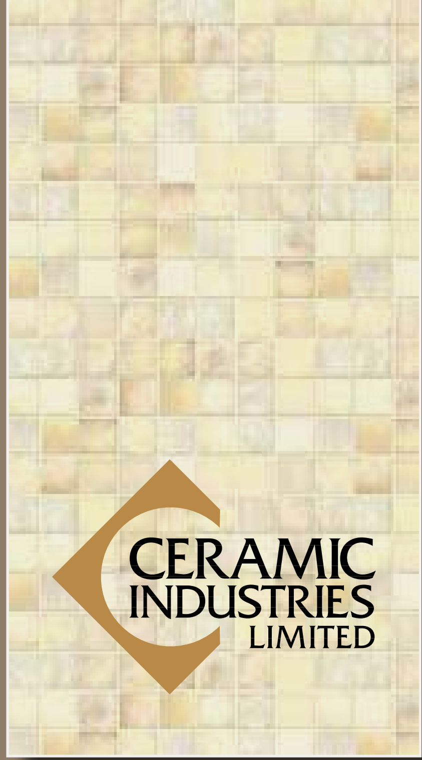

Annual Report 2011

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Vision

To serve our customers by being the leading low-cost manufacturer and supplier of ceramic tiles and sanitaryware.

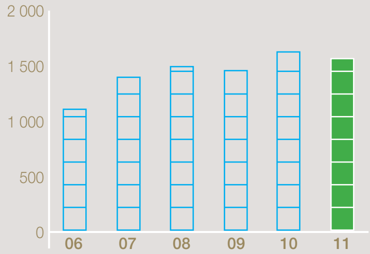
Mission statement

To be and remain an environmentally responsible, internationally competitive manufacturer of ceramics, ensuring our customers' expectations are exceeded by delivering quality services and products, through empowered people, thereby creating prosperity for all stakeholders through innovative employment of assets. Ceramic Industries will conduct business around the principles of **Excellence, Integrity, Human Dignity and Fairness.** Recognising our strengths as leaders in the industry – we acknowledge our weaknesses and strive to convert them into strengths.

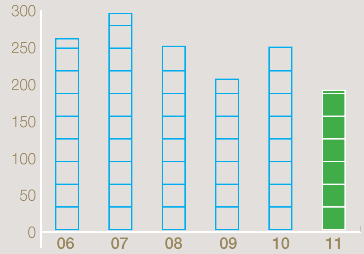


	% change	2011	2010
Revenue (R000's)	(3,4)	**1 547 249**	1 601 187
Operating profit (R000's)	(23,3)	**191 847**	250 147
Total assets (R000's)	(10,8)	**1 448 064**	1 623 017
Cash and cash equivalents net of borrowings (R000's)	(50,0)	**217 712**	435 748
Shareholders' equity (R000's)	(11,6)	**1 198 085**	1 355 799
Number of shares in issue (000's)	–	**20 293**	20 293
Number of shares used for calculating earnings per share (000's)	(1,4)	**16 904**	17 136
Headline earnings per share (cents)	(30,6)	**785,3**	1 131,3
Dividends per share (cents)	–	**300,0**	300,0
Special dividend per share (cents)	–	**1 500,0**	–
Net asset value per share (cents)	(10,4)	**7 088**	7 912

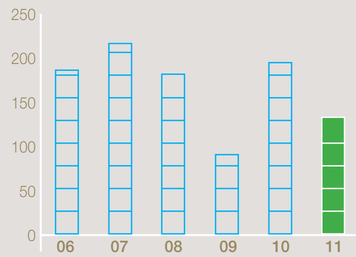
Revenue
R million



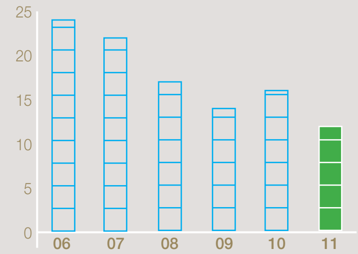
Operating profit
R million



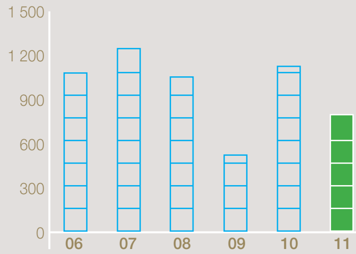
Profit after taxation*
R million



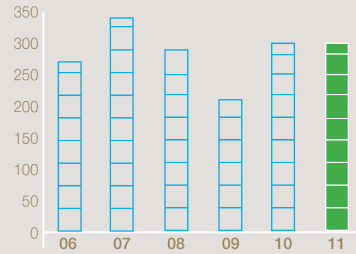
Operating margin
%



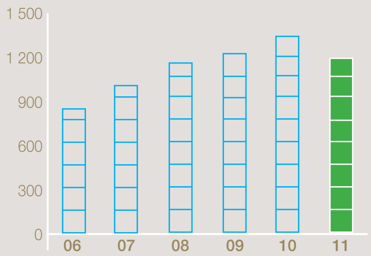
Headline earnings per share*
Cents per share



