BASTION GRAPHICS

ITALTILE Limited

The style. The passion.

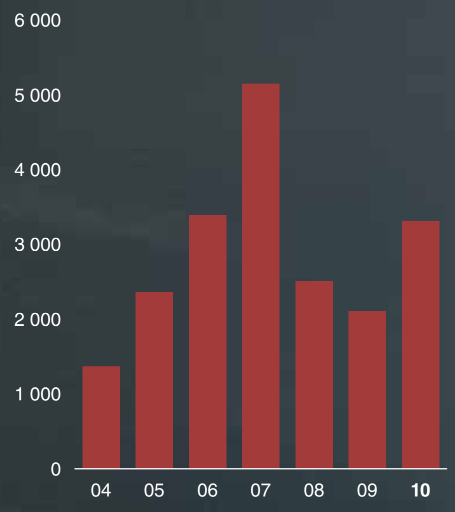
Italtile Limited Annual Report 2010

The style. The passion.

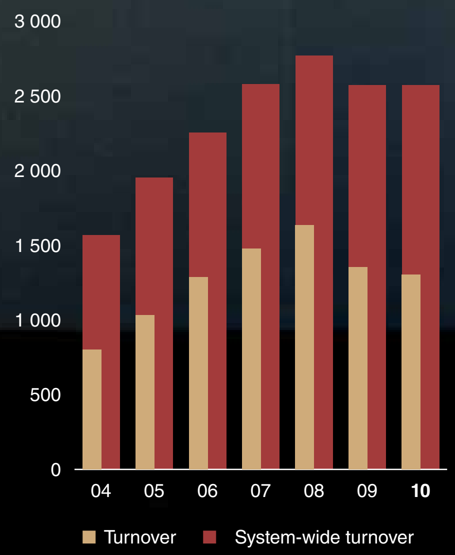
Annual report 2010

ITALTILE Limited

Market capitalisation (Rm's)



Turnover and system-wide turnover (Rm's)



Financial highlights

	% change from 2009	**2010**	2009
GROUP AND FRANCHISE RESULTS			
Turnover (Rm's)			
– by Group-owned stores	4	**1 354**	1 303
– by franchised-owned stores (unaudited)	10	**1 396**	1 268
System-wide turnover (Rm's)	7	**2 750**	2 571
Number of stores	3	**104**	101
GROUP RESULTS			
Turnover (Rm's)	4	**1 354**	1 303
Normalised trading profit (Rm's)	8	**389**	361
Total assets (Rm's)	7	**2 061**	1 933
Cash and cash equivalents (Rm's)	7	**711**	667
Number of shares in issue (000's)	14	**1 033 332**	909 800
Adjusted headline earnings per share (cents)*	6	**29,8**	28,1
Ordinary dividends declared per share (cents)	—	**11**	11
Adjusted net asset value per share (cents)*	10	**161**	146
Number of employees	14	**570**	564

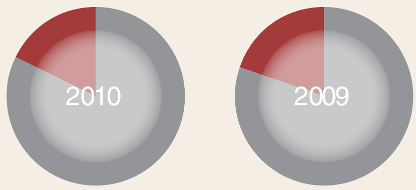
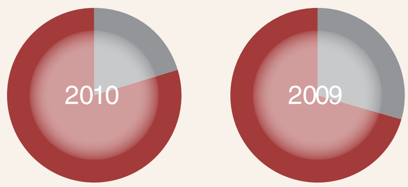
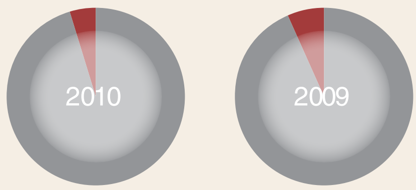
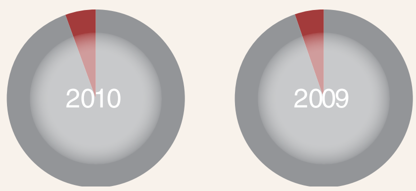
**Adjusted headline earnings and net asset value per share figures have been presented for comparative purposes (assuming the current year share issue in lieu of dividend took place at the beginning of the 2009 financial year).*

8% increase in trading profit

Group at a glance

GROUPING	REGION	COMPANY
SUPPORT SERVICES	South Africa	International Tap Distributors (Pty) Limited
		Earlyworks 191 (Pty) Limited
		Cladding Finance (Pty) Limited
		Majuba Aviation (Pty) Limited
		Cedar Point Trading 326 (Pty) Limited
	Italy	Ser Export s.p.a.
RETAIL	South Africa	Italtile Ceramics Limited
		Italtile Retail (Pty) Limited
		TopT Ceramics (Pty) Limited
		Ceramic Tile Projects (Pty) Limited
	Australia	Italtile Australia (Pty) Limited
	Africa	CTM Kenya Limited
		Orban Investments 375 (Pty) Limited
FRANCHISE	South Africa	Italtile Franchising (Pty) Limited
	Mauritius	Italtile Mauritius Limited
PROPERTY INVESTMENT	South Africa	F.B. Ashman (Pty) Limited (Italtile Property Holdings)
		Allmuss Properties (Pty) Limited (CTM Property Holdings)
		Emerald Sky Trading 736 (Pty) Limited (TopT Property Holdings)
		Magnolia Ridge Properties 291 (Pty) Limited
		Penates Logistics (Pty) Limited
	Africa	Allmuss (Botswana) (Pty) Limited
		Allmuss Properties Namibia (Pty) Limited
		Allmuss Lesotho (Pty) Limited
		Allmuss Properties Kenya Limited
		Allmuss Properties (Uganda) Limited
		Allmuss Properties Zambia Limited

Passion for our brands

NATURE OF BUSINESS	CONTRIBUTION TO GROUP REVENUE
Distributor of taps and accessories Distributor of tiling tools and accessories Outsourced debtors solutions Aircraft charter company Distributor of tiling tools, laminated boards, cabinets and accessories Procurement specialist	 17,6% 19,9%
Retailers of tiles, taps, sanware and accessories Retailers of tiles, taps, sanware and accessories Retailers of tiles, taps, sanware, hardware and accessories Suppliers of tiles, taps, sanware and accessories to contracts market Retailers of tiles, taps, sanware and accessories Retailers of tiles, taps, sanware and accessories Retailers of tiles, taps, sanware and accessories	 72,5% 70,5%
Bearer of South African trademarks Bearer of non-South African trademarks	 4,6% 4,4%
Property investments Property investments Property investments Property investments Property investments Property investments Property investments Property investments Property investments Property investments Property investments	 5,3% 5,2%

Chairman's statement

The Group's improved results are attributable to our focus on three priority areas: people, the supply chain and customer service.

Our challenge is to provide a shopping experience that is aesthetically pleasing, managed by knowledgeable sales consultants and offers a matchless value proposition.

Overview

This past year has been very tough, with a number of industry participants fighting for survival. Consumer disposable income remained constrained, and facing reduced demand, retailers were forced to engage in price cutting and de-stocking practices. In this context several players closed their businesses.

The aggressively competitive market provided homeowners with a wide range of offerings to choose from and in line with growing trends, buyers conducted extensive research before making their purchases. The Group's comprehensive offering comprising superior value, style and service stood it in good stead in this environment.

Results

Despite the testing trading conditions, Italtile improved its performance on the previous year. In 2009 when the market deteriorated dramatically, the Group turned its focus inwards on its systems and service. The efficiencies introduced in the stores and the supply chain are reflected in these results.

The latter half of the year showed a small improvement on the first six months, as efficiencies started to filter through, assisting in firming margins. System-wide turnover improved 7% from R2,57 billion to R2,75 billion. Operating profit grew 8% from R361 million to R389 million. Cash and cash equivalents increased from R667 million to R711 million.

Operations

Having celebrated our 40th anniversary last year, the Group's long-standing legacy provided comfort for customers seeking reputable, trustworthy suppliers in the uncertain economic climate.

Notwithstanding the competitive environment, the Group succeeded in gaining market share in the entry level and middle to upper-middle income market segments.

This improvement is attributable to our focus on the following three priority areas:

- People
- Supply chain
- Customer service

People

Our people ethos centres on nurturing entrepreneurship. We are continually striving to build a team of people who make a difference.

In order for us to grow our business and continue to meet the demands of our customers, we need to focus on developing and mentoring this resource. Service expectations continue to rise and the challenge for our staff and store operators is to deliver an unparalleled shopping experience that meets these exacting standards.

In this regard, our Tiling and Plumbing Academy which was launched in November 2009 has raised the benchmark in product knowledge training. I am pleased to report that over 180 candidates have graduated since the Academy's inception, thereby furthering our commitment to continually improving customer service.

An extensive range of management programmes is now also in place to improve the calibre of store operators and develop the depth of leadership talent in the Group.

Supply chain

Significant emphasis was placed on extracting further efficiencies out of the supply chain.

Ceramic Industries

Our long-standing relationship with Ceramic Industries continued to serve us well. Their competitively priced, high quality fashionable range ensured we were able to maintain our leadership in key market segments.

Following a three month period of industrial action at Ceramic Industries, supply returned to normal in February 2010. During the reporting period considerable improvements were made to the sanitaryware ranges, which will position the CTM stores to gain greater market share in the sector.

Cedar Point

Cedar Point's ELF laminate board offering made substantial inroads during the period. As awareness of the product grows, the potential to expand this business increases. I have no doubt that brand building promotions scheduled throughout the year will boost the contribution this division makes to our Group.

The Group's partners in this business delivered a commendable performance. Under their strong management, Cedar Point continued to show improvements and succeeded in growing market share. Their intensified focus on better buying secured competitive prices and an attractive new range, while prudent inventory management reduced slow-moving stock. The business also benefited from improved logistics and greater attentiveness to customer service.

International Tap Distributors (ITD)

Whilst ITD's results improved and market share was gained, this performance is not indicative of the true potential of this business. During the review period, further efficiencies were achieved in the robotic warehouse and innovations in packaging and merchandising assisted in growing sales. However, further work requires to be done in this division, including improving the quality and volume of stock and intensifying inventory management.

Customer service

Central to the customer's perception of service is the shopping experience. With a vast range of offerings available in the market, increasingly discerning customers are seeking a comprehensive offering that combines value, style, convenience and excellent service. In this regard our challenge is to provide a shopping experience that is aesthetically pleasing, managed by knowledgeable sales consultants and offering an overall matchless value proposition.

Our in-house brand building campaigns, namely Kilimanjaro, Studio Ceramico, ELF and Tivoli, have gone a long way to establishing our stores as destinations. Our efforts to stock a comprehensive range of tiles, bathware, laminate flooring and tools holds appeal for consumers who seek a 'Home-Centre' shopping experience that affords access to all their requirements to improve their homes. Increasingly our CTM stores are viewed as one-stop solutions with a range of reputable brands under one roof, eliminating the need for homeowners to shop around and consult a range of individual suppliers.

Italtile

This brand gained new ground in the projects sector and the upper end of the middle income market, however the absence of growth in the premium end segment negatively impacted sales and margins. Italtile's growth opportunities will be advanced by upgrading the in-store experience and extending inroads made in new market segments.

CTM

As mentioned, the market remained very aggressive over the review period, with a number of smaller competitors closing their businesses. In this volatile environment, CTM entrenched its leadership and gained market share, but we are cognisant that further work needs to be done to sustain this position.

The Group recognises the imperative to balance returns for shareholders with the long-term needs of the business, our employees, the broader society and the environment.

Vigorous attention will be paid to the imported product segment where opportunities to grow market share exist.

TopT

The Group's fledgling strategic offering, positioned to cater for the entry level consumer in previously underserviced areas opened its 11th store in June 2010. TopT's reputation for tiles, taps, toilets and tubs at factory prices sums up this no-frills value offering. During the year management focused on range development. I am comfortable that this brand offers significant growth potential over the long term, but until we are completely satisfied with the business model, expansion will, by design, be very cautious.

Foreign interests

CTM Australia managed to grow in a difficult market, and I am confident that this good performance will continue. The optimal trading model is now in place to suit the Australian market, and approval by consumers is evident in this operation's revenue growth. The Group's strategy is to expand the existing nine-store network to 15 stores by the end of June 2013. I anticipate this process to be very challenging given the difficulty in securing suitable properties in that market.

Environmental sustainability

The Group recognises the imperative to balance returns for shareholders with the long-term needs of the business, our employees, the broader society and the environment.

Whilst Italtile has traditionally subscribed to environmentally sustainable policies and procedures, greater resources have now been committed to measuring our impact on the environment and reducing the Group's carbon footprint, that of its products, and its suppliers.

We have recently appointed an environmental officer who will work in conjunction with the property portfolio division to drive our green programme. In addition, the Group has established relationships with international specialist suppliers whose eco-friendly products are widely accredited by European and American experts.

Whilst most of our existing properties maximise natural light usage, our new buildings will be further improved to employ solar energy and minimise water consumption.

Although we are still in the early stages of this programme, these initiatives will improve the quality of the business over the long term by reducing overheads and improving efficiencies while contributing in a sensitive manner to the sustainability of the environment.

Black Economic Empowerment (BEE)

The Group's BEE transaction which came into effect on 11 February 2008 will be restructured to more accurately reflect the current economic climate. This process is underway and shareholders will be advised of progress in due course. One of the Group's BEE partners, AKA Capital, also holds a position in the BEE structure of Ceramic Industries Limited. In order for

AKA to retain its independence, and in light of the fact that Italtile is currently revising its BEE structure, it was mutually agreed by all parties that AKA would resign its partnership from Italtile and henceforth focus on its holding in Ceramic Industries Limited.

Ordinary dividend

The Group has maintained its dividend cover of three times.

A final dividend of 5 cents per share (2009: 5 cents) has been declared. This together, with the interim ordinary dividend of 6 cents (2009: 6 cents) produces a total ordinary dividend declared for the year of 11 cents (2009: 11 cents).

Special cash dividend

Italtile has a robust statement of financial position and a strong cash generative capacity. Given the Group's cash holding in excess of operational requirements, in the reviewed interim results announcement published on 18 February 2010, the Board declared a special dividend of 60 cents per ordinary share which could be taken up in cash or in shares.

Prospects

Market conditions will remain difficult in the year ahead, with no significant improvement anticipated in the economy.

Our challenge will be to continue improving efficiencies and innovating in our efforts to gain market share and entrench our industry leadership status.

I remain confident in Italtile's ability to continue delivering value in the long term.

Directorate

Mr Gary Morolo, executive director of AKA Capital, formerly one of the Group's BEE partners, resigned from his position as non-executive director of Italtile with effect from 12 May 2010. The Board thanks him for his valued contribution.

During the review period non-executive directors, Mr Derek Rabin and Mr Giuseppe Zannoni, retired. The Board expresses its sincere appreciation to them for their long-standing commitment and guidance to the Group during their tenure and looks forward to continued relationships with them.

Ms Alessia Zannoni was appointed as a non-executive director. The Board welcomes Ms Zannoni and looks forward to her future contribution.

Appreciation

Challenging times call for commitment and perseverance. I am proud to acknowledge the excellent effort made by all of our people, the team at Peter Place, our franchisees, joint venture partners and long-serving suppliers, all of whom lived up to the high expectations demanded of them.

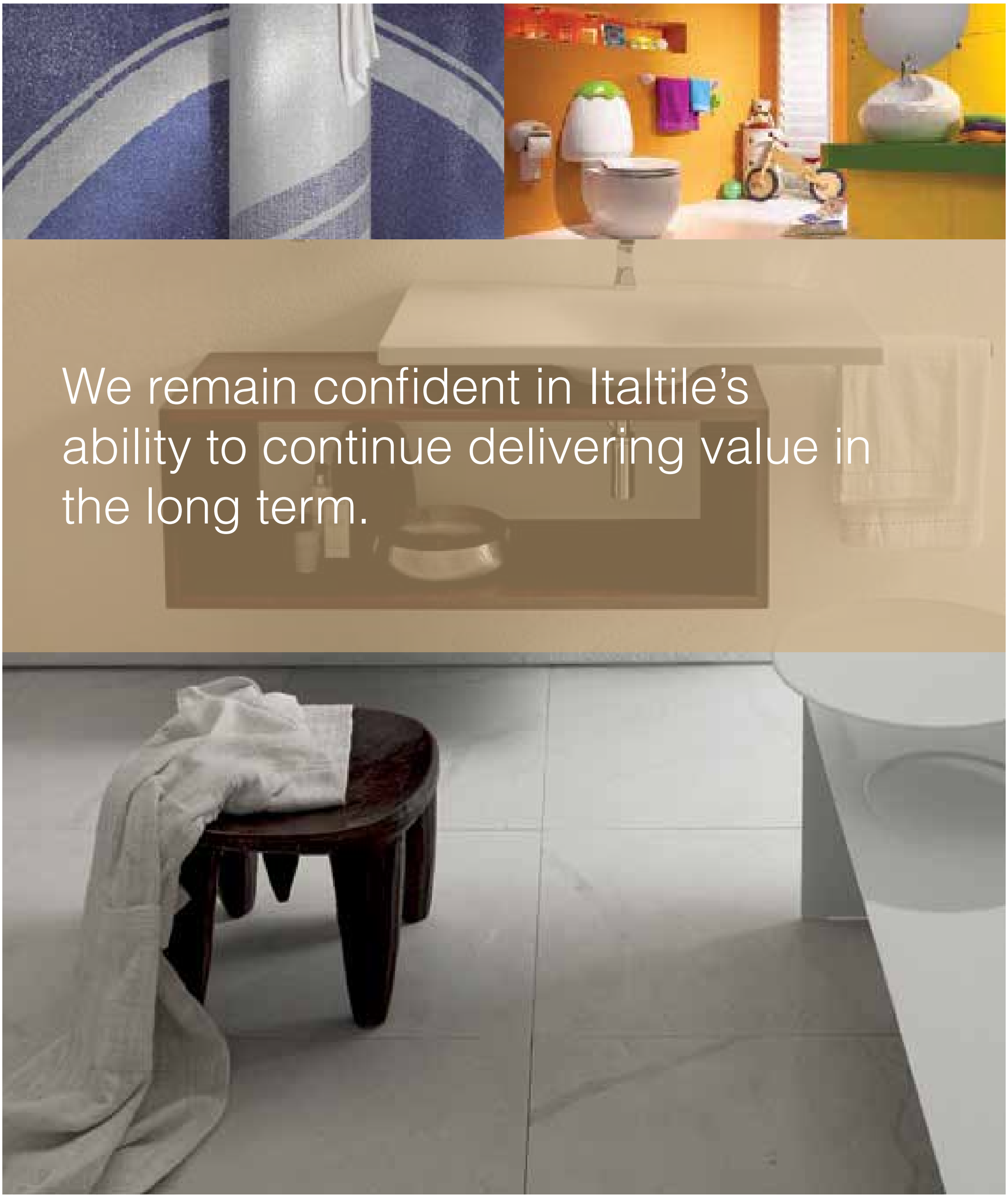
Thank you too to our loyal customers who have continued to select us as their preferred brands. We strive to offer an unrivalled shopping experience and our efforts to improve on this are designed to earn your continued support.

