.

4. SHARE-BASED PAYMENTS (continued)

Black economic empowerment transaction (continued)

The economic substance of this transaction is that the BEE partners have received a 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 Company's historic share price volatility, over the last seven years.

The total cost of the transaction was determined as Rnil (2008: R25 million).

In addition 26 400 000 Italtile Limited shares were issued to the BEE trust. This trust will be responsible for making allocations based on the shares it holds, to all staff, but primarily to and for the benefit of black members of management and staff of the Group. These shares were issued at R4,57 per share and funded by way of a loan from the Company (refer to note 7). As at the year-end these shares have not yet been allocated to staff members.

	2009 Rm's	2008 Rm's
5. TAXATION		
Current taxation		
– Normal tax	—	—
– Deferred tax	—	—
– Secondary tax on companies	11	9
	11	9
Reconciliation of tax rate	%	%
Standard tax rate – South Africa	28,0	28,0
Adjusted for:		
Exempt income	(28,0)	(35,7)
Other permanent differences	—	7,7
Secondary tax on companies	7,5	9,5
Effective tax rate	7,5	9,5

Notes to the company financial statements continued

for the year ended 30 June 2009

	2009 Rm's	2008 Rm's
6. AVAILABLE-FOR-SALE INVESTMENTS		
Investment in subsidiaries		
Unlisted ordinary shares at cost	13	13
A list of subsidiaries appears on page 87.		
These unlisted equity instruments represent investments in subsidiaries, therefore these investments are carried at cost less accumulated impairment.		
Preference shares		
Unlisted preference shares. The preference shares have been impaired down to their fair value. The value of the impairment was 121 million in the 2009 financial year.	160	281
	173	294
The fair value of these unlisted shares approximates the carrying amount, as these instruments attract a floating rate of interest.		
7. LOAN TO BEE TRUST		
In order to raise funds necessary to purchase BEE shares (refer to note 4), 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.	69	121
The loan to BEE Trust has been impaired down to its fair value. The value of the impairment was 47 million in the 2009 financial year.		
8. AMOUNTS OWING BY SUBSIDIARIES		
These amounts represent amounts owing by Italtile Ceramics Limited. These amounts are unsecured, carry no interest and there are no fixed terms of repayment. Outstanding balances are settled from time to time based on the cash flow requirements of the various entities.	205	138
Due to the short-term nature of the balance the carrying amount approximates fair value.		
9. CASH AND CASH EQUIVALENTS		
Cash on hand	1	—
	1	—
Cash at banks earns interest at floating rates based on daily bank deposit rates. The fair value approximates the carrying value due to the short-term nature of these balances.		

	2009 Rm's	2008 Rm's
10. STATED CAPITAL		
Authorised		
3 300 000 000 ordinary shares of no par value		
Issued		
909 800 452 (2008: 909 800 452) ordinary shares of no par value	417	417
All unissued shares are under the control of the directors until the next annual general meeting.		

11. 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 seven 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 (2008: 136 470 068), representing 15% 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 grants:

	2009	2008
Expected volatility	18% to 24%	18% to 24%
Risk-free interest rate	8,19% to 8,54%	8,19% to 8,54%
Expected dividend yield	1,90% to 2,07%	1,90% to 2,07%
Expected life (years)	5,5	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 in 2009 of 18% to 24% reflects the assumption that the historical volatilities of 18% to 24% are indicative of future trends.

The fair value of the share options that were granted over the year to 30 June 2009 is Rnil (2008: Rnil). Included in the expenses in the profit and loss for the year is Rnil (2008: R1 million) relating to the current year share option expense.

Notes to the company financial statements continued

for the year ended 30 June 2009

11. SHARE INCENTIVE TRUST *(continued)*

The following table illustrates the number and weighted average exercise prices of share options held by eligible participants including executive directors:

	2009		2008	
	Number of share options	Weighted average exercise price (R)	Number of share options	Weighted average exercise price (R)
At 1 July	8 594 000	1,96	9 284 000	1,98
New allocations made	—	—	—	—
Redeemed allocations	(6 284 000)	1,81	(360 000)	2,36
Forfeited allocations			(330 000)	2,09
Outstanding at 30 June	2 310 000	2,39	8 594 000	1,96
Average subscription price per share		2,39		1,96

The options outstanding at 30 June 2009 become unconditional on the following dates:

	Subscription price (R)	Number of shares
01 November 2010	2,39	2 310 000

Should the participant resign from the Group prior to the commencement dates as indicated above, the shares for options will not be awarded, payment will not be required and the options will be forfeited.

A breakdown of the share options in issue to executive and non-executive directors is given in the directors' report on page 33.

	2009 Rm's	2008 Rm's
12. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS		
Profit before taxation	39	95
Adjusted for:		
Dividends received	(207)	(121)
Management fee received	(2)	(1)
BEE share option expense	—	25
Impairment of available-for-sale financial asset	168	—
Working capital changes		
Decrease in other receivables	1	1
Decrease in other payables	(1)	—
Cash utilised by operations	(2)	(1)
13. TAXATION PAID		
Amounts prepaid at beginning of year	—	—
Charged per income statement	(11)	(9)
Deferred tax expense	—	—
Amounts prepaid at end of year	(1)	—
Amounts paid	(12)	(9)
14. DIVIDENDS PAID		
Charged per statement of changes in equity	(127)	(87)
Amounts paid	(127)	(87)

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

It is, and has been throughout 2009 and 2008, the Company's policy that no trading in derivatives shall be undertaken. 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.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the finance revenue generating ability of its cash surplus, due to floating interest rates. To manage this risk, management constantly review cash placements and contract in financial expertise to ensure preferential interest rates are obtained for surplus funding.

Credit risk

With respect to credit risk arising from the cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. At year-end this exposure was R1 million (2008: Rnil). There is no provision for bad debts against this balance and no impairments recorded.

Notes to the company financial statements continued

for the year ended 30 June 2009

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

Liquidity risk

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 million (2008: Rnil), and no credit facilities. All liabilities are current.

Capital management

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 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 2009 and 2008.

The Company monitors capital using liquidity ratio analysis.

In addition, consideration is given to black economic empowerment, or BEE. The Group finalised a BEE transaction to sell 10,7% of the Company'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.

16. RELATED-PARTY TRANSACTIONS

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 BEE 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 yet, as no shares have been issued by the BEE 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 2009, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2008: Rnil) nor incurred any bad debt expense in the current year (2008: 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:

Related party	Nature of transactions	Aggregate value of transactions		Balance owing at year-end	
		2009 Rm's	2008 Rm's	2009 Rm's	2008 Rm's
Arrow Creek Investments 74 (Pty) Limited	Preference share dividends	3	—	68	120
Four Arrows Investments 256 (Pty) Limited	Preference share dividends	4	—	92	161
BEE Trust	Interest	—	—	69	121
Italtile Ceramics Limited	Dividends and management fees	202	122	205	133