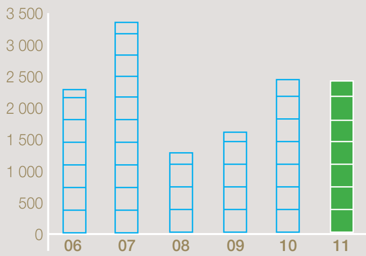
Dividend per share#
Cents per share



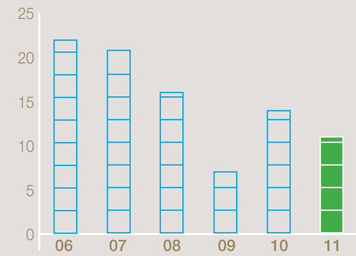
Shareholders' equity
R million



Market capitalisation
R million

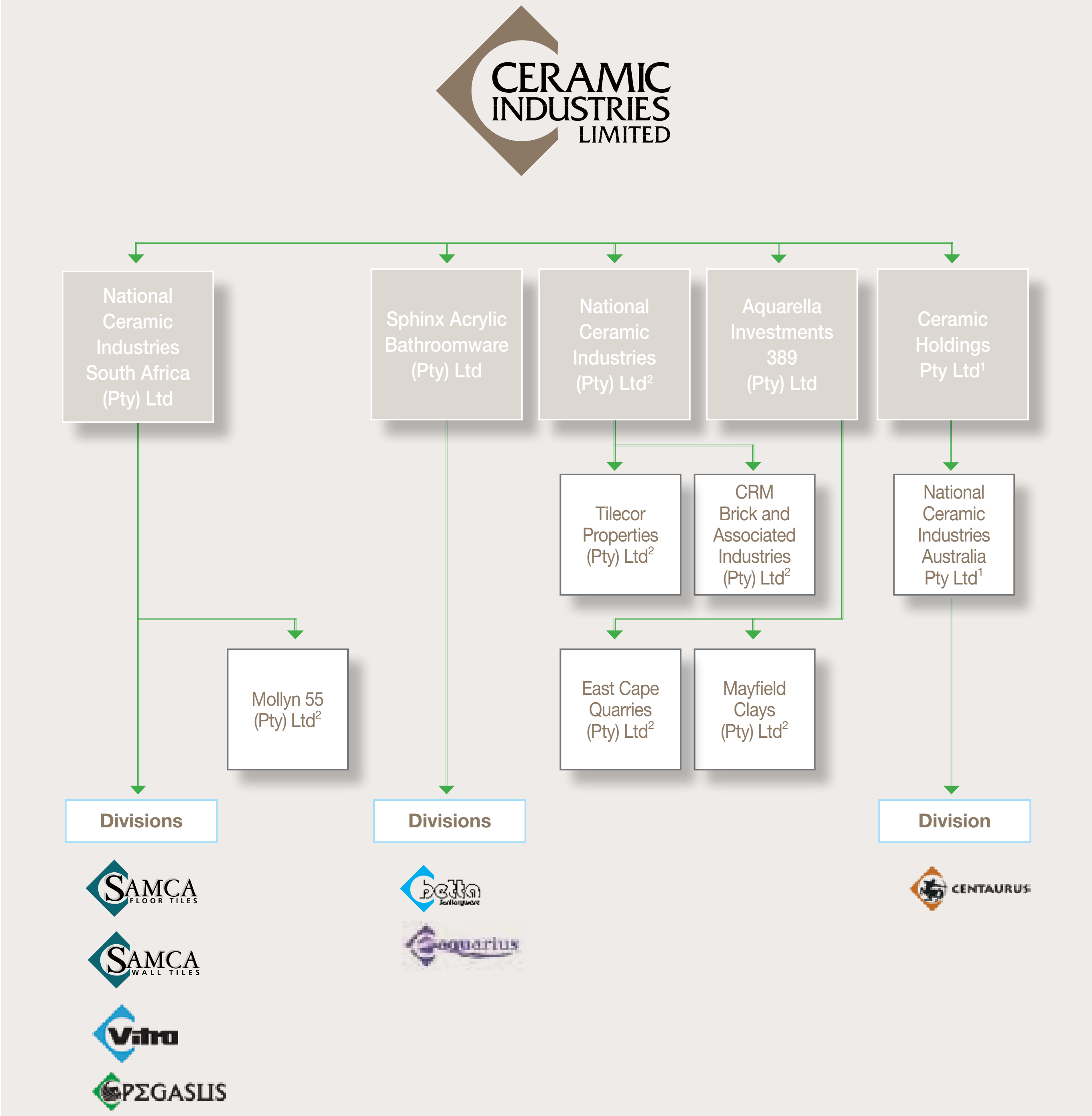


Return on equity*
%



* = *2009 figures were affected by a R49,3 million share-based payment cost of a transaction with the BEE partners.*
# = *A special dividend was paid in 2011 (1 500 cents per share). This amount is not included in the graph.*