G A M Ravazotti

Chairman

Johannesburg

17 September 2010



We remain confident in Italtile's ability to continue delivering value in the long term.

Operational review

The fundamentals underpinning the group's strategy to own its customers are an unwavering focus on customer service, an unrivalled in-store shopping experience, and dynamism in enhancing in-house efficiencies.

Key to the Group's growth is its resilient business model which is based on a robust franchise network, reputable brands and a diverse customer base.

Overview

The year under review has been a challenging one, featuring continued curtailed discretionary spend and restrained consumer sentiment. Whilst the latter months of the period indicated that the country was emerging from recession, economic recovery has been slow and consumers' response measured.

In this environment, the Group delivered solid results to outperform its sector peers. With no new mainstream stores opened over the period, growth has been organic and hard fought for.

Whilst economic factors out of the Group's control shaped the trading environment, management focused on maximising turnover within its existing footprint by improving the quality of the business. A key strategy has been to simplify the model across the Company, from the management structure to the customer shopping experience, with the primary objective of focusing on what the Group does best: buying and selling.

With discerning customers spoilt for choice in terms of available offerings, Italtile continued to strive to entrench and grow appeal for its comprehensive offering.

The three fundamentals underpinning the Group's strategy to own its customers are: an unwavering focus on customer service, an unrivalled in-store shopping experience, and dynamism in enhancing in-house efficiencies. Accordingly, improvements were aimed at the calibre of staff and store operators, the quality of merchandise and range, and the overall value offering for which the Group is renowned.

In the context of an onerous trading environment, key to the Group's growth is its resilient business model which is based on a robust franchise network, reputable brands and a diverse customer base. This model is structured to take advantage of both the renovation and new build markets as those sectors enter alternate cycles. In the face of the dramatic slowdown in the new build sector, the Group was well positioned to benefit from the small improvement experienced in the renovations market.

Italtile's continued investment in brand building campaigns across the Group's brands ensured top of mind awareness with consumers and served to reinforce the value proposition of ranges such as Studio Ceramico, Tivoli, Kilimanjaro and ELF wooden flooring.

Prudent inventory management and strong cash flow ensured that the business did not suffer the stock shortages experienced by many of its peers. This strategic advantage enabled the Group to retain existing and gain new market share. With the general improvement in the economy, the de-stocking trend has now turned and retailers are once again re-stocking. There is a strong likelihood that a period of intense price wars will follow.

The fragmented nature of the local market continues to mimic the global model. A degree of consolidation has been experienced over the past two years, but it is anticipated that improved economic conditions and the low barriers to entry in the industry will provide opportunity for new entrants.

In line with other adjustments made by the industry during the recession, contractors are once again returning to the market, with restructured property portfolios that will cater to the current market demand for smaller, lower value homes in the R1 million range.

Financial review

System-wide turnover improved 7% to R2,75 billion (2009: R2,57 billion). Since no new mainstream stores were opened and price inflation was restricted to 1%, this growth is attributable to improvements in the quality of the business resulting from efficiencies implemented at store level and in the supply chain. Reported trading profit increased by 8% to R389 million (2009: R361 million), while Group operating margin remained constant. Inventory management at store level and in the supply chain remained a key priority and stock-turn across the brands continued to improve in line with the trend of the past two years. Cash reserves increased from R667 million to R711 million in the review period, and will be used to fund future expansion.

The adjusted net asset value per share increased by 10% to 161 cents (2009: 146 cents).

Divisional review

Retail

Italtile

Trading conditions in this brand's market segment remained extremely challenging over the reporting period and the industry suffered further rationalisation with a range of high profile businesses closing down. While the renovations market started to show modest signs of recovery towards the latter half of the period, new build projects in the previously buoyant affluent end of the market stagnated.

Whilst consolidation of competitors assisted the business in extending its lead in the industry, the brand also succeeded in growing market share as a result of inroads made into the projects sector and the upper end of the middle income market. With dedicated resources targeting selected, quality projects, significant progress has been made by the recently established projects division over the past 18 months. In addition, upper-middle income customers are increasingly drawn to Italtile's offering, and whilst they continue to research their purchases amongst a range of competitor offerings, Italtile's aspirational brand and long-standing legacy serve to positively influence their buying decisions.

Management is cognisant that an improved shopping experience translates to increased sales. In this regard a number of initiatives were implemented to entrench the brand's reputation for its unrivalled offering of a high quality fashionable range and unparalleled service in an aesthetically pleasing environment. The results of this process are evident in the Pretoria and Nelspruit bath shops where clients' approval of the improved offering is reflected in the increased sales in bath shop products in those stores. Across the brand's seven stores the product range was enhanced and broadened, specifically aimed at offering the consumer a unique one-stop solution.

The move to ecologically friendly products gained momentum over the reporting period. With industry professionals already entrenched in this mindset the trend is expected to gain ground among homeowners in the near future.

In this regard Italtile has built relationships with a range of international specialist suppliers who are highly regarded and accredited by European and American experts – widely

Turnover was maximised within the Group's existing footprint by improving the quality of the business.

recognised as pioneers in this field. These relationships will benefit the brand in terms of its first-to-market strategy in South Africa.

The trading environment is expected to remain difficult for the foreseeable future. However, unlike its peers which are predominantly independent operators, Italtile is uniquely positioned to offer a national solution to consumers via its seven-store network. This network will be expanded cautiously with the relocation of a new, larger Cape Town store in 2010 and an additional two stores, in Boksburg and Windhoek, planned for 2011.

Further growth potential is expected to be derived from the commercial projects market and attention will be paid to expanding the upper end of the middle market as the renovations trend takes hold. Management will continue to focus on efficiencies and innovations aimed at offering unmatched service and value.

CTM

Retail trends demonstrate that faced with reduced discretionary spend, consumers gravitate to well known, respected brands that offer value.

CTM's reputable, high profile brand and well-publicised value proposition was perfectly positioned to capitalise on that trend.

Despite extremely competitive trading conditions, the brand succeeded in growing market share, whilst holding margins steady.

Average selling prices in the tile segment particularly improved, largely as a result of fewer people seeking exceptionally cheap tiles.

The onerous economic environment continued to restrict growth in the new build sector, evidenced by significantly fewer building plans passed. With fewer new bond applications granted, modest wage inflation, and in the order of one million jobs lost over the period, consumers sought the security of remaining in their existing properties and undertaking renovations. CTM's appeal for small builders and the DIY market benefited strongly from this.

Robust growth continued to be experienced in the entry level and rural markets, with steady growth achieved in the middle income segments. The inland regions outpaced the coastal areas. This phenomenon is largely due to the slump of property prices in the coastal regions in recent years.

CTM's in-house brand building campaign which has been gaining momentum over the past couple of years peaked at the right moment. This brand-orientated strategy has served as a fantastic vehicle to communicate style and value and has afforded the Group strategic advantage over its competitors.

Whilst consumers remain value- and brand-driven, increasingly educated customers with extensive offerings to select from have raised their service expectations and shopping experience aspirations. As a result, CTM invested in improving the quality of its store operators and staff with enhanced training initiatives.

After a lengthy period featuring limited imported product in the market, largely due to currency volatility and shipping constraints, levels of imports have increased significantly and will continue to do so. In response to the strong demand for this product, CTM is planning to enlarge its offering in this category and has already made good progress in sourcing and buying a stock of high quality well priced merchandise.

It is management's expectation that this imported product segment of the market will become the site of future price wars.

TopT

The Group's embryonic TopT brand remains the subject of ongoing development. This convenience-centred offering targets the entry level consumer, and stores are located in under-serviced rural areas and smaller outlying markets. Over the past year a further three stores were opened, bringing the total network to eleven. The brand did not make a contribution to Group profits and whilst management is confident of the long term potential to extend this network to a national footprint, expansion will be very conservative until the business model has been optimised.

Support services

International Tap Distributors (ITD)

This business plays a pivotal role in the Group's vertically integrated supply chain model, supplying distinctive product to each of the Group's brands. Notwithstanding the difficult trading conditions, ITD delivered a sound performance. Key to this result was intensive inventory control, range management and efficiency improvements in the robotic warehouse.

In addition, ITD succeeded in gaining market share during the review period as a result of rationalisation of competitors and a general shortage of stock in the market due to constrained supplier liquidity. Despite sales volumes increasing by 300%, revenue growth was restricted to 7% due to the impact of lower average selling prices achieved as a result of value-sensitive consumers buying down.

ITD's style-conscious range profited from the growing consumer trend to regard taps and accessories as fashionable, not simply functional. In addition, improved merchandising and packaging assisted in facilitating the shopping experience and driving sales.

The division also benefited from the Group's in-house brand building campaigns enabling the Zuchetti, Tivoli and Amalfi ranges to start gaining measurable brand equity.

Taps are an almost indispensable commodity, and as increasing numbers of the population gain access to water, the potential for this business to expand is significant. In order to ensure that ITD remains the supplier of choice, the business will focus on ongoing training initiatives, building brand awareness and enhancing product ranges and other innovations.

Cedar Point

Under a new partnership agreement, the former ELF laminate and Earlyworks businesses were re-branded as Cedar Point in the review period. This division sources product internationally and distributes the laminated boards, cabinets, tools and décor through the CTM stores.

Cedar Point's improved results are attributable to a range of factors including enhanced logistics, better buying and greater attentiveness to customer service.

We will continue to focus on efficiencies and innovations aimed at offering unmatched service and value.

From an operational perspective Cedar Point succeeded in optimising efficiencies in the warehouse where stock picking accuracy improved significantly and transit damages were reduced to nominal levels. Inventory management remained a priority.

From a trading perspective, management was able to secure competitive prices from suppliers and hone and stabilise the range to optimal levels. In-store training and the establishment of a regional agent network ensured that customer service levels improved dramatically.

Increasingly, laminate flooring is becoming entrenched in the country as a fashionable floor covering. Growth in ELF board sales was substantial, largely as a result of inroads made into previously under-serviced rural and smaller outlying markets. This emerging market sector has the potential to deliver further material growth. Competitively priced, improved quality product ensured that sales in the middle income DIY market remained consistent.

Cedar Point's focus will remain on strengthening supplier relations and enhancing efficiencies and service. Ongoing evaluation and market research will be pivotal in ensuring the stylishness and relevance of products. Growth opportunities for the business will be leveraged off CTM's brand building campaigns and promotions which are scheduled throughout the year.

Property investment

The property portfolio delivered another commendable performance. Returns were in line with the Group's trading operations and cash reserves of R50 million are strong, affording opportunistic investment in a volatile sector. Constant review of the portfolio ensures that the quality of investments remains sound, delivering the required rate of return, with no inherent risk despite the current economic environment.

The estimated market value of the portfolio is R1,3 billion (2009: R1,1 billion). R48,9 million will be invested in completing projects which are currently underway, and a further R91 million has been budgeted for further projects to be commissioned over the forthcoming 18 months.

The strategic advantage of supporting the Group's brands with high profile destination sites ensures that the potential to grow this portfolio is continuously explored, and while property prices generally remain high, the economic downturn has created areas of opportunity.

During the review period building inflation was restrained as contractors priced more keenly in the competitive environment. With construction costs favouring the development of new sites, properties are currently being developed in Cape Town, Mossel Bay, Newcastle, Secunda and Gabarone.

Operational review continued

Italtile has traditionally subscribed to environmentally friendly policies and practices, and will henceforth commit additional resources to facilitating the programme to reduce its carbon footprint and optimise water and energy usage. The Group's existing buildings are designed to maximise natural light, aimed at reducing consumption and displaying the product to its best advantage. New buildings will be further improved to restrict energy sourced from Eskom, with the balance of requirements supplied by solar technology. In addition, optimal water usage will be promoted through indigenous and water-wise gardens, water purifications systems and other initiatives.

Human resources and training

Management's view is that in order to grow the business, the Company needs to grow its people. This division's objective is twofold: to be recognised as an employer of choice, and to ensure that staff are empowered to meet the Group's demanding ambition to deliver an unparalleled shopping experience. In order to achieve these goals, staff motivation and wellness are priorities. In this regard, substantial resources are committed to training and development. Over the past year R4 million was expended on staff training and communications.

A growing trend among consumers is the demand for greater value from sales staff; increasingly there is the requirement from customers for advanced technical and product knowledge. Launched late in 2009, Italtile's R6 million Tiling and Plumbing Academy has made a significant improvement to staff training. Underpinning the Group's ambition to deliver optimal customer service, courses are geared to provide practical tiling and plumbing experience for learners, improving their overall product knowledge. Since inception, over 180 candidates have been trained at the Academy.

During the review period, Group-wide training interventions exceeded targets and grew in comparison to the prior year. Courses completed by trainees increased from 749 in 2009 to 1 037 in 2010.

The Group has once again exceeded the targets set in the Employment Equity Plan and will continue to strive to achieve these benchmarks.

During the reporting period a dedicated Executive was appointed to manage the Human Resources (HR) and Training division. Key priorities of this function will be to ensure that HR and Payroll functions are optimally structured and that training courses are constantly evaluated for relevance and efficacy, and are evolved to provide the cornerstone for future development of the Group's most valuable resource – its people.

Future priorities

The in-house brand building campaigns have served the Group well and will continue to be developed and extended to new ranges.

Enhancing the shopping experience will remain a priority with the focus on improving customer service and leveraging in-store efficiencies.

Retail requires a high level of passion and energy and we will continue to strive for that by developing and motivating our people through training and mentorship.

Management's view is that in order to grow the business, the company needs to grow its people.

Prospects

A degree of uncertainty exists in terms of predicting the post-World Cup economy, but the strong likelihood is that recessionary trading conditions will remain a challenge in the year ahead.

Competition will almost certainly intensify and greater innovation will be required to continue growing the Group's market share. Areas of opportunity include the bathware and imported product market segments.

The Group's extensive footprint of 104 stores ensures widespread representation of our brands; consequently our policy regarding further new store openings will be conservative. Notwithstanding this stance, we remain optimistic about the long-term potential in southern Africa to grow per capita tile and sanitaryware consumption.

Appreciation

Tribute must be paid to all the people who made these commendable results possible in the current environment. Your commitment and dedication to achieving the Group's vision is remarkable. We value your membership of the Italtile team and thank you for your superb efforts.

Group review

for the year ended 30 June 2010

(All amounts in Rm's)	Seven-year compound growth %	**2010**	2009	2008	2007	2006	2005	2004	2003*
OPERATIONS									
Turnover	9	**1 354**	1 303	1 635	1 477	1 285	1 032	800	749
Normalised trading profit#	13	**389**	361	424	393	338	274	214	166
Profit before taxation	13	**404**	369	405	408	352	285	222	174
Profit attributable to equity holders of the parent	13	**273**	257	275	270	233	191	151	118
Headline earnings	12	**274**	258	275	270	237	190	151	122
Ordinary dividends paid	23	**88**	107	84	95	114	60	26	21
FINANCIAL POSITION									
Non-current assets		**991**	939	890	772	550	446	330	265
Current assets		**1 075**	994	680	573	567	520	425	327
Equity attributable to equity holders of the parent		**1 422**	1 306	1 158	944	764	634	500	389
Non-current liabilities		**344**	343	101	12	11	12	9	10
Current liabilities		**239**	244	286	357	312	291	232	182
CASH FLOW									
Cash flows from operating activities		**(283)**	228	107	168	167	205	155	126
Cash flows utilised in investing activities		**(72)**	(71)	(138)	(249)	(121)	(137)	(88)	(67)
Cash flows from/(utilised by) financing activities		**399**	229	54	(4)	(4)	10	(2)	7
Cash and cash equivalents at end of year		**711**	667	281	258	343	301	223	158

** Historical ratios relating to financial years prior to and including 2003 were not restated to reflect subsequent changes in accounting policies.*

#Trading profit excluding BEE share option expense of R25 million in 2008.

(All amounts in Rm's)	Seven-year compound growth %	2010	2009	2008	2007	2006	2005	2004	2003*
FINANCIAL RATIOS									
Returns									
Normalised trading profit to turnover (%)	4	**28,7**	27,7	25,9	26,6	26,3	26,5	26,7	22,1
Return on shareholders' interest (%)(1)		**20,0**	20,9	26,2	31,6	33,3	33,7	34,0	33,0
Average consumer price index (%)†		**4,2**	6,9	12,2	7,0	4,9	2,6	4,8	9,6
Earnings per share (cents)	12	**33,0**	32,3	34,6	33,9	29,3	24,4	19,4	15,2
Headline earnings per share (cents)	11	**33,1**	32,4	34,4	33,9	29,8	24,3	19,5	15,7
Ordinary dividends declared per share (cents)	20	**11,0**	11,0	12,0	11,4	9,8	6,1	3,6	3,0
Special dividend per share (cents)		**60,0**					7,5	3,2	
Productivity									
Turnover per employee (R000's)	2	**2 375**	2 310	2 809	2 499	2 596	2 572	2 122	2 171
Total assets per employee (R000's)	9	**3 625**	3 427	2 698	2 276	2 257	2 394	2 003	1 718
Normalised trading profit per employee (R000's)	3	**682**	640	729	665	683	681	566	479
Turnover growth (%)		**3,9**	(20,3)	10,7	14,9	24,5	29,6	6,8	20,9
Number of employees		**570**	564	582	591	495	403	377	345
Number of stores		**104**	101	98	93	98	101	97	94
– Owned and joint ventures		**47**	43	44	44	42	42	36	33
– Franchised		**57**	58	54	49	56	59	61	61
Solvency and liquidity									
Interest cover (times)(2)		**14,4**	9,0	28,5	196,5	112,7	219,8	144,2	96,1
Dividend cover (times)(3)		**3,0**	3,1	2,9	3,0	3,1	4,0	5,4	5,3
Gearing ratio (%)(4)		**24,1**	26,1	8,5	1,2	1,3	1,5	1,6	2,4
Current ratio (times)(5)		**4,5**	4,1	2,4	1,6	1,8	1,8	1,8	1,8
Acid test ratio (times)(6)		**3,6**	3,3	1,5	1,0	1,3	1,3	1,3	1,3

Definitions

(1) **Return on shareholders' interest:** Profit attributable to equity holders of the parent as a percentage of average equity attributable to equity holders of the parent.

(2) **Interest cover:** Trading profit divided by finance cost.

(3) **Dividend cover:** Headline earnings divided by dividends declared (excluding special dividends).

(4) **Gearing ratio:** Interest-bearing loans and borrowings as a percentage of equity attributable to equity holders of the parent.

(5) **Current ratio:** Current assets divided by current liabilities.

(6) **Acid test ratio:** Current assets, less inventory, divided by current liabilities.

* *Historical ratios relating to financial years prior to and including 2003 were not restated to reflect subsequent changes in accounting policies.*

†*As per Statistics South Africa.*

(All amounts in Rm's)	Seven-year compound growth %	**2010**	2009	2008	2007	2006	2005	2004	2003*
FINANCIAL RATIOS *(continued)*									
Stock exchange performance									
Market capitalisation+ (Rm's)	16	**3 316**	2 109	2 516	5 147	3 391	2 364	1 368	1 179
Closing share price at year-end (cents)	13	**360**	265	317	645	427	302	176	152
Market value per share									
– High (cents)		**465**	330	727	727	475	318	179	152
– Low (cents)		**260**	220	250	414	302	173	116	105
Closing share price to net asset value per share		**2,88**	1,57	2,13	5,27	4,28	3,57	2,66	2,86
Price-earnings ratio (times)		**10,9**	8,20	9,16	19,06	14,57	12,40	9,07	10,0
Dividend yield (%)		**3,0**	4,2	3,8	1,8	2,3	2,6	2,1	1,9
Earnings yield (%)		**9,2**	12,2	10,9	5,2	6,9	8,1	11,0	10,0
Number of shares in issue (000 000's) (excluding treasury shares)		**921**	796	794	797	796	782	776	781
Volume of shares traded (000 000's)		**32**	38	58	37	23	31	18	11
Value of shares traded (R000's)		**111 034**	103 082	227 713	190 352	94 921	77 466	27 570	13 671
Volume of shares traded as a % of total issued shares		**34**	4,8	7,3	4,6	2,9	3,9	2,3	1,3

**Historical ratios relating to financial years prior to and including 2003 were not restated to reflect subsequent changes in accounting policies.*
+Excluding treasury shares.

Corporate governance

OVERVIEW

Italtile Limited ("Italtile") endorses the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2002 ("King Code 2002"). The Board advocates sound governance practices by the Group and its subsidiaries.

The Company is in substantial compliance with the King Code; areas in which it does not comply are noted in the section "Areas of non-compliance" in this report.

Italtile subscribes to a set of values which seeks to foster integrity, innovation, individual empowerment and personal accountability. The Company affirms a commitment to the principles of transparency and timeous, relevant and meaningful reporting to all its stakeholders.

BOARD OF DIRECTORS

A formal Board charter, as recommended by the King Code 2002, has been adopted. The charter includes a code of ethics to which all directors subscribe. Procedures exist in terms of which unethical business practices can be brought to the attention of the Board by Directors.

COMPOSITION OF THE BOARD

The Board comprises two executive directors and four non-executive directors.

The directors are individuals of a high calibre with diverse backgrounds and expertise, facilitating independent judgement and broad deliberations in the decision-making process.

CLASSIFICATION OF DIRECTORS

The basis on which directors have been classified in terms of their independence in this report is as follows:

- executive directors are employed in a full time capacity by Italtile;
- non-executive directors are those who, while not in the full time employment of the Company, are members of the management committee or who have been nominated by a shareholder owning more than 20% of the Company; and
- independent non-executive directors are all other directors irrespective of the period during which they have been members of the Board.

No director has an automatic right to a position on the Board. All directors are required to be elected by the shareholders at an annual general meeting on a rotational basis.

BOARD RESPONSIBILITIES

The Board is responsible to shareholders for the conduct of the business of the Italtile Group, which includes providing Italtile with clear strategic direction. The schedule of matters reviewed by the Board includes:

- approval of the Group's strategy and annual budget;
- overseeing Group operational performance and management;
- ensuring that there is adequate succession planning at senior levels;
- overseeing director selection, orientation and evaluation;
- approval of major capital expenditure or disposals, material contracts, material acquisitions and developments;
- reviewing the terms of reference of Board committees;
- determining policies and processes which seek to ensure the integrity of the Group's risk management and internal controls;
- maintaining and monitoring the Group's systems of internal control and risk management;
- communication with shareholders, including approval of all circulars, prospectuses and major public announcements;
- approval of the interim statement and annual report and accounts (including the review of critical accounting policies and accounting judgements and an assessment of the Company's position and prospects); and
- recommendation of dividends.

The Board retains full and effective control over the business of Italtile. The Board has defined levels of materiality through a written delegation of authority, which sets out decisions the Board wishes to reserve for itself. The delegation is regularly reviewed and monitored.

Division of responsibilities maintains a balance of power and authority.

TERM OF OFFICE

The two executive directors have fixed terms of employment. In accordance with the Company's Articles of Association, all directors are subject to retirement by rotation and re-election by shareholders at least every three years. If requested to serve a further term, those retiring directors may offer themselves for re-election by shareholders. Any director appointed during the year must retire at the annual general meeting held immediately after his or her appointment.

BOARD MEETINGS

The Board meets at least every quarter or more frequently if circumstances require.

At the meetings, the Board considers both financial and non-financial qualitative information that might have an impact on the Group's stakeholders.

Prior to every Board meeting, each director receives an information pack which provides background information on the performance of the Group for the year to date and any other matters for discussion at the meeting.

Board members have full and unrestricted access to relevant information, management, and the Company Secretary, and may, at the cost of the Group, seek independent professional advice in the fulfilment of their duties.

Details of attendance at Board meetings are set out below:

Attendance at Board meetings

	4 August 2009	26 November 2009	14 February 2010	16 August 2010
G A M Ravazzotti	✓	✓	✓	✓
P D Swatton	✓	✓	✓	✓
S M du Toit	✓	✓	✓	✓
D H Rabin	✗	✓	N/A	N/A
G Zannoni	✓	✓	N/A	N/A
G K A Morolo	✗	✓	✗	N/A
S I Gama	✓	✓	✓	✓
G P E Ravazzotti	✓	✓	✓	✓
A Zannoni*	✓#	✓	✓	✓

*Appointed 26 November 2009.
#By invitation.

AREAS OF NON-COMPLIANCE

Whilst representation on the Board and Board committees does not comprise a majority of independent non-executive directors, the Board is satisfied that these areas of non-compliance with the King Code do not impair governance, integrity or perceptions thereof.

The Board has committed to appoint additional independent non-executive directors as a matter or priority.

BOARD APPOINTMENTS POLICY

The Board evaluates its composition each year to ensure an appropriate mix of skills, experience, professional and industry knowledge to meet the Company's strategic objectives. Demographic representation is also a consideration. New directors are subject to a "fit and proper" test. An induction programme is available to incoming directors, providing guidance on their responsibilities.

DIVISION OF RESPONSIBILITY

The Board is chaired by a non-executive Chairman, and there is a clear division between the roles of the Chairman and Chief Executive Officer.

The Chairman is responsible for formulating strategy, providing leadership to the Board and overseeing its efficient operation, and ensuring effective corporate governance practices.

The Chief Executive Officer is responsible for formulating, implementing and maintaining the strategic direction of the Group, and ensuring the day-to-day affairs of Italtile's operations are appropriately supervised and controlled.

The non-executive directors have extensive experience and a high degree of integrity and credibility, which provides for objective input into the decision-making process.

The Company conducts an annual evaluation of its Board, Board committees and individual directors, and is confident that there is an appropriate balance of power and authority on the Board.

LEAD INDEPENDENT DIRECTOR

The previous King Report (King II) emphasised that there should be a clear division of responsibilities at the head of the company, ensuring a balance of power and authority, so that no one individual has 'unfettered powers of decision-making' (Code 2.3.1). This points strongly to having an independent non-executive chairman.

King III recognises that a company may have sound reasons for appointing a chairman who does not meet all the criteria for independence, but should be prepared to justify its decision. In such circumstances, King III as well as the JSE Listings Requirements advocate that the appointment of a lead independent director (LID) to assist the Board in dealing with any actual or perceived conflicts of interest that arise in these or future circumstances.

The main function of an LID (as per King III) is to provide leadership and advice to the Board, without detracting from the authority of the Chairman, when the Chairman has a conflict of interest. The LID should at all times be aware that his/her role is that of support to the Chairman and Board and not in any way to undermine the authority of the Chairman. The LID should also chair those Board meetings which deal with the succession of the Chairman and the Chairman's performance appraisal.

Having regard to the recommendations set out in King II and King III, which advocates having an independent non-executive chairman failing which a lead independent director, the Italtile Board appointed Ms S M du Toit as lead independent non-executive director on the Company's Board.

BOARD COMMITTEES

The Board has established two committees to which it has delegated specific responsibilities in meeting its corporate governance and fiduciary duties. Both committees operate within written terms of reference approved by the Board. These are:

- Audit and Risk Committee; and
- Remuneration Committee.

Audit and Risk Committee

This committee is chaired by independent non-executive Director, Ms S M du Toit and includes Mr S I Gama. Mr G K A Morolo was a member of this committee until his resignation as a director. The committee meets at least every quarter or more frequently if circumstances require. The external auditors have unrestricted access to the Audit and Risk Committee.

The committee's objectives are to assist the Board in fulfilling its fiduciary duties with regard to:

- Internal control assessment
- Internal and external audit
- Financial reporting process
- Appointment of the external auditors
- Assessment and management of business risks
- Safeguarding the Group's assets

A policy regarding the provision of non-audit services by the Company's auditors is in place. This process is structured between management and the external auditors to ensure that the guidelines requiring approval by the Audit and Risk Committee are adhered to and monitored.

As required in terms of the Companies Act, as amended by the Corporate Laws Amendment Act, No 24 of 2006, the committee is satisfied that it has complied with and performed its functions and that the Company's external auditors are independent of the Company.

The Audit and Risk Committee provides regular reports on its activities to the Board and confirms that it has adhered to its terms of reference over the past financial year.

Attendance at Audit and Risk Committee meetings

	30 July 2009	11 September 2009	10 February 2010	17 May 2010
P D Swatton*	✓	✓	✓	✓
S M du Toit	✓	✓	✓	✓
S I Gama	✓	✗	✗	✓
G K A Morolo	✓	✓	✓	N/A

*By invitation.

Remuneration Committee

The Remuneration Committee is chaired by Ms S M du Toit and includes Mr G A M Ravazzotti.

This committee operates within the written terms of reference confirmed by the Board, which includes:

- the Group's remuneration policy; and
- short and long-term incentive policies for directors, executive management and staff.

The committee reviews and evaluates the contribution of each director and member of senior management and determines their salary adjustments on an annual basis.

No director or manager is involved in any decisions as to his or her own remuneration.

Details of directors' remuneration for the review period are set out on page 37 of this report.

Details of attendance at Remuneration Committee meetings are set out below:

Attendance at Remuneration Committee meetings

	28 June 2010	16 August 2010
S M du Toit	✓	✓
G A M Ravazzotti	✓	✓

COMPANY SECRETARY

The Company Secretary is Ms E J Willis. All directors have unlimited access to the services of the Company Secretary, who is responsible to the Board for ensuring that proper corporate governance principles are adhered to.

CODE OF BUSINESS AND ETHICS

The Group has adopted a formal code of business ethics and conduct ("the Code") which requires all directors and employees to act with honesty and integrity and to maintain the highest ethical standards. The Code deals with compliance with laws and regulations through a system of values and standards.

The Board oversees and ensures that management throughout the Group assumes responsibility for training and mentoring staff on the Group's values and standards and ensuring compliance.

The Code will be evaluated on a regular basis to ensure it aligns with the corporate compliance policy, King III and relevant new legislation.

SHARE DEALINGS

All directors of the Company are required to comply with the requirements of the JSE regarding inside information, transactions and disclosure of transactions.

In line with the Securities Services Act, the Group operates closed periods prior to the announcement of its interim and annual financial results.

During these closed periods, directors, officers and other employees who are likely to be in possession of price sensitive information may not deal in the shares or other instruments pertaining to the shares of the Company. This principle is also applied at other times whenever there is a corporate action or similar circumstance.

RISK MANAGEMENT AND INTERNAL CONTROLS

Italtile Limited recognises that managing risk and compliance is an integral part of generating sustainable shareholder value and enhancing stakeholder interests.

The Board assumes ultimate responsibility for risk management and regularly assesses financial and non-financial risks in the context of the Group's business environment, with a view to mitigate and/or eliminate risk through the Group's strategies and processes.

Internal controls are designed to manage rather than eliminate risks of failure to achieve business objectives, and provide reasonable rather than absolute assurance against material misstatement or loss. The internal audit function is a structured review of internal controls based on risk assessment.

Currency risk

Foreign currency exposure in imported product is actively managed. All foreign liabilities are matched with forward exchange contracts upon confirmation of import orders.

Computer-based business process

All major business processes are computerised and the Group has a formally documented and tested disaster recovery plan in place.

Credit risk

Trade credit is available through the Italtile and CTM divisions. Strict credit granting criteria are in place and the trade debtors book is insured through a reputable insurance company.

The Board is confident that an adequate system of internal control is in place, which mitigates areas of significant risk to an acceptable level.

SUSTAINABILITY REPORT

Italtile Limited is committed to good corporate citizenship practices and organisational integrity in the direction, control and stewardship of the Group's affairs.

The Group recognises the imperative to balance returns for shareholders with the long-term needs of the business, its employees, the broader society and the environment.

The Company is aware of its responsibility to safeguard the interests of all stakeholders and believes that good governance is essential to the Group's long-term sustainability and functioning. The Group's objective is to conform stringently to transparency, while operating profitably and remaining accountable to the broader community which it serves.

Shareholders, customers, employees, suppliers, regulators and the communities in which the Group operates are regarded as key stakeholders.

The Group embraces the King II Report's guidelines for socially responsible reporting according to the 'triple bottom line' – the economic, social and environmental impacts of its operations – as a method of enhancing commercial success as well as improving the likelihood of long-term success. The King III Report implemented in March 2010 places renewed emphasis on the principles of strategy, sustainability and governance discussed in King II, but provides for the greater integration of those elements. Accordingly, the Group is mindful of this development and management is involved in a full review of King III in order to confirm the levels of compliance.

STAKEHOLDER COMMUNICATION

Italtile Limited is committed to open, honest and regular communication with key stakeholders on financial and non-financial matters. A working partnership between the Group, its suppliers, franchisees, employees and members of the community forms the basis of a mutually beneficial association.

The annual general meeting provides an opportunity to communicate directly with shareholders. The Chairman has the opportunity to present to the shareholders a report on current operations and developments. The meeting also provides a forum for shareholders to question and express their views about the Company's business. The chairmen of the Audit, Risk and Remuneration Committees are available at the meetings to answer questions from shareholders.

Notice of the annual general meeting and related documents are mailed to shareholders at least 21 working days before the meeting. Separate resolutions are proposed on each substantially different issue. The notice is contained in the annual report.

The Group's executive management team meets with investors after the publication of interim and annual results to present an update on the industry, current operations of the business and its prospects.

TRANSFORMATION

Italtile Limited is committed to empowerment in its business and is supportive of transformation in the country. The Group endorses the principles in the Employment Equity Act and aligns its Human Resources policies accordingly.

EMPLOYMENT EQUITY

Employee composition statistics

As at 30 June 2010

	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Total permanent	212	23	10	83	64	13	5	57	467
Non-permanent	1	1	—	2	—	—	—	—	4
Total	313	24	10	85	64	13	5	57	471

The above statistics apply to South African operations only and do not include the franchised stores.

The Group submits its employment equity reports to the Department of Labour on an annual basis and has consistently met relevant targets over recent years.

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to uplifting the societies in which it operates through following sound employment practices and meeting the real needs of those communities.

Italtile continues to invest in South Africa and neighbouring countries in education, training and skills transfer through the Italtile training academy which has provided tiling, technical and business skills to numerous previously unemployed individuals.

The Group also makes substantial donations every year to Aids hospices and environmental organisations.

R1,2 million was donated to Sparrow Ministries Aids Village ("Sparrow") this year. This charity is a non-profit organisation which provides care and comfort to adults and children who have been infected or affected by the HIV/Aids pandemic. Sparrow serves as a hospice for terminally ill patients and a children's home for those vulnerable children made homeless due to the death of one or both parents. Sparrow currently cares for over 240 children and 80 adults.

Ad hoc contributions were also made to the following deserving causes:

- Little Eden.
- South African Guide Dogs Association.
- World Wildlife Fund.

In addition, a number of Group-owned or joint-venture CTM stores make ongoing corporate social investments to various causes including:

- Child Welfare South Africa.
- Roodepoort Care of the Aged.
- Cancer Association of South Africa.
- Salem Baby Care Centre.
- Schools Project Soweto.

OCCUPATIONAL HEALTH AND SAFETY

Italtile complies with the Occupational Health and Safety Act of 1970 and other relevant legislation, regulations and codes of practice for South Africa. The aim of the Group's health and safety policy is to prevent and minimise work-related and health impairments by ensuring that all employees are provided with adequate training and supervision to undertake their roles.

ENVIRONMENTAL MANAGEMENT

The Company has traditionally subscribed to environmentally sustainable policies and procedures. During the review period, greater resources were committed to measuring the impact of the business on the environment and reducing the Group's carbon footprint, that of its products, and its suppliers. An environmental officer has been appointed and will work with the property portfolio division to advance Italtile's green programme. The Group has also established relationships with international specialist suppliers whose ecologically-friendly products are widely accredited.

Most of Italtile's existing properties maximise natural light usage, and new buildings will be further improved to employ solar energy and minimise water consumption.

Although this programme is still in its infancy, these initiatives will enhance the quality of the business over the long term by reducing overheads and improving efficiencies while contributing in a sensitive manner to the sustainability of the environment.

HUMAN CAPITAL DEVELOPMENT

Italtile strives to be the employer of choice in its field. The Group's strategy is to recruit and retain the best people from South Africa's diverse population base, and to ensure they are empowered, accountable for their actions and rewarded accordingly.

- The Group's goal is to match the demographics of the organisation with the diverse markets in which it operates. To achieve this, a representative team is tasked with managing the employment equity plan and ensuring that milestones are achieved;
- Italtile employs a range of mechanisms to promote worker participation in the operational decision-making process;
- A profit incentive scheme was implemented in 1990, whereby all members of staff share in the Group's trading profits;
- Italtile's stated objective is to cultivate entrepreneurship within the Group by ensuring trading operations are franchised or in partnerships with the Group;
- Training initiatives are continuously evaluated and evolved to improve the skills level in the organisation.

SKILLS DEVELOPMENT

Training and development initiatives are formulated and conducted in-house, ensuring relevance to the Group's culture, values and strategy.

Altogether 34 training modules are available to staff across the country. Courses are designed for students ranging from Beginners to Intermediate and Advanced levels. Training courses include an induction course for all new employees, as well as focused business, technical, management and corporate governance programmes. Minimum training competencies have been mapped for all job titles to support consistent standards across the Group.

Over the past year over R4 million was spent on training and staff communications, and a further R370 000 was incurred in course development. Courses completed by trainees increased from 749 in 2009 to 1 037 in 2010.