Group structure



The following dormant companies are not included as part of the Group structure:

Ceramic Development Corporation (Pty) Ltd

Ceramic Industries Properties (Pty) Ltd

Pegasus Pressed Tiles (Pty) Ltd

[1] *Incorporated in Australia*

[2] *Property company*

During 2011 the Ceramic Industries Group maintained its position as the largest Southern African manufacturer and supplier of ceramic tiles and vitreous china sanitaryware. The Group also operates in Australia where it is the largest local manufacturer of ceramic tiles.

The Group comprises:

South African operations:

4 tile factories – in Vereeniging and Babelegi

1 sanitaryware factory – in Krugersdorp

1 acrylic bath factory – in Krugersdorp

Australian operation:

1 glazed porcelain tile factory – in Rutherford, New South Wales

The Group operates through the following manufacturing facilities:

SAMCA FLOOR TILES

Samca Floor Tiles produces predominantly large format pressed, glazed floor tiles. The factory is located in Babelegi, 75 kilometres north of Tshwane.

SAMCA WALL TILES

Samca Wall Tiles is the only factory in South Africa that produces pressed glazed wall tiles for both the commodity and fashion markets. The factory is located in Babelegi adjacent to Samca Floor Tiles.

Vitro

Vitro, located west of Vereeniging in the Vaal Triangle, manufactures full bodied glazed and unglazed extruded punched tiles for indoor and outdoor use.

PEGASUS

Pegasus, located adjacent to Vitro, manufactures matt and shiny glazed, pressed floor tiles in two size formats. The product which is competitive with Chinese imports is directed at the contractor and DIY market which require value for money.

CENTAURUS

Centaurus, which is located in Rutherford, New South Wales, produces glazed porcelain floor tiles in various size formats targeted at sophisticated consumers.

betta Sanitaryware

Betta is a state-of-the-art, high volume, low-cost producer of a comprehensive range of vitreous china sanitaryware. The factory is located in Krugersdorp, west of Johannesburg.

aquarius

Aquarius which is located on the same site as Betta is a modern high-tech manufacturer of acrylic baths targeted at both the local and export markets. Aquarius manufactures the Sphinx brand of bathroomware.

Prevailing global economic uncertainty continued to weigh on public and private sector investment decisions, and weak demand and the strength of the Rand and Australian Dollar which facilitated an influx of cheaper imported product, provided the context for a difficult trading year.

Margins were negatively impacted by under-utilisation of the Group's factories and above-CPI increases in energy and glaze expenses. The cost increases could not be recovered through price increases given the competitive trading environment.

South African economy

Building activity in the private and public sectors remained subdued. There was no evidence of government's programmes required to stimulate the new build segment, while consumers continued to make only modest investments in home improvements and renovations given the prevailing levels of unemployment, low real wage increases, and high underlying inflation.

Australian economy

Despite the apparent strength of the macro-economic environment in Australia, on a micro level consumers continued to exhibit low levels of confidence. Disposable income was restrained by high interest rates and personal debt levels, which led to limited investment in home improvements.

Queensland, formerly the Group's strongest market, was hard hit by Cyclone Yasi earlier in the year. Reconstruction of flood damaged areas has largely been on hold pending the granting of tax incentives and settlement of insurance claims, but once this has been effected, some stimulus is expected in the local industry.

Financial review

Group revenue, comprising combined tile and sanitaryware revenue, decreased 3,4% to R1 547,2 million from R1 601,2 million in the comparative reporting period. Group operating profit declined 23,3% to R191,8 million from R250,1 million.

Headline earnings per share declined 30,6% to 785,3 cents from 1 131,3 cents per share, while basic earnings per share decreased 30,3% to 788,0 cents from 1 130,1 cents per share in the prior year.

Cash reserves decreased to R217,7 million from R435,7 million and Ceramic's net asset value per share declined 10,4% to 7 088 cents from 7 912 cents as a result of the R304 million special dividend paid in the reporting period. The business is cash generative and notwithstanding capital expenditure of R130 million incurred on equipment upgrades and new technology in the factories, the Group's balance sheet remains strong.

The final dividend of 160 cents, together with the interim dividend of 140 cents, maintained the total dividend for the year at 300 cents per share.

A more detailed analysis of these results is contained in the chief financial officer's review on page 21.

Salient features

- The fundamentals underpinning the business remain sound: Ceramic is cash generative, has cash reserves, and each of our factories is in a good state of repair.

- Ongoing efforts were made during the financial year to improve efficiencies in the context of reduced capacity utilisation, and attention was paid to enhancing the product range and striving to match production planning with market demand.

- Key trends experienced included sustained demand for tiles and sanitaryware in outlying and rural areas. Additionally, in general the market was increasingly price sensitive and there was a greater availability of imported product in the mid-price sector.

- **Tile division:** Despite the testing trading environment, the Group's South African factories delivered an acceptable performance, with Pegasus in particular generating record production and sales volumes. In contrast, the Australian operation reported disappointing results. The Australian tile market contracted by 5% in the period under review, and weak consumer demand was exacerbated by internal shortcomings in the factory including sustained difficulties in bedding down new technology resulting in an inability to manufacture a consistent supply of high-quality product and a consequent loss of sales and market share.

- Tile sales volumes across the Group decreased 4,3% to 34,59 million m^2 and tile production fell 5,1% to 35,05 million m^2 from 36,93 million m^2.

- **Sanware division:** Despite subdued demand and the proliferation of imported product, the Group's sanitaryware factories succeeded in improving profitability for the year as a result of ongoing management attention.

- Sanware production volumes increased 13,1% to 1 343 347 pieces from 1 187 239 pieces, while sales volumes grew to 1 301 722 pieces from 1 150 890 pieces.

- **Exports:** Strong growth was experienced in countries north of South Africa, particularly Zimbabwe, Zambia and Mozambique. Export volumes of sanitaryware increased by 27% and tiles by 8% against the prior year.

- **Management restructure:** During the period the management team was re-organised. The Group's two most experienced managers were deployed to head up the tile and sanitaryware divisions respectively, affording the CEO greater opportunity to focus on enterprise-wide strategy and business development. This change will strengthen management capacity and create new opportunities for the Group's other managers. The restructure also serves to reduce key-man risk. Development of management depth will remain a key focus area.

Investment

During the year under review the Group increased its shareholding in Ezee Tile, a manufacturer of adhesives, grout and related products. The R11 million additional investment gives Ceramic significant influence over the Ezee Tile group of companies.

Sustainability and integrated reporting

Ceramic's sustainability initiatives endeavour to integrate the financial and sustainable aspects of the business by balancing profitability and returns for shareholders with the long-term needs of the business and its impact on society and the environment. The strategies, policies, goals and initiatives related to the Group's performance are developed in the context of their economic impact and their effect on society and the environment.

We have historically embraced the King Code's guidelines for socially responsible reporting according to the "triple bottom line" (the economic, social and environmental impacts of our operations) as a method of enhancing the Group's commercial success as well as improving the likelihood of its long-term success. However, in order to better align with the recently released King III guidelines on Integrated Reporting, we strive in this report to elaborate on how these issues are integrated into our business. According to this Code, we are required to explain how sustainability is connected to the Company's strategy, how sustainability performance, risks and targets are measured and monitored, and the financial impact of sustainability. We recognise that this report will evolve and improve over time, but believe that this initial endeavour is a reflection of our commitment to the process and presents a balanced and integrated overview of the performance of the Group across the business.

The Material Issues report on page 8 formally documents our key risk areas, strategies to mitigate these, and an analysis of current performance and future targets.

Human capital development

A severe skills shortage prevails in our industry. In order to address this fundamental issue the Group continues to invest heavily in training initiatives in its factories for on-the-job practical knowledge improvement. The internal training and development programme conducted in the factories aims to enhance the workforce's ability to operate each plant and has been successful in developing employees' skills. During the year a total of 452 employees (2010: 150) attended 174 (2010: 206) courses. R2,3 million (2010: R2,0 million) was spent on training across the skills levels in the Group.

Black economic empowerment and transformation

The Group is committed to continued transformation in our country and supports the principles embodied in the Black Economic Empowerment Code and the Mining Charter.

Treasury shares

During the review period the Group's Black Economic Empowerment (BEE) shareholders, namely Aka Ceramic Holdings (Pty) Limited, Peotona Ceramics (Pty) Limited, the Ceramic BEE Staff Empowerment Trust No 2 and the Ceramic Foundation agreed to utilise a fixed percentage of the special dividend (referred to in the Financial review above) to acquire treasury shares from Ceramic's wholly owned subsidiary company, National Ceramic Industries South Africa (Pty) Limited. Approximately 60% of the Group's treasury shares were acquired by the BEE shareholders through this transaction, which served to enhance Ceramic's BEE credentials.