In addition to Group-wide training interventions, Italtile's Tiling and Plumbing Academy, launched in November 2009, has raised the benchmark in product knowledge training. Since inception, 180 students have graduated from this institution.

ECONOMIC IMPACTS

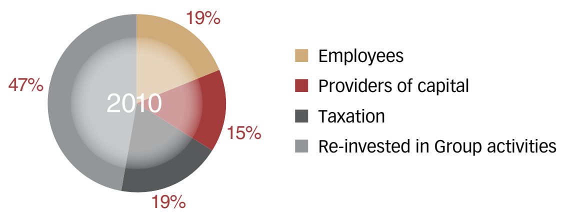
The Group is committed to satisfying the needs of its customers while delivering acceptable profit growth. The Group endeavours to create wealth for the benefit of all stakeholders.

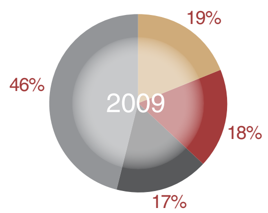
The value added statement is a measurement of the wealth the Group created in its operations by adding value to the cost of raw materials, products and services purchased. The statement shows the total wealth created and how that was distributed.

The statement also takes into account the amounts retained and re-invested in the Group for the replacement of assets and development of future operations.

VALUE ADDED STATEMENT

	GROUP			
	2010 Rm's	**%**	2009 Rm's	%
Turnover	**1 354**		1 303	
Cost of goods and services	**(664)**		(711)	
	690		592	
Income from investments and interest received	**42**		48	
Value added	**732**		640	
Value distributed and retained				
Employees				
– Salaries, incentives and benefits	**124**	17	119	19
Providers of capital	**173**	24	114	18
– Outside equity holders	**8**	1	3	1
– Ordinary dividend	**88**	12	111	17
– Cash component of special dividend	**77**	11	—	—
Taxation	**123**	17	109	17
Re-invested in Group activities	**312**	42	298	46
– Depreciation	**39**	5	41	6
– Retained income	**273**	37	257	40
	732	100	640	100





INDIRECT IMPACTS

The total economic impact of an organisation includes indirect impacts. These are usually benefits arising in the course of its business to which a monetary amount is not directly attributable. Italtile Limited does not assess and quantify its indirect economic impacts although the Group does provide indirect economic benefits:

The Group spent R741 million during the year purchasing tiles and sanitaryware as well as other products and services from suppliers. This in turn creates opportunities for suppliers to employ more staff to keep pace with the Group's demands.

During the year the Group paid R123 million in taxation, for the ultimate benefit of all South Africans.

The Group paid R124 million during the year to employees in the form of salaries, incentives and benefits. These employees in turn supported their families, contributing to the economic activity of their communities and the South African economy.

Directorate and administration

DIRECTORS

Giovanni Ravazzotti (67)
Chairman

Founder, in 1969, of the Italtile Group and Chairman of Ceramic Industries Limited.

Gian-Paolo Ravazzotti (40)
Chief Executive Officer

Appointed to the Board in October 2004.

Gian-Paolo was appointed Chief Executive Officer in 2006.

Peter Swatton (52) – British
BCompt (Hons), CA(SA)
Chief Financial Officer

Joined the Company in 1988. Appointed to the Board in 1992.

Peter was appointed Chief Financial Officer in February 1992. He has had 22 years' service with the Italtile Group during which time he was Chief Executive Officer for two and a half years.

Siyabonga Gama (43)
BCom (Hons), AEP, CAIB(SA)
Non-executive Director

Appointed to the Board in 2004.

Siyabonga is a past Chief Executive Officer of the National Ports Authority of South Africa, past Chairman of the Port Management Association of Eastern and Southern Africa, is currently President of the Union of African Railways and serves on the Board of the Union of International Railways.

Susan du Toit (37)
CA(SA), MComm (Financial Management)
Non-executive Director

Appointed to the Board in 2009.

Susan is a Chartered Accountant (SA) and has held a number of positions within Ernst & Young culminating in the position as Lead Audit Partner on a number of entities listed on the JSE. Susan also held the position of Team Leader for a group of audit partners at Ernst & Young.

Alessia Zannoni (35)
Non-executive Director

Appointed to the Board in 2009.

Alessia, an Italian resident, started her career in advertising and communication in 1998. Following her qualification in communication and design at Instituto Superiore di Comunicazione in Milan, Ms Zannoni worked as art director at several advertising agencies, after which she started an advertising and web agency in Modena, Italy. Ms Zannoni currently works as a freelance creative director, image and branding consultant.

GROUP AUDIT AND RISK COMMITTEE

S M du Toit (Chairman)

S I Gama

P D Swatton*

**By invitation.*

REMUNERATION COMMITTEE

S M du Toit (Chairman)

G A M Ravazzotti

DIVISIONAL MANAGEMENT

Pierre Langenhoven (41)

Chief Operating Officer (Australia)

Wouter van der Merwe (42)

NDip (Property Development and Housing Management)

Manager – Property division

Directors' approval

The directors are responsible for both the preparation and integrity of the financial statements and related financial information contained in the annual report. In their opinion, the financial statements fairly represent the Group's financial position and results of operations. It is the responsibility of the independent auditors to report on the financial statements. Their report to the members of the Company is set out on page 33.

In order for the directors to discharge their responsibility, the Group maintains adequate accounting systems, risk control procedures and accounting records. A system of internal control, focused on critical risk areas and designed to provide reasonable assurance that assets are safeguarded, and that the risk of error, fraud or loss is reduced in a cost-effective manner, has been implemented. All controls are frequently monitored and subject to review and audit. There was no material breakdown in the system of internal control during the year under review.

The Group adopts appropriate accounting policies and the annual financial statements are prepared in accordance with International Financial Reporting Standards. The financial statements incorporate full and meaningful disclosure, and have been prepared using reasonable and proven judgements and estimates.

GOING CONCERN

The directors are of the opinion that the business will continue as a going concern in the year ahead. The annual financial statements have accordingly been prepared on a going-concern basis.

CODE OF ETHICS

The directors have complied with the Group's code of ethics.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements of the Company and the Group set out in pages 34 to 81 were approved by the Board of Directors on 17 September 2010 and signed on its behalf by:

G A M Ravazzotti

Chairman

P D Swatton

Chief Financial Officer

COMPANY SECRETARY'S APPROVAL

In terms of the Companies Act 1973, I certify that the Company has lodged, with the Registrar of Companies, all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.

E J Willis

Company Secretary

17 September 2010

Audit and Risk Committee report

The Legal responsibilities of the Audit and Risk Committee (the Committee) are set out in the Companies Act, No 61 of 1973 (as amended).

A formal Audit Committee charter, approved by the Board, guides the Committee in terms of its objectives, authority and responsibilities. The charter complies with the requirements of King II. The charter is reviewed annually and, if necessary, amended to meet market, regulatory and statutory requirements.

As at the financial year-end, the Committee comprised two independent non-executive directors, namely Ms Susan du Toit (Chairman), and Mr Siyabonga Gama. Mr Gary Morolo resigned from the Board and Audit and Risk Committee on 12 May 2010.

The role of the Committee is *inter alia* to:

- review the effectiveness of the Group's systems of internal control, including internal financial control and risk management, and to ensure that effective internal control systems are maintained;
- oversee the risk management process;
- review financial statements for proper and complete disclosure of timely, reliable and consistent information and to confirm that the accounting policies used are appropriate;
- deal with concerns and complaints relating to accounting policies, internal audit, the audit or content of the annual financial statements and internal financial controls;
- nominate the appointment of the external auditors and the registered independent auditor after satisfying itself through enquiry that the auditors are independent as defined in terms of the Corporate Laws Amendment Act, 2006 ('CLAA');
- determine the fees to be paid to the external auditors and their terms of engagement;
- ensure that the appointment of Ernst & Young Inc. complies with the CLAA and any other legislation relating to the appointment of auditors; and
- approve the scope of non-audit services which Ernst & Young Inc. may provide to the Company and pre-approve any non-audit services to be provided by the external auditors.

KING III

The King Report on Governance for South Africa (King III) became effective on 1 March 2010. The Committee, together with management, has reviewed the recommendations of King III on corporate governance. A number of these recommendations have already been implemented. A revision of the Audit and Risk Committee charter and membership is underway.

EXTERNAL AUDITORS

During the year under review, the Committee approved the external audit plan and fee proposal and considered reports from the external auditors on the annual and interim financial statements. The Committee satisfied itself that Ernst & Young Inc. and Mr Derek Engelbrecht, the individually registered auditor, are independent of the Company. The Chairman of the Committee had ongoing interactions with the external auditors, independently of management.

EXPERTISE OF CHIEF FINANCIAL OFFICER

In accordance with the JSE Listings Requirements, the Committee must consider the appropriateness of the expertise and experience of the Chief Financial Officer of the Company on an annual basis. The Committee is satisfied that Mr Swatton, the Chief Financial Officer, possesses the necessary skills, expertise and experience to meet his responsibilities in the position.

ANNUAL FINANCIAL STATEMENTS

The Committee has noted the external auditors' opinion and findings on the annual financial statements. The committee has recommended the approval of the annual financial statements to the Board. The Board has subsequently approved the financial statements for the year under review.

The Committee reports that it has discharged its responsibilities and duties in compliance with its charter.

S M du Toit

Audit and Risk Committee Chairman

17 September 2010

Independent auditors' report to the members of Italtile Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the group annual financial statements and annual financial statements of Italtile Limited, which comprise the directors' report, the consolidated and separate statements of financial position as at 30 June 2010, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 34 to 81.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Italtile Limited as at 30 June 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.

Registered Auditor

Johannesburg

17 September 2010

Directors' report

PRINCIPAL ACTIVITIES OF THE COMPANY

Italtile Limited, headquartered in Bryanston, Johannesburg, is the leading retailer of ceramic tiles, bathroomware and related products in South Africa.

The Group is represented via its high profile branded retail outlets, Italtile, CTM and TopT, which cater to homeowners across the income spectrum, holding appeal for market segments ranging from the premium upper end to entry level consumers. These stores are situated on high visibility sites and their comprehensive offerings position them as one-stop solution destinations. Ranges include ceramic wall and floor tiles, sanitaryware, bathroom furniture, taps, fittings, laminated wooden flooring and tools.

The Group's store network comprises 104 stores, situated in South Africa, the Southern African Development and Economic Community region and the east coast of Australia.

Underpinning the retail network is an extensive property portfolio.

STATEMENTS OF RESPONSIBILITY

The responsibilities of the Group's directors are detailed on page 23 of this report.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee report is on page 32. Page 25 of the corporate governance report also discuss the responsibilities of this committee and how these were discharged during the year.

FINANCIAL REVIEW

System-wide turnover

System-wide turnover across the Group's store network increased 7% to R2,75 billion (2009: R2,57 billion).

No new mainstream stores were opened in the review period, and notwithstanding the difficult economic environment, the Group succeeded in maximising turnover within its existing footprint by improving the quality of the business. Market share was gained in new market segments.

Normalised profit and trading operations

Normalised profit from trading operations increased by 8% to R389 million (2009: R361 million). Since no new mainstream stores were opened in the reporting period and price inflation was restricted to 1%, this growth is attributable to improvements in the quality of the business resulting from efficiencies implemented at store level and in the supply chain.

Property, plant and equipment

Investment in the Group's property portfolio was maintained, increasing in carrying value by R34 million to R847 million (2009: R813 million). During the year, R77 million was invested in new sites, store upgrades and relocations. There has been no change in the nature or use of property, plant and equipment during the year.

Cash and cash equivalents

Cash and cash equivalents derived from operations and prudent working capital management increased 7% to R711 million (2009: R667 million).

The Group will maintain its policy of utilising cash reserves for dividend payments and to fund operations, store refurbishments and store relocations.

Long-term liabilities

In terms of interest bearing debt, the Group's exposure includes borrowings of R227 million (2009: R227 million) to fund opportunistic investments in South Africa and the R31 million (2009: R29 million) loan finance utilised in the acquisition of fixed property in Australia.

Future prospects

Trading conditions will remain difficult in the year ahead, with no significant improvement in the economy anticipated. Competition will almost certainly intensify and greater innovation will be required to continue growing the Group's market share. The potential exists in southern Africa to increase per capita tile and sanitaryware consumption as more people enter the mainstream economy. Italtile is well positioned to continue delivering value in the long term.

STATED CAPITAL

The authorised share capital remains unchanged at 3 300 000 000 shares of no par value. As a result of the special dividend declared during the year, issued share capital increased to 1 033 332 822 (2009: 909 800 452) shares of no par value.

DIVIDENDS

A final dividend No 88 of 5 cents per share (2009: 5 cents per share) for the year ended 30 June 2010 was declared by the Board of Directors. Together with the interim dividend No 87 of 6 cents per share (2009: 6 cents per share) this amounts to a total ordinary dividend of 11 cents per share (2009: 11 cents per share).

Italtile remains cash generative. Management is satisfied that current cash resources coupled with projected net cash inflows are in excess of operating requirements and planned capital expenditure.

The dividend cover will remain at three times.

The salient dates for the final dividend were:

The last day to trade *"cum"* dividend	Friday, 3 September 2010
First day to trade *"ex"* dividend	Monday, 6 September 2010
Record date	Friday, 10 September 2010
Dividend payment date	Monday, 13 September 2010

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:

Shares in *lieu* of dividend – 123 532 370 shares at 325 cents per share.

Cash dividend – 240 665 383 shares at 60 cents per share.

DIRECTORS AND OFFICERS

The details of the directors of the Company are set out on page 30.

In accordance with the Company's Articles of Association, Messrs G A M Ravazzotti and S I Gama retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

CHANGES TO DIRECTORATE

Messrs Zannoni, Rabin and Morolo resigned their directorships during the review period and Ms A Zannoni was appointed as a non-executive director on 26 November 2009. Confirmation of her appointment will be placed before the forthcoming annual general meeting.

Except for the share option scheme and long-term incentive plan detailed below, the Company was not party to any arrangement during the year or at year-end, which would enable the directors or officers, or their families, to acquire benefits by means of acquisition of shares in the Company.

Other than disclosed in note 34, none of the directors or officers of the Company had any interest in any contracts which significantly affected the affairs or business of the Company or its subsidiaries during the year.

It is Company policy that all directors and employees who have access to price-sensitive information may not deal directly or indirectly in the shares of the Company from the end of a reporting period until publication of the interim results or annual profit announcement.

DIRECTORS' SHAREHOLDING

The directors' beneficial and non-beneficial interest in the stated share capital of the Company at the statement of financial position date is set out in the table on page 36. There has been no change of interests between 30 June 2010 and the date of this annual report.

At 30 June 2010 Director	Direct	Beneficial Indirect	Total	% held	Direct	Non- beneficial Indirect	Total	% held
D H Rabin*	758 154	—	758 154		—	—	—	—
G A M Ravazzotti	14 637 088	333 093 912	347 731 000		—	—	—	—
P D Swatton	12 896 400	—	12 896 400		—	—	—	—
G P E Ravazzotti	6 984 490	—	6 984 490		—	—	—	—
S I Gama#	200 000	—	200 000		—	—	—	—
G K A Morolo†	—	—	—		—	—	—	—
G Zannoni*	14 333 841	114 859 969	129 193 810		—	114 859 969	114 859 969	
A Zannoni§	1 303 076	5 742 997	7 046 073		—	—	—	—

#Beneficial indirect interest in BEE Special Purpose Entities as listed on page 83.
**Retired 26 November 2009.*
†Resigned 12 May 2010.
§Appointed 26 November 2009.

At 30 June 2009 Director	Direct	Beneficial indirect	Total	% held	Direct	Non- beneficial Indirect	Total	% held
D H Rabin	640 000	—	640 000	0,1	—	—	—	—
G A M Ravazzotti	12 222 232	280 533 665	292 755 897	32,2	—	—	—	—
P D Swatton	12 896 400	—	12 896 400	1,4	—	—	—	—
G P E Ravazzotti	5 896 000	—	5 896 000	0,6	—	—	—	—
S I Gama#	—	—	—	—	—	—	—	—
G K A Morolo#	—	—	—	—	—	—	—	—
G Zannoni	12 100 000	96 735 746	108 835 746	12,0	—	96 735 746	96 735 746	10,6

#Beneficial indirect interest in BEE Special Purpose Entities as listed on page 83.

DIRECTORS' PARTICIPATION IN THE ITALTILE SHARE INCENTIVE SCHEME

Directors' holdings under deferred sale agreements are set out in the table below:

Director	Options held at 1 July 2009	Options awarded during the year	Strike price	Strike date	Options exercised during the year	Exercise price	**Options held at 30 June 2010**
S I Gama	1 320 000	—	2,39	01/11/2009	1 320 000	3,65	**—**

DIRECTORS' PARTICIPATION IN THE LONG-TERM INCENTIVE PLAN

Directors' holdings under the long-term incentive plan are set out in the table below:

	Awards held at 1 July 2009	Awarded during the year	**Awards held at 30 June 2010**
G P E Ravazzotti	—	1 000 000	**1 000 000**
P D Swatton	—	1 000 000	**1 000 000**

There is no strike-price attached to these awards.

DIRECTORS' EMOLUMENTS

The emoluments paid to each director during the year by a subsidiary company are set our in the table below.

All emoluments paid to directors are short term in nature, other than gains on exercise of share options, and contributions to medical aid and provident fund.

The remuneration of both executive and non-executive directors is determined by the Remuneration Committee. Other benefits include the fringe benefit value of company cars for executive directors and fees for services rendered by non-executive directors.

All figures in R000's	Board fees	Salary	Bonus and performance-related payments	Provident fund and medical contributions	Gain on exercised share options	Other benefits	**Total 2010**	Total 2009
Executive directors and Chairman								
G A M Ravazzotti*		700	180	—	—	—	**880**	941
G P E Ravazzotti		1 672	464	150	—	90	**2 376**	5 468
P D Swatton		1 305	360	148	—	118	**1 931**	2 272
2010		**3 677**	**1 004**	**298**	—	**208**	**5 187**	
2009		3 468	1 583	306	3 120	204		8 681
Non-executive directors								
D H Rabin	32						**32**	107
S I Gama	145				1 656		**1 801**	118
G Zannoni	47						**47**	95
G K A Morolo	83						**83**	120
S M du Toit	185						**185**	36
A Zannoni	73						**73**	—
2010	**565**				**1 656**		**2 221**	
2009	476				—			476
Aggregate emoluments of directors who served during the year							**7 332**	9 157

**Paid to Rallen (Pty) Limited, the company that this director represents for his services as director of Italtile Limited. Refer to note 34.*

SUBSIDIARY COMPANIES

Details of the Company's interest in its subsidiaries are set out on page 81.

The Company's interest in the profits and losses after taxation and the non-controlling shareholders' interest of its subsidiaries (direct and indirect) is:

	2010 Rm's	2009 Rm's
Profits	**288**	270

CORPORATE GOVERNANCE

The Corporate Governance report is set out on pages 23 to 29.

SHAREHOLDERS

An analysis of the shareholdings of the Company appears on page 82 of this report.

EMPLOYEES

The Group employs 570 employees (2009: 564).

SPECIAL RESOLUTION

At the annual general meeting of shareholders held on Friday, 27 November 2009, a special resolution authorising the Company to repurchase its own shares was approved by the requisite majority of votes.

Full details of the special resolution passed will be made available to shareholders on request.

EVENTS SUBSEQUENT TO THE STATEMENT OF FINANCIAL POSITION DATE

Except for developments relating to the Group's BEE transaction as disclosed below, there are no events subsequent to the statement of financial position date requiring disclosure.

BLACK ECONOMIC EMPOWERMENT (BEE)

The Group's BEE transaction which came into effect on 11 February 2008 will be restructured to more accurately reflect the current economic climate. This process is underway and shareholders will be advised of progress in due course. One of the Group's BEE partners, AKA Capital, also holds a position in the BEE structure of Ceramic Industries Limited. In order for AKA to retain its independence, and in light of the fact that Italtile is currently revising its BEE structure, it was mutually agreed by all parties that AKA would resign its partnership from Italtile and henceforth focus on its holding in Ceramic Industries Limited.

THE ITALTILE SHARE INCENTIVE TRUST

In terms of the resolution passed at the 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 (2009: 136 470 068), representing 13% (2009: 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 movements in the number of shares available to eligible participants are as follows:

	2010 Number of shares	2009 Number of shares
At 1 July	**2 310 000**	8 594 000
New allocations made	**—**	—
Redeemed allocations	**(2 310 000)**	(6 284 000)
Forfeited allocations	**—**	—
Outstanding at 30 June	**—**	2 310 000
	R	R
Average subscription price per share	**2,39**	2,39

The Trust holds sufficient shares to meet its commitments. Shares will be bought in the open market by the scheme to meet any future allocations.

No share option expense was recognised for this scheme in the current year (2009: R222 387) relating to executive and non-executive directors.

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 will receive a conditional right to receive a cash award as determined in accordance with the rules of the scheme. This award is to be applied towards the obligatory subscription and/or purchase of Company ordinary shares.

Directors and employees of the Company, as well as directors and employees of any subsidiary within the Group which is designated by directors of the Company as being a participating company, are eligible to participate in the plan. In addition, the directors of the Company may select certain franchisees of the Group to participate in the plan, in which event directors and employees of such franchisees will also be eligible.

The movement in the number of notional awards to eligible participants are as follows:

	2010 Number of awards
At 1 July	–
Awarded during the year	**4 850 000**
At 30 June	**4 850 000**

Refer to note 6 for further disclosure related to this scheme.

BORROWING POWERS

In terms of the Articles of Association, the Company has unlimited borrowing powers.

LITIGATION

There are no pending or threatened legal or arbitration proceedings which have had or may have a material effect on the financial position of the Group.

AUDITORS

Ernst & Young Inc. continued in office as auditors of Italtile Limited. At the annual general meeting of 26 November 2010 shareholders will be requested to appoint Ernst & Young Inc. as auditors for the 2011 financial year and it will be noted that Mr Derek Engelbrecht will be the individual registered auditor that will undertake the audit.

SECRETARY

The Company Secretary is Ms E J Willis, whose business and postal address is:

Registered office	The Italtile Building Cnr William Nicol Drive and Peter Place Bryanston, 2021
Postal address	PO Box 1689, Randburg, 2125
Telephone number	+27 (0) 11 510 9050
Fax number	+27 (0) 11 510 9061

Statements of comprehensive income

for the year ended 30 June 2010

COMPANY 2010 Rm's	COMPANY 2009 Rm's		Note	GROUP 2010 Rm's	GROUP 2009 Rm's
597	209	**Revenue**	3	**1 577**	1 521
		Turnover	3	**1 354**	1 303
		Cost of sales	4	**(784)**	(767)
		Gross profit		**570**	536
		Other operating income		**187**	190
546	200	Dividend income from subsidiaries			
3	2	Management fees			
		Expenses			
		Sales and distribution		**(257)**	(245)
(3)	(2)	General and administration		**(110)**	(119)
81	(168)	Impairment reversal/(impairment) of investments and loans	14,15		
		Loss on sale of property, plant and equipment		**(1)**	(1)
627	32	**Trading profit**	5	**389**	361
48	7	Financial revenue	7	**42**	48
		Financial cost	8	**(27)**	(40)
675	39	**Profit before taxation**		**404**	369
(12)	(11)	Taxation	9	**(123)**	(109)
663	28	**Profit for the year**		**281**	260
		Other comprehensive income:			
		Currency translation difference		**2**	(12)
663	28	**Total comprehensive income for the year**		**283**	248
		Profit attributable to:			
663	28	Owners of the parent		**273**	257
		Non-controlling interests		**8**	3
663	28			**281**	260
		Total comprehensive income attributable to:			
663	28	Owners of the parent		**275**	245
		Non-controlling interests		**8**	3
663	28			**283**	248
		Earnings per share (cents)	10	**33,0**	32,3
		Headline earnings per share (cents)	11	**33,1**	32,4
		Diluted earnings per share (cents)	10	**32,9**	32,3
		Diluted headline earnings per share (cents)	11	**33,0**	32,4
		Adjusted headline earnings per share (cents)	11	**29,8**	28,1

Statements of financial position

at 30 June 2010

COMPANY 2010 Rm's	COMPANY 2009 Rm's		Note	GROUP 2010 Rm's	GROUP 2009 Rm's
		ASSETS			
307	242	**Non-current assets**		**991**	939
		Property, plant and equipment	13	**952**	914
234	173	Investments	14	**9**	7
73	69	Long-term assets	15	**18**	9
		Goodwill	16	**6**	6
		Deferred taxation	17	**6**	3
563	207	**Current assets**		**1 075**	994
		Inventories	18	**232**	191
562	205	Trade and other receivables	19	**110**	136
—#	1	Cash and cash equivalents	20	**711**	667
1	1	Taxation	28	**22**	—
870	449	**Total assets**		**2 066**	1 933
		EQUITY AND LIABILITIES			
869	448	**Equity attributable to equity holders of the parent**		**1 422**	1 306
818	417	Stated capital	21	**818**	417
		Non-distributable reserve	22	**50**	48
		Treasury shares	21	**(470)**	(473)
3	30	Share option reserve	6	**3**	30
48	1	Retained earnings		**1 021**	1 284
		Non-controlling interest		**61**	40
869	448	**Total equity**		**1 483**	1 346
1	1	**Total liabilities**		**583**	587
		Non-current liabilities		**344**	343
		Interest-bearing loans and borrowings	23	**342**	341
		Deferred taxation	17	**2**	2
1	1	**Current liabilities**		**239**	244
1	1	Trade and other payables	24	**202**	216
		Provisions	25	**34**	22
		Taxation	28	**3**	6
870	449	**Total equity and liabilities**		**2 066**	1 933

#Less than R1 million.

Statements of changes in equity

for the year ended 30 June 2010

Rm's	Stated capital	Non-distri-butable reserve	Treasury shares	Share option reserve	Retained earnings	Total	Non-controlling interests	Total equity
GROUP								
Balance at 30 June 2008	417	50	(473)	30	1 134	1 158	25	1 183
Total comprehensive income for the period		(12)			257	245	3	248
Dividends paid					(107)	(107)	(4)	(111)
Unallocated shares in share trust			2			2		2
Accumulated surplus in share trust			(2)			(2)		(2)
Disposal of interest in subsidiary		10				10	16	26
Balance at 30 June 2009	417	48	(473)	30	1 284	1 306	40	1 346
Total comprehensive income for the period		**2**			**273**	**275**	**8**	**283**
Dividends paid					**(566)**	**(566)**	**(3)**	**(569)**
Share issue in lieu of dividend	**401**					**401**		**401**
Share-based payment costs				**3**		**3**		**3**
Transfer of share option reserve				**(30)**	**30**	**—**		**—**
Unallocated shares in share trust			**3**			**3**		**3**
Arising on acquisition of interest in subsidiaries							**16**	**16**
Balance at 30 June 2010	**818**	**50**	**(470)**	**3**	**1 021**	**1 422**	**61**	**1 483**
Note	*21*	*22*	*21*	*6*				

Rm's	Stated capital	Share option reserve	Retained earnings	Total equity
COMPANY				
Balance at 30 June 2008	417	30	100	547
Total comprehensive income for the period			28	28
Dividends paid			(127)	(127)
Balance at 30 June 2009	417	30	1	448
Total comprehensive income for the period			**663**	**663**
Dividends paid			**(646)**	**(646)**
Share issue in lieu of dividend	**401**			**401**
Share-based payment costs		**3**		**3**
Transfer of share option reserve		**(30)**	**30**	**—**
Balance at 30 June 2010	**818**	**3**	**48**	**869**
Note	*21*	*6*		

Cash flow statements

for the year ended 30 June 2010

COMPANY 2010 Rm's	2009 Rm's		Note	GROUP 2010 Rm's	2009 Rm's
		Cash flows from operating activities			
		Cash receipts from customers		**1 358**	1 303
		Cash paid to suppliers and employees		**(936)**	(861)
—	(2)	Cash generated from/(utilised by) operations	27	**422**	442
48	7	Finance revenue		**16**	18
546	200	Dividends received		**26**	30
(12)	(12)	Taxation paid	28	**(151)**	(111)
		Finance cost		**(27)**	(40)
3	2	Management fees received			
585	195			**286**	339
(646)	(127)	Dividends paid	29	**(569)**	(111)
(61)	68	Net cash flows from operating activities		**(283)**	228
		Cash flows from investing activities			
		Additions to property, plant and equipment		**(92)**	(94)
		Proceeds on disposal of plant and equipment		**14**	13
(3)	—	Increase in investments		**(2)**	—
		Lease premiums paid		**(9)**	—
		Net acquisition and disposal of interest in subsidiary, including transactions with non-controlling interests	30	**17**	10
19	5	Repayments of portion of BEE share trust loan			
16	5	Net cash flows from investing activities		**(72)**	(71)
		Cash flows from financing activities			
401	—	Share issue in lieu of dividend		**401**	—
		Increase in interest-bearing loans and borrowings		**1**	228
		Purchase of treasury shares		**(3)**	(11)
		Treasury shares taken up		**—**	12
(357)	(72)	Increase in amounts owing by subsidiaries			
44	(72)	Net cash flows from financing activities		**399**	229
(1)	1	**Movement in cash and cash equivalents for the year**		**44**	386
1	—	**Cash and cash equivalents at beginning of year**		**667**	281
—#	1	**Cash and cash equivalents at end of year**	20	**711**	667

#Less than R1 million.

Notes to the financial statements

for the year ended 30 June 2010

1. ACCOUNTING POLICIES

1.1 Statement of compliance

The consolidated 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 annual 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 financial statements.

The Group has adopted new and amended IFRS and IFRIC interpretations during the year as listed below:

During the year the following standards, amendments or interpretations became effective and have an impact on the Group:

- IAS 1 *(Revised) Presentation of Financial Statements* – The Group has adopted IAS 1 (Revised) which is effective for financial periods beginning on or after 1 January 2009. The amendment mandates requirements for the presentation of financial statements on the basis of shared characteristics. Changes in equity arising from transactions with owners in their capacity as owners are separated from other changes in equity. In addition, the standard presents a statement of comprehensive income where items of recognised income are presented in one single statement or in two linked statements. The Group has elected to apply one statement.
- IFRS 8 *Operating Segments* – The Group has adopted IFRS 8 which is effective for financial periods beginning on or after 1 January 2009. This standard requires the disclosure of information based on the "management approach" to reporting on the financial performance of operating segments. Disclosure is included in note 35.

The following standards and interpretations are also effective for the current financial year but did not have an impact for the year ended 30 June 2010:

- IFRS 1 *Amendment to IFRS 1 First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.*
- IFRS 1 *Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards.*
- IFRS 2 *Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations.*
- IFRS 3 *Business Combinations.*
- IFRS 7 *Amendment to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments.*
- IAS 23 *Borrowing Costs.*
- IAS 27 *Consolidated and Separate Financial Statements.*
- IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation.*
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items.*
- IFRIC 9 Amended – *Reassessing Embedded Derivatives.*
- IFRIC 15 *Agreements for the Construction of Real Estate.*
- IFRIC 17 *Distributions of Non-cash Assets to Owners.*
- IFRIC 18 *Transfers of Assets from Customers.*
- 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. ACCOUNTING POLICIES *(continued)*

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 statement of financial position 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 R3 million (2009: R30 million) and expense recognised for the year is R3 million (2009: Rnil).

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.

Intragroup balances and transactions have been eliminated. Unrealised profits that arise between Group entities are eliminated.

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. Acquisitions of non-controlling interests are accounted for using the parent entity method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as equity.

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. ACCOUNTING POLICIES *(continued)*

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 statement of financial position date. Where necessary, the value of the investment is written down 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 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 are recognised in equity.

1.8 Foreign currencies

The consolidated 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 at the rates of exchange ruling on the dates of the transactions. The related monetary assets and liabilities at year-end are translated at the rates ruling at the statement of financial position date. Gains and losses arising on translation are recognised in the statement of comprehensive income.

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 statement of financial position 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. ACCOUNTING POLICIES *(continued)*

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.

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.

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. ACCOUNTING POLICIES *(continued)*

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 statement of financial position 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 statement of financial position 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 statement of financial position 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.

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.

1.12 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. ACCOUNTING POLICIES *(continued)*

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 the 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 statement of financial position 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 if 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, it is treated as if it had never been granted, and any expense 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 and 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 the statement of comprehensive income.

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 the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

1. ACCOUNTING POLICIES *(continued)*

1.16 Financial instruments *(continued)*

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.

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 is 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 legal right of set-off exists.

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

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.

1.18 Dividends paid

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

1.19 Standards, amendments and interpretations issued not yet effective

The Group has not applied the following IFRS and IFRIC Interpretations that have been issued but are not yet effective, and will be adopted by the Group when they become effective. These are as follows, excluding some that are not expected to apply to the Group:

IFRS 9 Financial Instruments

IFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. They require all financial assets to be:

(a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset;

(b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and

(c) subsequently measured at amortised cost or fair value.

The revised standard is effective for financial periods beginning on or after 1 January 2013. It will have an impact on the classification and measurement of financial assets.

IAS 24 Related-party Disclosure

This standard clarifies and simplifies the definition of a related party. The revised standard also provides some relief for government-related entities to disclose details of all transactions with other government-related entities (as well as with the government itself). This standard prescribes additional disclosure in certain circumstances. The revised standard is effective for financial periods beginning on or after 1 January 2011. It may have an impact on the disclosure of related parties.

1. ACCOUNTING POLICIES *(continued)*

1.19 Standards, amendments and interpretations issued not yet effective *(continued)*

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This interpretation is effective for periods beginning on or after 1 July 2010 and is unlikely to have an impact on the Group.

Amendments to IFRS 2 – Share-based Payments – Group Cash-settled Share-based Payment Arrangements

This amendment provides guidance on accounting for cash settled transactions in a group. The standard is effective for financial periods beginning on or after 1 January 2010 and is unlikely to have an impact on the Group.

Amendment to IAS 32 – Classification of Rights Issues

This amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. The amendment is effective for financial periods beginning on or after 1 February 2010. The standard is unlikely to have an impact on the Group.

Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement

The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. This amendment will allow these entities to recognise a prepayment of pension contributions as an asset rather than an expense. This amendment is effective for financial periods beginning on or after 1 January 2011 and will not have an impact on the Group.

April 2009 Improvements to IFRS

These improvements are mostly effective from 1 January 2010. The second omnibus of improvements to IFRS was issued in April 2009. The items below are a summary of some of the more significant changes.

- IFRS 2 *Share-based Payment:* This was amended to confirm that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of IFRS 2.
- IFRS 5 *Non-current Assets Held-for-Sale:* This amendment clarifies that the disclosures required in respect of non-current assets (or disposal groups) classified as held-for-sale or discontinued operations are only those set out in IFRS 5.
- IFRS 8 *Operating Segments:* This amendment clarifies that segment assets and liabilities need only be reported when included in measures used by the chief operating decision-maker.
- IAS 1 *Presentation of Financial Statements:* The amendment clarifies that the terms of a liability that could at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
- IAS 7 *Statement of Cash Flows:* Clarifies that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities.
- IAS 17 *Leases:* A lease of land may be classified as a finance lease even if the transfer of title does not take place but the risks and rewards of ownership have been transferred.
- IAS 36 *Impairment of Assets:* This amendment was made to state that the largest unit permitted for allocating goodwill acquired in a business combination for the purpose of impairment testing is an operating segment as defined by IFRS 8 before aggregation.
- IAS 38 *Intangible Assets:* The amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangible assets as a single asset, provided the individual assets have similar useful lives. The amendment clarifies the valuation techniques an entity may use to determine value of intangible assets in a business combination.
- IAS 39 *Financial Instruments: Recognition and Measurement:* The standard clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts entered into before the acquirer obtains control at a specified price or on a specified basis. The standard scopes out any forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. The amendment clarifies that a reclassification adjustment of the gain or losses on cash flow hedges should be recorded in the period that the hedged forecast cash flows affect profit or loss.

The impacts of the above amendments are not known. However, these are not expected to have a significant impact on the financial statements.

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

1.19 **Standards, amendments and interpretations issued not yet effective** *(continued)*

May 2010 Improvements to IFRS

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

- IFRS 1 *First-time Adoption of International Financial Standards:* This amendment prescribes additional guidance for first-time adopters.
- IFRS 3 *Business Combinations:* This amendment provides more guidance on the measurement of non-controlling interests and the accounting for unreplaced and voluntarily replaced share-based payments.
- IFRS 7 *Financial Instruments: Disclosure:* This amendment provides clarification of disclosures of financial instruments.
- IAS 1 *Presentation of Financial Statements:* This amendment clarifies that an entity shall present an analysis of each component of other comprehensive income.
- IAS 27 *Consolidated and Separate Financial Statements:* This amendment provides clarity on transitional provisions relating to IAS 21, IAS 28 and IAS 31 to apply prospectively.
- IAS 34 *Interim Financial Reporting:* This amendment provides guidance to indicate how to apply disclosure principles in IAS 34 and provides additional disclosure.
- IFRIC 13 *Customer Loyalty Programmes:* This amendment provides clarity on the measurement of the fair value of an award credit.

The impacts of the above amendments are not known. However, these are not expected to have a significant impact on the financial statements.