Empowerment transaction

The remaining component of the BEE equity ownership transaction approved at a general meeting on 11 December 2008, comprising the empowerment of Ceramic's clay quarries with majority ownership passing to the Group's employees, has received shareholder approval, but still requires final sanction from the Department of Mineral Resources. The impact of this transaction on operating profit will be a once-off non-cash IFRS 2 charge of approximately R8 million.

Environmental responsibility

The Group is acutely conscious that its business activities, which include quarrying for clay, could potentially have an adverse effect on the environment. An overarching priority is therefore to ensure that any such impacts are mitigated at every reasonable opportunity, in order to reduce the Group's carbon footprint and that of its products and suppliers, and enhance the long-term sustainability of the business.

An environmental management plan is implemented at each factory and quarry to ensure that sustainability is sympathetic to the environment. Consumption of fuel, energy, clay, glaze and water is closely monitored and reduced wherever possible. In this regard I am pleased to note that continued progress has been achieved during the year:

- A heat-recycling plant installed at Betta has reduced gas consumption by 11% and emissions by 9%.
- Water purification plants at Vitro and Pegasus have reduced water consumption by 50%.
- A new water plant is to be commissioned at Samca Wall and Floor factories.
- Energy efficiency has been improved by manufacturing thinner, better quality tiles at Vitro, Samca Floor and Wall and NCI.
- Betta has implemented a glaze recycling programme with favourable results.

Prospects

In South Africa, there is no immediate evidence of the rollout of government programmes that will stimulate the new build segment on a large scale, and whilst there may be incremental growth in the "affordable housing" market – one level up from RDP housing – a general widespread improvement in the residential new build market is not expected for at least another 18 months.

Similarly, the Group's trading environment in Australia will also remain difficult due to high interest rates, general consumer indebtedness and the impact of environmental policies, including a proposed carbon tax, on the cost of utilities. Management is, however, confident that remedial measures undertaken during the review period and resulting improved operating efficiencies will enhance Centaurus' profitability.

We expect the local currencies in both countries to remain volatile which will continue to enable opportunistic competition from imported product.

During the financial year the Group undertook a feasibility study to determine the viability of commissioning another volume-based tile plant. A key factor determining the decision to proceed is Ceramic's ability to acquire mining licences to secure new clay deposits to support our investment. Whilst the Department of Trade and Industry has approved the tax incentives for the proposed project, no progress has been made with regard to our applications for either prospecting licences or mining licences, and as a result the project has been put on hold.

The Group's exports into the African market grew during the reporting period and we believe that this region affords growth opportunities for our products.

Our priorities in the period ahead will remain on leveraging efficiencies in an environment of reduced demand and retaining and growing market share by ensuring the Group's product range continues to compete successfully against imported products.

Management's view is that the Group is well positioned for any improvement in the economy that may occur. In this regard, Ceramic's long-term outlook ensures that ongoing investment is made in infrastructure and that the factories remain in a good state of repair which will enable them to rapidly increase capacity as and when required. The Group's robust financial position supports this stance.

Acknowledgements

Quality leadership is vital to the success of any organisation.

In this regard, I value the vision and counsel of my fellow Board members and thank them for their contribution to the various committees on which they serve.

Our management team is also to be commended for its consistent efforts to improve and grow the business despite extremely difficult trading conditions. The commitment to enhancing the management structure and developing opportunities for managers is recognised and appreciated; this foresight will undoubtedly play an important role in the Group's long-term future.

I would like to acknowledge the people of Ceramic for their dedication in striving to achieve the Group's values and goals, and for responding willingly to the challenges of a demanding year.

The continued support of our individual and institutional shareholders is appreciated and they can be assured of the Group's commitment to delivering value for all stakeholders.

G A M Ravazzotti
Non-executive chairman

The material issues identified in this report have a direct and indirect impact on whether the Group creates and sustains or erodes economic, social and environmental value for itself, stakeholders and society. The objective of this report is to demonstrate the link between risks or opportunities, strategy and performance against financial, economic, environmental, social and governance issues.

Economic and political	**Stakeholders:** shareholders, management, employees, customers, suppliers, business partners and unions	
Strategic risk	2011 Impact on performance	2012 Mitigation strategy and priorities
Economic slowdown	Subdued market conditions contributed to a decline in capacity utilisation, impacting on profitability.	• Identify export opportunities in existing and new markets. • Consideration of construction of new manufacturing plants to tap into previously unserviced markets in SA and Africa.
Commercial risk	The current economic environment demands that stringent credit granting procedures and debtors' management policies are employed.	Ongoing monitoring of customers' financial health.
Energy price (gas and electricity)	Gas comprised 13% of input costs and electricity 4%. Over the past 20 months energy costs have doubled and are expected to continue to rise.	Ongoing development of strategies to reduce energy consumption per unit.
Transport costs	Transport costs comprise 13% of input costs. Proposed toll levies will increase this component substantially. Costs are expected to continue rising.	Improve logistics management in the Group.
Glaze costs	Glaze is the single largest cost, comprising 17% of input costs. Prices rose consistently over the year and are expected to continue to do so.	Inkjet technology and other initiatives implemented to reduce consumption levels and optimise utilisation have proved successful. Ongoing efforts will be made to refine these strategies.
Rand/Dollar exchange rate	The strong rand and Australian dollar favoured imports, which led to intensified competition and market volatility. Ceramic lost market share to imported product.	• Strategies have been implemented to improve operating efficiencies and enhance global competitiveness. • Recent weakness in both the rand and the Australian dollar will assist in this regard.
Union activity and strikes	No industrial action took place during the year. Wage negotiations commenced in September. The outcome will only be known in November.	Maintain open communication with both the workforce and the unions.

Marketing and sales	**Stakeholders:** shareholders, management, employees and customers	
Strategic risk	2011 Impact on performance	2012 Mitigation strategy and priorities
Loss of market share	In SA and Australia market share was lost to imported product. Contraction of the Australian market and inefficiencies in Centaurus exacerbated the situation.	• Remedial action has been implemented to align production with demand. • Remain close to customers to understand their needs and the state of the market.
Product quality	Problems were experienced with Inkjet printing implementation and product development at Centaurus. The quality of raw materials at Samca Wall caused batches of poor quality final product.	• Good progress is being made with refining inkjet printing implementation – this will continue to be a focus. • Ensuring stability of raw materials will remain a priority. • New methodologies will be required to develop new products and are under consideration.
Product range	Changing consumer demand for fashion dictates that continued evolution of the product range is a priority.	• The product range must be leading edge in order for the company to retain its market-leader position. The design team has been strengthened to achieve this. • Developing product ranges to cater for all segments of the market has been prioritised.
Customer service	Failure to meet customer expectations resulted in a loss of market share. Efforts to improve production planning have been favourably received by customers.	• Greater attention will be paid to matching production with customer needs. • Implementation of additional B2B ordering systems.
Market intelligence	Information regarding fashion trends, buying patterns and industry activity is key to retaining and growing market share.	Improved market feedback will be required on an ongoing basis.

Capacity management	**Stakeholders:** shareholders, management, employees, suppliers and customers	
Strategic risk	2011 Impact on performance	2012 Mitigation strategy and priorities
Remain globally competitive	Competition from imports and subdued local demand impacted margins negatively.	• Continue to benchmark factories against global best practice. • Continue to manage costs and efficiencies. • Increase demand by offering a strong value/fashion proposition. • Increase exports.
Capacity of utility suppliers	Contracts are in place to ensure adequate supply of energy.	Ensuring continued capacity of suppliers to meet Ceramic's needs has been prioritised.
Utilisation of excess capacity	Due to reduced demand, the factories operated at between 65% and 95% of capacity, with at least one kiln temporarily shut down at most of the plants.	• To ensure optimal efficiency and profitability, all factories need to return to 90% capacity utilisation. Efforts to increase sales volumes is a key priority for the forthcoming period. • New markets in Africa to be developed.
Expansion through exports	16% of tiles and 21% of sanware production was exported. Revenue from exports increased 20% in the review period and good opportunity is afforded for further growth.	• Products to be developed for export. • Existing contracts to be maintained and nurtured.
Delivery systems and logistics	Optimum use of logistics is critical to ensure efficient cost management and customer service. Improvements were made in this regard in terms of combining tile and sanware deliveries in the local and export markets.	Ongoing planning improvements to ensure logistics becomes a competitive advantage.

Human resources	Stakeholders: shareholders, management, employees and customers	
Strategic risk	2011 Impact on performance	2012 Mitigation strategy and priorities
Specialised technical skills	The Group's operations require specialist skills. The prevailing skills shortage in the industry dictates that these skills are retained and nurtured.	Develop in-house experts complemented by expertise residing in our equipment and glaze suppliers.
Management resources	The management structure was re-organised during the period to strengthen management capacity and create new opportunities for managers. The benefits of this restructuring have been positive, affording the CEO greater opportunity to focus on enterprise-wide strategy and business development.	Management training programme to be continued.
Skills development of process controllers	Low skills levels result in poor quality and reduced yields in the manufacturing process.	In-house training programmes to be developed, and improved selection criteria to be established.
Retention of skills	The Group strives to be a preferred employer in terms of remuneration, employment equity, mentorship and empowerment. The Group's staff turnover rate is 20%.	Ensure competitive remuneration and focus on attraction and retention of high-calibre employees.
Loss of key management	The recent management restructure ensures a broader management base and reduces key-man risk.	Continue to develop depth of management and broaden experience across the business.