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 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		3. REVENUE		
		Total revenue comprises:		
		Turnover	**1 354**	1 303
		Rental income	**83**	78
		Finance revenue	**16**	18
594	207	Dividend income	**26**	30
		Royalty income from franchising	**73**	67
		Other franchise income	**24**	23
		Flight income	**1**	2
3	2	Management fee		
597	209		**1 577**	1 521
		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.	**784**	767
		5. TRADING PROFIT		
		Trading profit is stated after taking into account the following items:		
		Auditors' remuneration		
—#	—#	– Audit fee	**3**	2
—#	—#	– Expenses	**—#**	—#
—#	—#		**3**	2
		Depreciation		
		Owned and leased		
		– Buildings	**7**	4
		– Plant and machinery	**7**	6
		– Vehicles	**1**	2
		– Aircraft	**—#**	1
		– Computer equipment	**2**	4
		– Furniture and fittings	**22**	24
			39	41

#Less than R1 million.

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		5. TRADING PROFIT *(continued)*		
		Operating lease payments		
		– Properties	**14**	17
		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	**12**	10
		Within 2 – 5 years	**16**	11
		Later than 5 years	**6**	5
			34	26
		Directors' emoluments		
		Refer to page 37 of the directors' report for detail disclosures.		
		Employee remuneration		
		– Salaries and wages	**95**	88
		– Profit share	**21**	17
		– Contributions to retirement benefits	**8**	14
			124	119

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 (2009: 136 470 068), representing 13% (2009: 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.

6. SHARE-BASED PAYMENTS *(continued)*

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 2010 (2009: nil). Included in the expenses in the profit and loss for the year is Rnil (2009: Rnil) relating to the current year share option expense for the Share Incentive Trust.

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

	2010		2009	
	Number of share options	**Weighted average exercise price (R)**	Number of share options	Weighted average exercise price (R)
At 1 July	**2 310 000**	**2,39**	8 594 000	1,96
New allocations made	**—**	**—**	—	—
Redeemed allocations	**(2 310 000)**	**2,39**	(6 284 000)	1,81
Forfeited allocations	**—**	**—**	—	—
Outstanding at 30 June	**—**	**—**	2 310 000	2,39
Average subscription price per share		**—**		2,39

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

	Subscription price (R)	Number of shares
1 November 2009	2,39	2 310 000

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.

A breakdown of the share options in issue to executive and non-executive directors is given in the directors' report on page 36.

6. SHARE-BASED PAYMENTS *(continued)*

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.

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 38, 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 2011 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 date:

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

The weighted average vesting period of awards outstanding at year-end is 3,62 years.

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

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		7. FINANCE REVENUE		
		Bank interest receivable	**16**	18
		Dividends from unlisted equity investments	**26**	30
48	7	Dividend income from special purpose entities		
48	7	Total finance revenue	**42**	48
		8. FINANCE COST		
		Bank loans and overdraft	**26**	39
		Finance charges payable under finance leases	**1**	1
		Total finance cost	**27**	40
		9. TAXATION		
		Current taxation		
		– Normal tax (including foreign taxes)	**114**	96
		– Deferred tax	**(3)**	2
12	11	– Secondary tax on companies	**12**	11
12	11		**123**	109
%	%	Reconciliation of tax rate	**%**	%
28,0	28,0	Standard tax rate – South Africa	**28,0**	28,0
		Adjusted for:		
(28,0)	(28,0)	Exempt income	**(1,8)**	(2,3)
		Other differences, including effect of foreign tax rates	**1,2**	0,8
2,0	7,5	Secondary tax on companies	**3,0**	3,0
2,0	7,5	Effective tax rate	**30,4**	29,5

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		10. EARNINGS PER SHARE		
		Earnings per share and diluted earnings per share is based on the income attributable to ordinary shareholders of R273 million (2009: R257 million).		
		The calculation of earnings per share is based on 827 785 764 (2009: 794 550 273) 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	**827 785 764**	794 550 273
		Potentially dilutive ordinary shares resulting from options outstanding	**1 802 242**	865 864
		Weighted average number of shares for diluted earnings per share	**829 588 006**	795 416 137
		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	**273**	257
		Loss on sale of land and buildings	**1**	1
		Gross amount	**1**	1
		Taxation	**—#**	—#
		Share attributable to non-controlling shareholders	**—**	—
		Headline and diluted headline earnings	**274**	258

#Less than R1 million.

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 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 2009 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	**796 987 283**	794 550 273
		Unweighted number of shares issued in lieu of dividend	**123 532 370**	123 532 370
			920 519 653	918 082 643

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		12a DIVIDENDS PAID IN THE CURRENT YEAR		
46	73	Final 2009 – No 86		
		Paid 2010: 5 cents per share (2009: 8 cents)	40	64
		Interim 2009 – No 87		
55	55	Paid 2010: 6 cents per share (2009: 6 cents)	48	43
101	127	Total – 11 cents per share (2009: 14 cents per share)	88	107
		12b DIVIDENDS DECLARED WITH RELATION TO CURRENT YEAR PROFIT		
		Interim – No 87		
55	55	6 cents per share (2009: 6 cents per share)	48	43
		Final – No 88		
52	46	5 cents per share (2009: 5 cents per share)	46	40
107	101	Total – 11 cents per share (2009: 11 cents per share)	94	83
		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	—

13. PROPERTY, PLANT AND EQUIPMENT

	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
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.

Buildings with a cost of R606 million were valued on 17 June 2008 by AJH Valuations cc, independent professional valuers, to a replacement value for existing use of R1,1 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 is held under a finance lease as disclosed in note 23. The aircraft is pledged as security for the related finance lease, and is the only leased asset.

	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)*							
2009							
Owned and leased							
Beginning of year							
– assets at cost	795	37	8	—	19	132	991
– accumulated depreciation	(16)	(19)	(2)	—	(13)	(80)	(130)
– net book value	779	18	6	—	6	52	861
Current year movements							
– additions	57	7	2	31#	4	24	125
– disposals	(4)	(4)	(3)	—	(1)	(2)	(14)
– depreciation	(4)	(6)	(2)	(1)	(4)	(24)	(41)
– translation	(15)	(1)	—	—	—	(1)	(17)
Balance at end of year	813	14	3	30	5	49	914
Made up as follows:							
– 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

**Constituting owner- and related-party occupied properties.*
#Acquired through acquisition of subsidiary. Refer to note 30.

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		14. INVESTMENTS		
		Unlisted		
8	5	Investment in subsidiaries		
8	8	Equity instruments – at cost	**9**	7
218	160	Preference shares		
234	173	Directors' valuation of unlisted investments	**9**	7

Investments in subsidiaries are carried at cost less accumulated impairment. A list of subsidiaries appears on page 81.

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 the prior year impairment of R121 million has been reversed in the current year.

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		15. LONG-TERM ASSETS		
73	69	Loan to BEE trust		
		Lease premiums	**18**	9
73	69		**18**	9

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 current year.

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

COMPANY 2010 Rm's	2009 Rm's		GROUP 2010 Rm's	2009 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	**6**	3
		Deferred tax liabilities	**(3)**	(2)
			4	1

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	2	**5**	**7**
Property, plant and equipment	1	**1**	**2**
Assessed loss	—	**4**	**4**
Deferred tax liability:			
Property, plant and equipment	(1)	**(8)**	**(9)**
Prepayments	(1)	**1**	**—#**
Net deferred tax asset	1	**3**	**4**

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% (2009: 28%) for normal taxation and 10% (2009: 10%) for STC. Australian entities are taxed at 30% (2009: 30%).

#Less than R1 million.

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		18. INVENTORIES		
		Finished goods and merchandise	**232**	191
		Inventory losses recognised as an expense totalled R11 million for the year (2009: 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	**88**	92
		Sundry debtors	**22**	44
562	205	Amounts owing by subsidiary		
562	205		**110**	136

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 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.

As at 30 June 2010, trade receivables at nominal value of R4 million (2009: R4 million) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	Total Rm's
At 1 July 2008	1
Charge for the year	3
At 30 June 2009	4
Charge for the year	—#
At 30 June 2010	**4**

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

	Total Rm's	Current (not impaired) Rm's	Past due, not impaired: 30 – 60 days Rm's	60 – 90 days Rm's	> 90 days Rm's
2010	**88**	**81**	**2**	**2**	**3**
2009	92	90	2	—	—

#Less than R1 million.

Allowances have been raised on debt older than 90 days.

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		20. CASH AND CASH EQUIVALENTS		
—#	1	Cash at banks and on hand	**250**	190
		Short-term deposits	**461**	477
—#	1		**711**	667
		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	417	1 033 332 822 (2009: 909 800 452) ordinary shares of no par value	**818**	417
		Number of shares in issue to external parties:		
1 033 332 822	909 800 452	Total shares in issue	**1 033 332 822**	909 800 452
909 800 452	909 800 452	Opening balance	**909 800 452**	909 800 452
123 532 370	—	Share issue in *lieu* of dividend	**123 532 370**	—
		Treasury shares: Share incentive trust	**(24 290 909)**	(25 815 909)
		BEE transaction	**(88 000 000)**	(88 000 000)
1 033 332 822	909 800 452	In issue to external parties	**921 041 913**	795 984 543
		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 current 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
Group				
Balance as at 30 June 2008	5	—	45	50
Redemption of preference shares	4			4
Revaluation of aircraft		6		6
Translation of foreign entities			(12)	(12)
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**

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		23. INTEREST-BEARING LOANS AND BORROWINGS		
		Finance leases		
		Aircraft#		
		This finance lease bears interest at prime less 2,25% per annum, with a residual value of R12 million. The lease terminates on 3 December 2012.	**11**	12#
		Loans		
		Rand		
		The loan bears interest at prime less 2,4% per annum, and is repayable on 9 July 2011. 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 R57 million (2009: 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**	29
			342	341

#Acquired through acquisition of subsidiary. Refer to note 30.

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 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	**161**	187
	1	Accruals/other payables	**41**	29
	1		**202**	216
		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
Group			
Balance as at 1 July 2008	6	14	20
Provision utilised	(2)	(13)	(15)
Provision raised	2	15	17
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**

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 2011 financial year, and is based on terms as dictated in employment contracts (subject to the final approval from management).

During the prior financial years, provisions were disclosed as part of accruals/other payables. These have been separately disclosed to enhance disclosure in terms of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 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**	40
		Non-current assets	**13**	13
		Current liabilities (non-interest bearing)	**(26)**	(32)
		Impact on Group statement of comprehensive income		
		Income	**47**	69
		Expenses	**(46)**	(68)
		Impact on Group cash flow statement		
		Cash flow from operating activities	**2**	8
		Cash outflow from investing activities	**—#**	—#
		Cash from financing activities	**—**	—
		There are no significant contingent liabilities or commitments in respect of this joint venture for which the Group is responsible (2009: nil).		
		27. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS		
675	39	Profit before taxation	**404**	369
		Adjusted for:		
		Depreciation	**39**	41
		Loss on sale of property, plant and equipment	**1**	1
(48)	(7)	Finance revenue	**(16)**	(18)
(546)	(200)	Dividends received	**(26)**	(30)
		Finance cost	**27**	40
(81)	168	(Impairment reversal)/impairment of investments and loans	**—**	—
3	—	Share-based payment expense and other non-cash movements	**7**	—
(3)	(2)	Management fee received		
		Working capital changes		
		(Increase)/decrease in inventories	**(40)**	75
—	1	Decrease/(increase) in trade and other receivables	**28**	(1)
—	(1)	Decrease in trade and other payables	**(2)**	(35)
—	(2)	Cash generated from/(utilised by) operations	**422**	442

#*Less than R1 million.*

COMPANY 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		28. TAXATION PAID		
1	—	Net amount unpaid at beginning of year	**(6)**	(10)
(12)	(11)	Charged per statement of comprehensive income	**(123)**	(109)
—	—	Deferred tax expense	**(3)**	2
(1)	(1)	Net amount (prepaid)/unpaid at end of year	**(19)**	6
(12)	(12)	Amounts paid	**(151)**	(111)
		29. DIVIDENDS PAID		
(646)	(127)	Charged per statement of changes in equity	**(566)**	(107)
		Dividends paid to non-controlling interests	**(3)**	(4)
(646)	(127)	Amounts paid	**(569)**	(111)

30. BUSINESS COMBINATIONS

Majuba Aviation

On 31 March 2009, the Group acquired the full share capital and voting rights of Majuba Aviation (Pty) Limited, a company in the aviation industry.

The fair value of the identifiable assets and liabilities of Majuba Aviation (Pty) Limited as at the date of acquisition were:

	Fair value recognised on acquisition Rm's
Aircraft	31
	31
Finance lease liability	15
	15
Net assets	16
Total net assets acquired	16
Goodwill arising on transaction	—
Consideration, satisfied by cash	16
Cash flow on acquisition	
Cash paid	(16)
Net cash outflow	(16)

The accounting recognised in the 30 June 2009 financial statements was based on a fair value as the Group had sought an independent valuation for the aircraft owned by Majuba Aviation.

Italtile Retail

During the previous financial year, the Group restructured its Italtile store operations. It subscribed for additional shares in the subsidiary and a party outside the Group also subscribed for shares. As a result, Italtile Ceramic's shareholding decreased by R26 million to 55% while the non-controlling interest now holds 45%. This transaction was accounted for in accordance with the accounting policy on accounting for transactions with non-controlling interests.

30. BUSINESS COMBINATIONS *(continued)*

Cedar Point Trading and TopT Ceramics

During the current 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 2010 Rm's	COMPANY 2009 Rm's		GROUP 2010 Rm's	GROUP 2009 Rm's
		31. COMMITMENTS		
		Capital commitments		
		Capital expenditure for land and buildings, computer equipment and other fixed assets:		
		Contracted	**77**	23
		Authorised but not contracted for	**63**	46
			140	69
		Capital expenditure will be financed from own resources.		

Finance lease commitments

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

	2010 Minimum payments Rm's	**2010** Present value of payments (note 23) Rm's	2009 Minimum payments Rm's	2009 Present value of payments (note 23) Rm's
Within one year	**1**	**1**	1	1
After one year but not more than five years	**13**	**10**	14	11
Total minimum lease payments	**14**	**11**	15	12
Less amounts representing finance charges	**(3)**		(3)	
Present value of minimum lease payments	**11**		12	

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 2010, the fund was found to be in a sound financial position.

At 30 June 2010, 881 (2009: 1 042) employees of the Group and Franchises were members of the Fund, to which the Group contributed R14 million (2009: R14 million) and the employees Rnil (2009: 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, finance leases 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.

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 and Rand finance lease bear 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	**2010 Rm's**	2009 Rm's
+1%	**2**	2
–1%	**(2)**	(2)

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 25% (2009: 35%) 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.

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

Foreign currency risk *(continued)*

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 4 months, and have a settlement value of R5 million (all denominated in Euros with an average exchange rate of R9,71:€1).

Exchange rates utilised to convert financial information are as follows:

	2010		2009	
	Weighted average rate for the year	**Closing rate**	Weighted average rate for the year	Closing rate
ZAR: Australian $	**6,71:1**	**6,56:1**	6,67:1	6,34:1
ZAR: Botswana Pula	**1,14:1**	**1,10:1**	1,24:1	1,18:1
ZAR: Euro	**10,60:1**	**9,34:1**	13,08:1	13,34:1
ZAR: Kenyan Shilling	**0,10:1**	**0,10:1**	0,12:1	0,11:1
ZAR: US$	**7,62:1**	**7,65:1**	9,05:1	7,88:1

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**
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)**
2009						
Financial assets						
Investments	2	5	—	—	—	7
Trade and other receivables	103	2	24	4	3	136
Cash and cash equivalents	560	16	15	38	38	667
Financial liabilities						
Interest-bearing loans and borrowings	(312)	(29)	—	—	—	(341)
Trade and other payables	(159)	(14)	(32)	—#	(11)	(216)

#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.

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 amount of these instruments. 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 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**

Year ended 30 June 2009	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	—	7	20	372	—	399
Trade and other payables	—	186	30	—	—	216
	—	193	50	372	—	615

The Group has cash and cash equivalents of R711 million (2009: R667 million), and unutilised credit facilities of R45 million (2009: R138 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 R0,1 million (2009: R1 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 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 2010 and 2009.

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 the Group raised R300 million financing in the prior financial year. This replaced a R73 million facility procured in 2008.

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.

	2010 Rm's	2009 Rm's
Interest-bearing debt and borrowings	**342**	341
Equity attributable to the equity holders of the parent	**1 422**	1 306
Gearing ratio (%)	**24**	26

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 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 2010 and 2009.

The Company monitors capital using liquidity ratio analysis:

	2010 Rm's	2009 Rm's
Current assets (excluding loans to subsidiaries)	**1**	1
Current liabilities (excluding loans from subsidiaries)	**1**	1
Current ratio (times)	**1**	2

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 53,6% (2009: 51,3%) 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 2010, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2009: Rnil) nor incurred any bad debt expense in the current year (2009: 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	**2010 Rm's**	2009 Rm's	**2010 Rm's**	2009 Rm's
Ceramic Industries Limited	Inventory purchases	**349**	312	**19**	45
Rallen (Pty) Limited	Management fees	**1**	1	**—#**	—
Routledge Modise in association with Eversheds	Legal services	**—**	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 37). No balances were owing at year end (2009: 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 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 2010, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2009: Rnil) nor incurred any bad debt expense in the current year (2009: 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	
		2010	2009	**2010**	2009
Related party	Nature of transactions	**Rm's**	Rm's	**Rm's**	Rm's
Arrow Creek Investments 74 (Pty) Limited	Preference share dividends	**21**	3	**94**	68
Four Arrows Investments 256 (Pty) Limited	Preference share dividends	**27**	4	**124**	92
BEE Trust	Interest	**—**	—	**73**	69
Italtile Ceramics Limited	Dividends and management fees	**549**	202	**562**	205

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 37). No balances were owing at year end (2009: nil).

35. SEGMENT REPORT

The Group has adopted IFRS 8, *Operating Segments*, for the year ending 30 June 2010 and the comparative segment information for the year ending 30 June 2009 has been appropriately restated. 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 4 operating segments:

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

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
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**
2009						
Turnover	1 067	—	—	495	(259)	1 303
Gross margin	402	—	—	63	—	465
Other income*	10	154	138	103	(148)	257
Overheads	(364)	(72)	(29)	(44)	148	(361)
Trading profit	48	82	109	122	—	361

Other income includes franchise fees, rentals, royalties and rebates received.

Asset measures (Rm's)	Retail	Franchising	Properties	Support and supply services	Provisions and inter-group eliminations	Group
2010						
Inventory	**142**	**—**	**—**	**136**	**(46)**	**232**
Trade receivables	**4**	**13**	**16**	**120**	**(65)**	**88**
2009						
Inventory	138	—	—	93	(40)	191
Trade receivables	11	11	14	82	(26)	92

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.