Supply management	**Stakeholders:** management, employees, suppliers, customers and regulatory authorities	
Strategic risk	2011 Impact on performance	2012 Mitigation strategy and priorities
Clay resources	Adequate supply of consistently high-quality raw materials is critical to the business.	Research and evaluation of new deposits will remain a focus.
Supplier relationships	Reliable supplier relationships are key to efficient operations and sound cost management.	Maintain existing relationships and source and test alternative suppliers.
Conversion of mining rights	Increased cost of clay supplies due to the need to purchase from external suppliers.	Quarries to be operated in compliance with the Mining Charter and BEE requirements.

Environmental	**Stakeholders:** shareholders, management, employees, regulatory authorities and the community	
Strategic risk	2011 Impact on performance	2012 Mitigation strategy and priorities
Kyoto Protocol and carbon footprint	An environmental management plan is implemented at each factory and quarry to ensure that sustainability is sympathetic to the environment. Consumption of fuel, energy, clay and glaze is closely monitored and reduced wherever possible.	• All factories need to continue to manage any adverse impacts on the environment. • A feasibility study is underway for a heat-recycling plant at Vitro. • An onerous carbon tax is proposed for Australia in 2012. The Group is mindful of the impact that this and other environmental taxes might have.
Water consumption and industrial effluent	Water purification plants at Vitro and Pegasus have reduced water consumption by 50%. No industrial effluent is emitted from the Vereeniging site, and all waste water is re-used.	• Ongoing monitoring of water consumption will remain a priority. • The new water treatment plant to be commissioned at Samca will reduce consumption.
Air emissions licences	No hazardous emissions are produced by the business and only natural gas is used in order to reduce carbon dioxide emissions. Regular surveys are conducted to evaluate the impact of the Group's quarries on air pollution.	All factories to continue to minimise emissions in line with regulations.
Resource consumption	The increase in the cost of resources such as gas, glaze and electricity is affecting the Group's profitability.	• Energy-efficient methodologies are being implemented to manufacture thinner, better quality tiles at Vitro, Samca Floor and Wall and NCI. • A feasibility study is underway regarding the manufacture of thinner tiles at Pegasus. • Betta has implemented a glaze recycling programme with favourable results.

Governance and regulatory environment	**Stakeholders:** government, regulators, shareholders, employees, customers, suppliers and business partners	
Strategic risk	2011 Impact on performance	2012 Mitigation strategy and priorities
Regulatory environment	Ceramic is affected by a number of regulatory codes such as the JSE Listings Requirements, the King Code, BEE and EE legislation as well as regulations pertaining to OHS, Mining, Environment, Equity and Consumer protection legislation. The Group complies with all statutes and regulations to the extent that is feasible and discloses all non-compliance.	• Ensure continued compliance with all relevant legislation and regulations. • The further development of the integrated report for the year ended 31 July 2012, including consideration of the necessity for and extent of reporting against the Global Reporting Initiative Framework or any other globally accepted framework, as well as the principles set out in King III. • Establishing a Social and Ethics Committee in accordance with Section 72 of the Companies Act, No 71 of 2008, as amended.
Black economic empowerment	**Stakeholders:** shareholders, BEE partners, regulators, management and employees	
Strategic risk	2011 Impact on performance	2012 Mitigation strategy and priorities
Ability to adapt to changes in socio-political environment	During the review period the Group's BEE shareholders acquired 60% of the company's treasury shares, improving Ceramic's BEE credentials. Empowerment of the Group's clay quarries with majority ownership passing to Ceramic's employees has received shareholder approval and is awaiting final sanction from the DMR.	Management team must remain abreast of new developments and trends.
Official BEE rating	The Group does not have any formal accreditation of its BEE initiatives. This could lead to a loss of market share.	BEE status to be independently audited and assessed in the 2011/12 financial year.

Tile division overview

The tile market in Southern Africa remained flat year-on-year, with total average sales of 54 million m^2. Of total local production of 35 million m^2, the Group manufactured 31 million m^2. Despite weak local demand, Ceramic's South African tile division maintained 2010 production and sales volumes, primarily as a result of increased exports into Africa. Above-CPI input cost increases and under-utilisation of capacity in the Group's factories negatively impacted margins.