Subsidiaries

	Issued share capital R	% held 2010	% held 2009	Book value of interest: Shares 2010 Rm's	Shares 2009 Rm's	Amounts owing to 2010 Rm's	Amounts owing to 2009 Rm's
Held by Italtile Limited							
RETAILING							
Italtile Ceramics Limited	36 383 670	**100**	100	**1**	1	**562**	205

	Issued share capital 2010 R	Issued share capital 2009 R	Effective % shareholding 2010	Effective % shareholding 2009
Held by subsidiaries				
FRANCHISING				
Italtile Franchising (Pty) Limited	**1 000**	1 000	**100**	100
Italtile Mauritius (Pty) Limited[1]	**1 589**	1 589	**100**	100
PROPERTY INVESTMENT				
Allmuss Properties (Pty) Limited	**1 500**	1 500	**100**	100
Allmuss (Botswana) (Pty) Limited[2]	**4 651**	4 651	**100**	100
Allmuss Properties Namibia (Pty) Limited[3]	**1 100**	1 100	**100**	100
Allmuss Lesotho (Pty) Limited[4]	**1 000**	1 000	**100**	100
Allmuss Properties Kenya Limited[5]	**3 676**	3 446	**100**	100
Allmuss Properties (Uganda) Limited[6]	**5 825 590**	5 825 590	**55**	55
Allmuss Properties Zambia Limited[7]	**188 600**	188 600	**55**	55
Emerald Sky Trading 736 (Pty) Limited	**100**	100	**100**	100
F. B. Ashman (Pty) Limited	**100**	100	**100**	100
Penates Logistics (Pty) Limited	**100**	100	**100**	100
Magnolia Ridge Properties 291 (Pty) Limited	**15 000 000**	15 000 000	**50**	50
SUPPORT SERVICES				
Cladding Finance (Pty) Limited	**100**	100	**100**	100
Earlyworks 191 (Pty) Limited	**100**	100	**100**	100
International Tap Distributors (Pty) Limited	**210**	200	**79**	79
Majuba Aviation (Pty) Limited	**12 339 876**	12 339 876	**100**	100
Ser Export s.p.a.[8]	**37 546**	37 546	**53,5**	53,5
Cedar Point Trading 326 (Pty) Limited	**1 000**	—	**55**	—
RETAILING				
Ceramic Tile Projects (Pty) Limited	**100**	100	**100**	100
CTM Kenya Limited[5]	**3 446**	3 446	**55**	55
Italtile Australia (Pty) Limited[9]	**57 849 956**	57 849 956	**70,1**	70,1
Italtile Retail (Pty) Limited	**1 000**	1 000	**55**	55
Orban Investments 375 (Pty) Limited[3]	**100**	100	**100**	100
TopT Ceramics (Pty) Limited	**100**	—	**80**	—

[1]Incorporated in Mauritius.
[2]Incorporated in Botswana.
[3]Incorporated in Namibia.
[4]Incorporated in Lesotho.
[5]Incorporated in Kenya.
[6]Incorporated in Uganda.
[7]Incorporated in Zambia.
[8]Incorporated in Italy.
[9]Incorporated in Australia.

Analysis of shareholders

Category of shareholder	Number of shareholders	Number of shares held	Shares held %
The Italtile Empowerment Trust	1	26 400 000	2,5
The Italtile Share Incentive Scheme	1	24 290 909	2,4
Empowerment companies	2	61 600 000	6,0
Individuals	404	51 809 304	5,0
Nominee shareholders	67	53 276 694	5,2
Companies and other corporate bodies	178	195 038 086	18,8
Directors	4	46 617 978	4,5
Associates to directors	2	574 299 851	55,6
Total	659	1 033 332 822	100,0

Concentration of holdings – number of shares	Number of shareholders	Number of shares held	Shares held %
1 – 5 000	250	405 936	37,9
5 001 – 20 000	148	1 599 834	22,5
20 001 – 100 000	132	6 318 463	20,0
100 001 – 1 000 000	82	30 236 051	12,5
Over 1 000 000	47	994 772 538	7,1
Total	659	1 033 332 822	100,0

Shareholders' spread

Category of shareholder	Number of shareholders	Number of shares held	Shares held %
Directors	4	46 617 978	4,5
Associates of directors	2	574 299 851	55,6
The Italtile Share Incentive Trust	1	24 290 909	2,4
The Italtile Empowerment Trust	1	26 400 000	2,5
Empowerment companies	2	61 600 000	6,0
Total non-public shareholders	10	733 208 738	71,0
Public shareholders	649	300 124 084	29,0
Total	659	1 033 332 822	100,0

Major shareholders	Number of shares held	% interest in the issued share capital
Rallen (Pty) Limited	554 202 189	53,6
Old Mutual Group	97 899 762	9,5
Four Arrows Investments 256 (Pty) Limited#	35 200 000	3,4
Tommaso Altini Trust	27 385 001	2,7

#BEE Special Purpose Entities.

Branch addresses

Italtile Group Owned and Joint Venture Stores South Africa

Bryanston, Johannesburg
Corner William Nicol Drive and Peter Place
Bryanston 2021
PO Box 1689, Randburg
2125
Tel: (011) 510-9000
Fax: (011) 510-9019

Menlyn, Pretoria
Adjacent to Menlyn Park Shopping Centre
38 Palala Road
Ashlea Gardens
Pretoria
PO Box 35232
Menlo Park 0102
Tel: (012) 348-8700/1/2
Fax: (012) 348-3429
Fax: 086-518-7947

Nelspruit
18 Rapid Street
Riverside Industrial Park
Nelspruit 1200
PO Box 13040, Nelspruit
1200
Tel: (013) 752-8333
Fax: (013) 753-3362

Port Elizabeth
Corner Roshan Street and N2 Freeway, Framesby
Port Elizabeth
PO Box 10973
Linton Grange 6025
Tel: (041) 360-4460
Fax: (041) 360-4470

Somerset West
Corner N2 and R44 next to Somerset Mall
Somerset West
P/Bag X15, Postnet Suite 174
Somerset West 7129
Tel: (021) 851-2170
Fax: (021) 852-7790

Umhlanga
7 Tetford Crescent
Umhlanga Ridge
Umhlanga
PO Box 2474
Mount Edgecombe
Country Club 4301
Tel: (031) 566-5069
Fax: (031) 566-5090

Italtile Franchise Stores South Africa

Montague Gardens, Cape Town
Corner Koeberg and Omuramba Roads
Montague Gardens
Cape Town
PO Box 713
Somerset West 7129
Tel: (021) 552-2101
Fax: (021) 552-2106

CTM Group Owned and Joint Venture Stores

Alberton
Dion Centre, St Austall Road
New Redruth Ext
PO Box 1689, Randburg
2125
Tel: (011) 869-0070
Fax: (011) 869-0084

Boksburg
Corner Northrand and Trichardt Streets
Boksburg 1459
PO Box 1689, Randburg
2125
Tel: (011) 918-5858
Fax: (011) 894-3782

Brakpan
Corner Nossop and Ouhout Streets
Dalpark, Extension 13
Brakpan
PO Box 1689, Randburg
2125
Tel: (011) 915-1754
Fax: (011) 915-5916
Fax: 086-508-1689

Centurion
Highway Business Park
Old Johannesburg Road
Rooihuiskraal
Centurion 0157
PO Box 1689, Randburg
2125
Tel: (012) 661-2196/7/8/9
Fax: 086-555-0550

Dobsonville
301 Roodepoort Road
Mmesi Park
Dobsonville 1863
PO Box 1689, Randburg
2125
Tel: (011) 988-6789
Fax: (011) 988-6726

East London
Corner Main and Fitchett Streets
Amalinda
East London
PO Box 12836, Amalinda
East London 5252
Tel: (043) 741-1360
Fax: (043) 741-1369

Ladysmith
83A Murchison Street
Ladysmith 3370
PO Box 1689, Randburg
2125
Tel: (036) 631-0056/7
Fax: (036) 631-1619

Lonehill
152 Capricorn Road
Paulshof 2062
PO Box 1689, Randburg
2125
Tel: (011) 467-6357/8
Fax: (011) 467-6362

Maun
Next to Adima Hire, Boseja
Maun
Post Bag 114, Suite 92
Botswana
Tel: (00267) 686-4478
Fax: (00267) 686-4479

Menlyn, Pretoria
Adjacent to Menlyn Park Shopping Centre
38 Palala Road
Ashlea Gardens
Pretoria
PO Box 1689, Randburg
2125
Tel: (012) 365-3070/1/2
Fax: (012) 365-3080
Fax: 086-518-7947

Montana
Corner Taaifontein and Caliandra Roads
Montana Park
Pretoria
PO Box 1689, Randburg
2125
Tel: (012) 548-3555
Fax: (012) 548-4009

Oshakati
Main Road, Ongwediva
Oshakati
Namibia
PO Box 2958
Oshakati
Namibia
Tel: (00264) 652-31190
Fax: (00264) 652-31176

Paarl
Corner Textile and Lady Grey Streets
Paarl 7646
PO Box 1689, Randburg
2125
Tel: (021) 871-1902/3/4
Fax: (021) 871-1907

Pretoria
Corner Michael Brink Street and Hendrik Verwoerd Drive
Innesdale
Pretoria
PO Box 1689, Randburg
2125
Tel: (012) 335-3308
Fax: (012) 335-3323

Route 24 (Edenvale)
198 Herman Road
Meadowdale, Edenvale
PO Box 1689, Randburg
2125
Tel: (011) 453-0320
Fax: (011) 453-7443

Somerset West
Somerset West Business Park
Delson Circle
Somerset West
PO Box 224, Somerset West
7129
Tel: (021) 851-7110
Fax: (021) 851-7117

Southgate
20 Rifle Range Road
Ridgeway
(Next to Southgate Mall)
Southgate
PO Box 1689, Randburg
2125
Tel: (011) 494-4496
Fax: (011) 494-5000

Strijdompark
1 Arbeid Street
Strijdompark
PO Box 1689, Randburg
2125
Tel: (011) 792-4136
Fax: (011) 792-4138

Tembisa
1, Erf 4859, Isimuku Street
Birch Acres Ext
Tembisa
PO Box 1689, Randburg
2125
Tel: 084-585-9348
Fax: 086-508-1640

Trichardt
12 Paul Kruger Street
Trichardt, 2300
PO Box 6985, Secunda 2302
Tel: (017) 638-0403/4
Fax: (017) 638-0445

Vaal
Corner Johannesburg and
Leeuwenhoek Streets
Vereeniging 1930
PO Box 1689, Randburg
2125
Tel: (016) 422-7456
Fax: (016) 422-7350/54

Westgate
Corner C R Swart and
Ontdekkers Roads
Wilropark
PO Box 1689, Randburg
2125
Tel: (011) 768-5758/0416/7
Fax: (011) 768-1969

Windhoek
No. 3 Andimba Toivo Ya
Toivo Street, Southern
Industria
Windhoek
PO Box 40480,
Ausspannplatz,
Windhoek
Namibia
Tel: (00264) 612-55318/9
Fax: (00264) 612-35479

Worcester
10 Park Close
Worcester 6850
PO Box 767, Worcester 6849
Tel: (023) 347-4869
Fax: (023) 342-4808

CTM Franchise Stores South Africa

Bethlehem
Mullerstraat Oos 19
Hospitaalheuwel
Bethlehem 9701
PO Box 2638
Bethlehem 9700
Tel: (058) 303-0065/6
Fax: (058) 303-8517

Bloemfontein
Corner Curie and Pasteur
Avenue, Showgate
PO Box 34654, Faunasig
Bloemfontein 9325
Tel: (051) 430-4967
Fax: (051) 447-7532
Fax: 086-508-1638

Botshabelo
No. 1 Blue Street
Botshabelo 9781
PO Box 34654, Faunasig
Bloemfontein 9325
Tel: (051) 534-8899
Fax: (051) 534-8991
Fax: 086-508-1639

Brackenfell
Paradys Street
Brackenfell 7560
PO Box 3974, Durbanville
7551
Tel: (021) 981-4576
Fax: (021) 981-6750

Brits
Hendrik Verwoerd Avenue
Brits 0250
Postnet Suite 160
Private Bag x0001
Ifafi 0260
Tel: (012) 250-3034/66
Fax: (012) 250-2991
Fax: 086-508-1655

Burgersfort
281 Kastania Street
Burgersfort 1150
PO Box 1689, Randburg
2125
Tel: (013) 231-7968
Fax: (013) 231-7687

Durban
41B Intersite Avenue
Umgeni Business Park
Springfield
PO Box 40571, Red Hill 4071
Tel: (031) 263-1470/2/3
Fax: (031) 263-1475

Empangeni
Corner John Ross and
Tanner Road
Empangeni 3880
PO Box 8696, Empangeni
Station 3901
Tel: (035) 772-5250/1
Fax: (035) 772-5253

George
Corner Knysna Road and
Fourth Street
George East 6529
PO Box 12231, Garden Route
Mall, George 6546
Tel: (044) 871-1021/2
Fax: (044) 871-1048

Groblersdal
9 Eind Street Corner
Van Riebeck and Canal
PO Box 1641
Groblersdal 0470
Tel: (013) 262-5416
Fax: (013) 262-3976

Hermanus
Corner Skulphoek and
Adam Roads, Sandbaai
Hermanus
PO Box 1622, Sandbaai
Hermanus 7200
Tel: (028) 313-1199
Fax: (028) 313-2928

Kimberley
Pniel Road No 7
Kimberley 8301
PO Box 194, Kimberley 8301
Tel: (053) 831-4230
Fax: (053) 831-4232

Klerksdorp
Corner Bishop Desmond Tutu
and Jo Slovo
Klerksdorp 2571
PO Box 966, Klerksdorp 2570
Tel: (018) 464-1222/1999
Fax: (018) 462-2729
Fax: 086-576-6105

Louis Trichardt
No. 1 Makhado Crossing
Corner Limpopo and
Commercial Road
Louis Trichardt
PO Box 4200,
Louis Trichardt 0920
Tel: (015) 516-2779/0279
Fax: (015) 516-2777

Mafikeng
Corner Nelson Mandela Drive
and 1st Avenue
Industrial Sites
Mafikeng 2745
PO Box 23274, Mafikeng
2745
Tel: (018) 381-1073/0509
Fax: (018) 381-0504

Middelburg (Mpumalanga)
No 1 Meyer Street
Middelburg
PO Box 830, Middelburg
1050
Tel: (013) 282-2420/30
Fax: (013) 282-2425

Mokopane (Potgietersrus)
43 Thabo Mbeki Street
Potgietersrus
Mokopane
PO Box 4749, Mokopane
0600
Tel: (015) 491-1368
Fax: (015) 491-3912

Montague Gardens
Koeberg Road
Montague Gardens 7945
PO Box 1179, Milnerton 7435
Tel: (021) 552-2999
Fax: (021) 552-3049

Mossel Bay
8 Bolton Road, Voorbaai
Mossel Bay
PO Box 2058, Mossel Bay
6500
Tel: (044) 695-1141
Fax: (044) 695-0284

Branch addresses continued

Mthatha (Umtata)
73 Nelson Mandela Drive
Umtata
PO Box 52550, Umtata 5099
Tel: (047) 532-6850
Fax: (047) 532-6868
Fax: 086-622-7652

Nelspruit
18 Rapid Street
Riverside Industrial Park
Nelspruit 1200
PO Box 3171, Nelspruit 1200
Tel: (013) 755-2006
Fax: (013) 755-1434

Newcastle
81 Scott Street
Newcastle
PO Box 20543, Newcastle
2940
Tel: (034) 315-5145/6
Fax: (034) 315-5147

Phuthaditjhaba
Factory 115, Mohale Street
Phuthaditjhaba Area 3
Tel: (058) 713-6183/93
Fax: (058) 713-6178

Pietermaritzburg
116 Victoria Road
Pietermaritzburg 3201
Tel: (033) 342-9701
Fax: (033) 342-7330

Pinetown
56 Old Main Road
Pinetown
PO Box 1924, Westville 3630
Tel: (031) 702-3701
Fax: (031) 702-3706

Plettenberg Bay
Theron Street
Plettenberg Bay
Industrial Area
PO Box 1931,
Plettenberg Bay
6600
Tel: (044) 533-5829
Fax: (044) 533-5916

Potchefstroom
18 Poortmain Street
Potch Industria
PO Box 1660, Potchefstroom
2520
Tel: (018) 294-3011/12
Fax: (018) 294-3013

Polokwane (Pietersburg)
64 Hoof Street, Superbia
Polokwane
PO Box 31281, Superbia
0759
Tel: (015) 292-0001/5
Fax: (015) 292-1529

Port Elizabeth
1 Archie Close
Corner Chase Drive and
Keeton Street
Young Park, Port Elizabeth
PO Box 3788, Northend
Port Elizabeth 6056
Tel: (041) 456-4691
Fax: (041) 456-4683

Port Shepstone (South Coast)
1 Oscar Nero Road, Marburg
Port Shepstone
PO Box 2533, Port Shepstone
4240
Tel: (039) 682-1601
Fax: (039) 682-1762

Prospecton
2 B Prospecton Road
Prospecton, Durban
PO Box 26311
Isipingo Beach 4115
Tel: (031) 902-9230
Fax: (031) 902-9234

Queenstown
123 Cathcart Road
Queenstown 5320
PO Box 687, Queenstown
5320
Tel: (045) 838-5376/7/8
Fax: (045) 838-5011

Rustenburg
8 Korokoro Street
Waterfall East
Postnet Suite 4529
Private Bag X82323
Rustenburg 0300
Tel: (014) 592-1205/6/7
Fax: (014) 592-1203
Fax: 086-508-1694

Springs
3 Lead Road, New Era
Springs
PO Box 9410, Elsburg 1407
Tel: (011) 817-1336
Fax: (011) 813-3922

Thohoyandou
102 Main Street
Thohoyandou 0950
PO Box 1700, Sibasa 0970
Tel: (015) 962-5401
Fax: (015) 962-5462

Tokai
Corner Vans and Tokai
Roads
Tokai 7945
Tel: (021) 715-8506
Fax: (021) 715-8569

Tzaneen
Corner Sapekoe Avenue and
Claude Wheadly Drive
Tzaneen
PO Box 1297, Tzaneen 0850
Tel: (015) 307-4039/44
Fax: (015) 307-4049

Umhlanga
7 Tetford Crescent
Umhlanga Ridge
Durban
PO Box 2474, Mount
Edgecombe
Country Club 4301
Tel: (031) 566-3340
Fax: (031) 566-3341

Upington
Corner Le Roux and
Swartmodder Streets
Upington 8801
PO Box 1735, Upington 8800
Tel: (054) 331-2577/79
Fax: (054) 331-2575

Vredenburg
20 Saldanha Road
Vredenburg
PO Box 1318
Vredenburg 7380
Tel: (022) 715-1180/1/2
Fax: (022) 715-1105

Vryburg
Corner Stella and
Moffat Streets
Vryburg
PO Box 1093, Vryburg 8600
Tel: (053) 927-6875/3591
Fax: (053) 927-6876

Welkom
Corner Koppie Alleen and
Constantia Roads
PO Box 98, Welkom 9460
Tel: (057) 396-3371/2
Fax: (057) 396-4818

Witbank
No. 2 Vanderbijl Street
Witbank
PO Box 13150, Leraatsfontein
1035
Tel: (013) 690-2874/6
Fax: (013) 690-2878

CTM Franchise Stores
Rest of Africa

NAMIBIA

Swakopmund
Moses-Garoeb Street
Swakopmund
PO Box 2196, Swakopmund
Namibia 9000
Tel: (00264) 644-64148
Fax: (00264) 644-64124

LESOTHO

Maseru
Plot No 12282-077
Moshoeshoe Road
Industrial Area, Maseru
Lesotho
Private Bag A248, Maseru
Lesotho 0100
Tel: (00266) 22-327-457
Fax: (00266) 22-327-458

UGANDA

Kampala
Plot 171/177, 6th Street
Industrial Area
Kampala
PO Box 25202, Kampala
Uganda
Tel: (00256) 312-261-888
Fax: (00256) 312-261-889

SWAZILAND

Matsapha
No. 3 King Maswati III
Avenue
Matsapha, Swaziland
PO Box 1095, Matsapha
Swaziland
Tel: (00268) 518-4061
Fax: (00268) 518-4048

Mbabane
Plot 940, Mshini Road
Sidwashini, Mbabane
PO Box 1095, Matsapha
Swaziland
Tel: (00268) 422-1720
Fax: (00268) 422-1721

BOTSWANA

Francistown

Plot 31248
Somerset Industrial
Francistown
PO Box 1285, Francistown
Botswana
Tel: (00267) 241-5590
Fax: (00267) 244-0065

Gaborone

Plot 53609, Unit 5, Gaborone
West Industrial
Botswana
PO Box 25033, Gaborone
Botswana
Tel: (00267) 393-3770
Fax: (00267) 393-3771

Palapye

Plot 304, New Industrial Sites
Palapye
PO Box 11791, Pota, Palapye
Botswana
Tel: (00267) 490-0430
Fax: (00267) 490-0429

TANZANIA

Arusha – CTM (EA) Limited

Shop 6A – TFA Shopping
Complex
PO Box 10802, Arusha
Tanzania
Tel: (00255) 27-254-8015
Fax: (00255) 27-254-8145

Dar es Salaam Airport (Main) Store – CTM (EA) Limited

Plot 115, Nyerere Road
PO Box 79085
Dar es Salaam
Tanzania
Tel: (00255) 22-286-3916
Fax: (00255) 22-286-5692

Dar es Salaam (Mwenge Store) – CTM (EA) Limited

Plot 109, Mikocheni Light
Industrial Area
PO Box 79085
Dar es Salaam
Tanzania
Tel: (00255) 22-270-0602
Fax: (00255) 22-286-5692

KENYA

Mombasa

Malindi Road
Plot MN1/301/3102
Nyali
Mombasa
Kenya
PO Box 95787, Kenya
Tel: (00254) 2020-3828/9
Fax: (00254) 2020-38526

AUSTRALIA

Sydney – New South Wales

CTM Beresfield

2 Birraba Avenue, Beresfield
NSW2322
Tel: (00612) 4966-0166
Fax: (00612) 4966-0677

CTM Blacktown

Shops 8 and 9 Homebase
Shopping Center
19 Stoddart Road, Prospect
NSW 2148
Tel: (00612) 9688-4528
Fax: (00612) 9688-4918

CTM Brookvale

734 – 736 Pittwater Road
Brookvale
NSW 2100
Tel: (00612) 9939-3090
Fax: (00612) 9939-3313

CTM West Gosford

297 Manns Road
West Gosford
NSW 2250
Tel: (00612) 4322-8377
Fax: (00612) 4322-8399

CTM Lansvale

286 Hume Highway, Lansvale
NSW 2166
Tel: (00612) 9724-0141
Fax: (00612) 9724-5219

Brisbane – Queensland

CTM Canon Hill

1881 Creek Road
Canon Hill
QLD 4170
Tel: (00617) 3395-6774
Fax: (00617) 3395-8661

CTM Springwood

3439 Pacific Highway
Slacks Creek
QLD 4127
Tel: (00617) 3208-3472
Fax: (00617) 3208-2918

CTM Strathpine

114 Gympie Road
Strathpine
QLD 4500
Tel: (00617) 3889-8666
Fax: (00617) 3889-8142

TopT Group Owned Stores

Lenasia/Lawley

Main Lawley Road, Lenasia
PO Box 1689, Randburg
2125
Tel: (011) 857-1232/1249
Fax: (011) 857-1556

Benoni

Corner Amphill and
Wistead Road
Benoni
PO Box 1689, Randburg
2125
Tel: (011) 845-3081
Fax: (011) 845-3175

Giyani

Main Road, Horizon Mall
Giyani
PO Box 1689, Randburg
2125
Tel: (015) 812-1326
Fax: (015) 812-3819

Lichtenburg

Corner Melville and
Buchanan Street
Ebenlou Building
Lichtenburg
PO Box 1689, Randburg
2125
Tel: (018) 632-0604
Fax: (018) 632-0605

Lydenburg

10 Voortrekker Street
Lydenburg
PO Box 1689, Randburg
2125
Tel: (013) 235-2755
Fax: (013) 235-3179

Oudtshoorn

60 Jones Street
Oudtshoorn
PO Box 1689, Randburg
2125
Tel: (044) 272-2217/8
Fax: (044) 272-2281

Roodepoort

Corner Anvil and
Granville Streets
Robertville
PO Box 1689, Randburg
2125
Tel: (011) 674-2134
Fax: (011) 674-3306

Vanderbijlpark

Rabie Street, CE6
Vanderbijlpark
PO Box 1120, Vereeniging
1930
Tel: (016) 933-1951/2
Fax: (016) 933-1955

TopT Franchise Stores

Polokwane (Pietersburg)

79 Mandela Drive
Polokwane
PO Box 31281, Polokwane
0759
Tel: (015) 292-3841
Fax: (015) 292-3842

Rustenburg

115 Leyds Street
Postnet Suite 4529
Private Bag X82323
Rustenburg 0030
Tel: (014) 597-2701
Fax: (014) 597-3056

Uitenhage

103 Durban Road
Uitenhage
PO Box 3788, North End
Port Elizabeth 6056
Tel: (041) 922-0676
Fax: (041) 922-0678

Administration and offices

ITALTILE LIMITED
Incorporated in the Republic of South Africa
Listed on the JSE Limited

Registration number	1955/000558/06
JSE share	ITE
ISIN code	ZAE000099123
Company Secretary	E J Willis
Registered office	The Italtile Building Cnr William Nicol Drive and Peter Place Bryanston, 2021
Postal address	PO Box 1689, Randburg, 2125
Telephone number	+27 (0) 11 510-9050
Fax number	+27 (0) 11 510-9061
Transfer secretaries	Computershare Investor Services (Pty) Limited 70 Marshall Street Johannesburg, 2001
Sponsor	Barnard Jacobs Mellet
Legal advisors	Derek H Rabin & Associates (Pty) Limited and Routledge Modise in Association with Eversheds
Bankers	Nedbank Limited
Auditors	Ernst & Young Inc.
Website	http://www.Italtile.com

Shareholders' diary

FINANCIAL YEAR-END		June
ANNUAL GENERAL MEETING		November
REPORTS		
Interim half-year to December		February
Preliminary profit announcement		August
Annual financial statements		September
DIVIDENDS		
Interim dividend	Declared	February
	Paid	March
Final dividend	Declared	August
	Paid	September

Italtile Limited
(Incorporated in the Republic of South Africa)
(Registration No 1955/000558/06)
("the Company" or "Italtile")
JSE code: ITE
ISIN code: ZAE000099123

Notice to shareholders

This document is important and requires your immediate attention.

If you are in any doubt as to the action you should take, please consult your Central Securities Depository Participant ("CSDP"), broker, banker, legal advisor, accountant or other professional advisor immediately.

Notice is hereby given that the 22nd annual general meeting ("AGM") of shareholders of Italtile will be held at Zenzele Park, cnr Likkewaan and Dr Vosloo Street, Bartlett Ext 40, Boksburg, on Friday, 26 November 2010 at 11:00, for the following purposes:

ORDINARY BUSINESS

1. To receive, consider and adopt the annual financial statements for the year ended 30 June 2010 of the Company and the Group, together with the reports of the directors and auditors.
2. To re-elect G A M Ravazzotti as a director, who is retiring by rotation in terms of the Articles of Association of the Company and, being eligible, offers himself for re-election.
3. To re-elect S I Gama as a non-executive director, who is retiring by rotation in terms of the Articles of Association of the Company and, being eligible, offers himself for re-election.
4. To approve the appointment of A Zannoni who was appointed to the Board on 26 November 2010.

   A brief curriculum vitae in respect of these directors is contained on page 30 of this annual report.
5. To appoint Ernst & Young Inc. as independent auditors of the company and to appoint Derek Engelbrecht being a member of Ernst & Young Inc. as the individual registered auditor who will undertake the audit of the Company for the ensuing period terminating on the conclusion of the next AGM of the Company.
6. To authorise the audit committee to fix the remuneration of the auditors.
7. To approve the director's remuneration paid to the directors of the Company for the year ended 31 June 2010, as set out on page 37 of the financial statements.

SPECIAL BUSINESS

In addition, shareholders will be requested to consider and, if deemed fit, to pass the following resolutions with or without amendment:

RESOLUTIONS

Ordinary resolution number 1

"Resolved that all the authorised but unissued ordinary shares in the capital of the Company, be and are hereby placed at the disposal and under the control of the directors, and that the directors be and are hereby authorised to allot, issue and otherwise to dispose of all or any of such shares at their discretion, in terms of and subject to the provisions of the Companies Act, 1973 (Act No 61 of 1973), as amended and the Listings Requirements of the JSE Limited and subject to the proviso that the aggregate number of ordinary shares which may be allotted and issued in terms of this ordinary resolution number 1, shall be limited to 10% (ten percent) of the number of ordinary shares in issue from time to time".

A majority of the votes cast by all shareholders present or represented by proxy at the annual general meeting, will be required to approve this resolution.

Special Resolution number 1 – Buy-back of shares

"Resolved, as a special resolution, that the Company be given a mandate providing authorisation, by way of a general approval, to acquire the Company's own securities, upon such terms and conditions and in such amounts as the directors may from time-to-time decide, but subject to the provisions of the Companies Act, 1973 (Act 61 of 1973), as amended, ("the Act"), the Company's Articles of Association and the Listings Requirements of the JSE Limited ("JSE"), and subject to the following terms and conditions:

- Any repurchase of securities must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty;

- At any point in time, the Company may only appoint one agent to effect any repurchase;
- This general authority be valid until the Company's next annual general meeting, providing that it shall not extend beyond 15 (fifteen) months from date of passing of this special resolution (whichever period is shorter);
- An announcement be published as soon as the Company has cumulatively repurchased 3% of the initial number (the number of that class of share in issue at the time that the general authority is granted) of the relevant class of securities and for each 3% in aggregate of the initial number of that class acquired thereafter, containing full details of such repurchases;
- Repurchases by the company in aggregate in any one financial year will not exceed 20% of the Company's issued share capital as at the date of passing of this special resolution or 10% of the Company's issued share capital in the case of an acquisition of shares in the Company by a subsidiary of the Company.
- Repurchases may not be made at a price greater than 10% above the weighted average of the market value of the securities for the five business days immediately preceding the date on which the transactions was effected;
- Repurchases may not be undertaken by the Company or one of its wholly owned subsidiaries during a prohibited period unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period; and
- The Company may not enter the market to proceed with the repurchase of its ordinary shares until the Company's sponsor has confirmed the adequacy of the Company's working capital for the purpose of undertaking a repurchase of shares in writing to the JSE.
- The directors are of the opinion that, after considering the effect of the maximum repurchase permitted and for a period of 12 months after the date of this annual general meeting:
  - The Company will be able, in the ordinary course of business, to pay its debts;
  - The assets of the Company will be in excess of the liabilities of the Company, the assets and liabilities being recognised and measured in accordance with the accounting policies used in the latest audited annual Company financial statements;
  - The working capital of the Company will be adequate for ordinary business purposes; and
  - The share capital and reserves are adequate for the ordinary business purposes of the Company.

The effect of the special resolution and the reason therefore is to extend the general authority given to the directors in terms of the Act and the Listings Requirements of the JSE for the acquisition by the Company of its own securities, which authority shall be used at the directors' discretion during the course of the period so authorised.

In terms of the Listings Requirements of the JSE, the following disclosures are required with reference to the general authority to repurchase the Company's securities set out in the special resolution above, some of which are set out elsewhere in the annual report of which this notice forms part.

Directors – refer page 30.

Major shareholders of the Company – refer page 83.

Directors' interests in the Company's securities – refer page 36.

Share capital – refer page 81.

Litigation statement

The directors of the Company, whose names are given on page 30 of this annual report, are not aware of any legal or arbitration proceedings, pending or threatened against the Company, which may have or have had, in the 12 months preceding the date of this notice, a material effect on the Company's financial position.

Directors' responsibility statement

The directors, whose names are given on page 30 of this annual report, collectively and individually, accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been

Notice to shareholders continued

omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the annual report contains all the information required by law and the JSE Listings Requirements.

Material change

Other than the facts and developments reported in this annual report, there have been no material changes in the affairs, financial or trading position of the Company since the signature date of this annual report and the posting date thereof.

Shares held by the Company as treasury shares and the Italtile Share Incentive Trust will be excluded from the quorum and voting on the resolutions commissioned at the AGM.

VOTING AND PROXIES

A shareholder entitled to attend and vote at the AGM is entitled to appoint a proxy or proxies to attend, speak and vote in his or her stead. A proxy need not be a shareholder of the Company. For the convenience of registered shareholders of the Company, a form of proxy is enclosed herewith.

The attached form of proxy is only to be completed by those shareholders who are:

- holding Italtile ordinary shares in certificated form; or
- recorded on the electronic subregister in 'own name' dematerialised form.

Shareholders who have dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with a letter of representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement/mandate entered into between them and their CSDP or broker.

Forms of proxy must be lodged with the transfer secretaries of the Company at the address given below, by no later than 15:00 on Wednesday, 24 November 2010. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the AGM.

Holders of dematerialised Italtile shares wishing to attend the annual general meeting must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the relevant authorisation to attend.

By order of the Board

E J Willis
Company Secretary

Johannesburg

17 September 2010

Italtile Limited
(Incorporated in the Republic of South Africa)
(Registration No 1955/000558/06)
("the Company" or "Italtile")
JSE code: ITE
ISIN code: ZAE000099123

Form of proxy

ONLY TO BE COMPLETED BY CERTIFICATED SHAREHOLDERS AND DEMATERIALISED SHAREHOLDERS WITH 'OWN NAME' REGISTRATION

For use at the annual general meeting of the holders of ordinary shares in the Company (Italtile shareholders) to be held at Zenzele Park, cnr Likkewaan and Dr Vosloo Street, Bartlett Ext 40, Boksburg, on Friday, 26 November 2010 at 11:00.

Italtile shareholders who have dematerialised their shares through a CSDP or broker must not complete this form of proxy but must provide their CSDP or broker with their voting instructions, except for Italtile shareholders who have elected 'own name' registration in the subregister through a CSDP or broker. It is these shareholders who must complete this form of proxy and lodge it with the transfer secretaries.

Holders of dematerialised Italtile shares wishing to attend the annual general meeting must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the relevant authorisation to attend.

A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, vote and speak in his/her/its stead at the annual general meeting. A proxy need not be a member of the Company.

I/We (Name in block letters)

of (address)

being a member(s) of the Company, and entitled to votes do hereby appoint

of or, failing him/her

of or, failing him/her

the chairman of the annual general meeting, as my/our proxy to represent me/us at the annual general meeting, which will be held at Zenzele Park, cnr Likkewaan and Dr Vosloo street, Bartlett Ext 40, Boksburg, for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment or postponement thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the shares in the issued share capital of the Company registered in my/our name (see note 2 overleaf) as follows:

		For	Against	Abstain
1.	To adopt the Group annual financial statements for the year ended 30 June 2010			
2.	To re-elect G A M Ravazzotti as director			
3.	To re-elect S I Gama as a non-executive director			
4.	To confirm the appointment of A Zannoni as director			
5.	To reappoint Ernst & Young Inc. and Derek Engelbrecht as auditors			
6.	To authorise the audit committee to fix the auditors' remuneration			
7.	To approve the directors' remuneration			
8.	Ordinary resolution number 1 – To place the unissued shares of the Company under the control of the directors			
9.	Special resolution number 1 – Buy-back of shares			

and generally to act as my/our proxy at the said annual general meeting. (Indicate with an "X" or the relevant number of votes, in the applicable space, how you wish your votes to be cast. If no directions are given, the proxy holder will be entitled to vote or to abstain from voting as that proxy holder deems fit.)

Signed at on 2010.

Signature of member(s) Assisted by (where applicable)

Please read the notes on the reverse side hereof.

Notes to the form of proxy

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space(s) provided, with or without deleting "chairman of the annual general meeting", but any such deletion or insertion must be initialled by the shareholder. Any insertion or deletion not complying with the aforegoing will be declared not to have been validly effected. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names that follow. In the event that no names are indicated, the proxy shall be exercised by the chairman of the annual general meeting.
2. A shareholder's instructions to the proxy must be indicated by the insertion of an "X" or the relevant number of votes exercisable by that shareholder in the appropriate box provided. An "X" in the appropriate box indicates the maximum number of votes exercisable by that shareholder. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded, may not exceed the maximum number of votes exercisable by the shareholder or by his/her proxy.
3. To be effective, completed proxy forms must be lodged with the transfer secretaries or at the registered office of the Company not less than 48 hours (excluding Saturdays, Sundays and public holidays) before the time appointed for the holding of the annual general meeting. As the annual general meeting is to be held at 11:00 on 26 November 2010, proxy forms must be lodged on or before 15:00 on 24 November 2010.
4. The completion and lodging of this proxy form will not preclude the relevant shareholder attending the annual general meeting and speaking and voting in person thereat instead of any proxy appointed in terms hereof.
5. The chairman of the annual general meeting may reject or accept any proxy form which is completed and/or received other than in compliance with these notes.
6. Any alteration to this proxy form, other than a deletion of alternatives, must be initialled by the signatories.
7. Documentary evidence establishing the authority of a person signing this proxy form in a representative or other legal capacity must be attached to this proxy form unless previously recorded by the Company or its registrars or waived by the chairman of the annual general meeting.
8. Where there are joint holders of shares:
   - 8.1 any one holder may sign the proxy form; and
   - 8.2 the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the Company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.

104 stores

CONTENTS

570 employees