Total sales in the Australian tile market declined from 32 million m^2 to 30 million m^2, while production and sales volumes of Ceramic's operation, Centaurus, declined by 1,5 million m^2 to 4 million m^2 compared with the prior year. Market share was lost due to an inability to meet customer expectations and competition from imported product facilitated by the strong Australian dollar. Profitability declined and the plant operated at break-even for the period.

Samca Floor Tiles

Focus

This factory produces large format fashionable pressed, glazed floor tiles for indoor use. The product is targeted at mid-tier consumers and commercial end-users. The plant's annual production capacity is 6,8 million m^2.

Overview

The reporting period was a turbulent one for Samca Floor Tiles. Staff changes resulted in short-term inefficiencies whilst personnel were re-trained and up-skilled. In addition, the product range failed to provide a distinctive value proposition for consumers, resulting in a loss of sales.

The factory operated at only 78% of capacity during the period and the introduction of new automated selection equipment served to reduce yields. Average selling prices were reduced to regain market share, which together with substantially increased input costs resulted in a decline in margins.

Innovations

The factory has commenced producing a range of high-quality thinner tiles which, in addition to being stronger, easier to install and environmentally friendly, will reduce costs and improve price competitiveness.

Outlook

Improved production planning to match market demand has been prioritised in the forthcoming period. The popular 50 cm x 50 cm tile range will be extended, and greater attention will be paid to reducing the average selling price to improve the range's value proposition.

Key performance indicators

	2011	2010	2011 as a % of target
Production volumes (million m^2)	**5,30**	5,30	91
Sales volumes (million m^2)	**5,21**	5,44	88
Output per employee (m^2)	**63 700**	64 400	92
1st grade yield %	**89,7**	92,7	96
Unit selling price	↓	↑	90
Unit costs	↑	↑	99
Margin	↓	↑	59
New products introduced	**70**	25	

Samca Wall Tiles

Focus

As the only wall tile manufacturer in Southern Africa, this factory produces pressed glazed wall tiles for indoor use, targeted at the commodity and fashion markets. Samca Wall Tiles has an annual production capacity of 6,8 million m^2.

Overview

The period under review proved very challenging for this factory. The introduction of new inkjet technology and equipment, and severe difficulties experienced with the quality of raw materials caused a substantial amount of down-time, resulting in reduced volumes and batches of poor quality final product. In addition, the glaze problems and the introduction of new measuring equipment resulted in lower yields. Whilst quality issues reduced sales volumes and average selling prices, the lower prices achieved and increased unit costs eroded margins.

Innovations

Once the inkjet technology is fully bedded down the impact on the range will be significant. Automated selection equipment has been installed which will result in improved and consistent quality of product.

Outlook

Management is satisfied that remedial action undertaken during the reporting period will enhance operating efficiencies. The installation of inkjet printers and automated selection equipment together with measures implemented to control the quality of clay inputs should improve product quality. Continued attention will be paid to aligning production volumes with demand.

Key performance indicators

	2011	2010	2011 as a % of target
Production volumes (million m^2)	**5,33**	5,95	85
Sales volumes (million m^2)	**5,45**	5,81	87
Output per employee (m^2)	**59 900**	70 900	81
1st grade yield %	**92,0**	94,3	96
Unit selling price	↓	↑	94
Unit costs	↑	↓	99
Margin	↓	↑	70
New products introduced	**136**	80	

Pegasus

Focus

This factory produces low-cost matt and shiny glazed floor tiles in two size formats for indoor use. The product is targeted at the price-conscious contract and DIY markets. Pegasus' high-quality value offering has broad market appeal and competes favourably with Chinese imports. The plant's annual production capacity is 16,0 million m^2.

Overview

Pegasus was the only tile factory in the Group to succeed in increasing production and sales volumes and growing turnover. Increased focus on fashion and quality at an affordable price drove improved sales. The plant operated at 93% of capacity during the period. Despite delivering record production and sales volumes and an improvement in revenue of R21 million, the factory's profitability was eroded by increased input costs which were not well managed.

Innovations

The introduction of inkjet technology during the review period will afford opportunities to extend and enhance the range. Greater flexibility in terms of shorter runs will allow for improved responsiveness to market demand and fashion trends.

Outlook

Continued focus on fashion and quality remains key to this factory's success, and two further inkjet printers will be installed in 2012 aimed at improving the offering.

Ongoing efforts will be made to entrench Pegasus' status as the preferred value for money supplier.

Export sales into Africa increased strongly during the review period and further opportunities to grow this business will be a priority in the forthcoming period.

Key performance indicators

	2011	2010	2011 as a % of target
Production volumes (million m^2)	**14,95**	14,91	99
Sales volumes (million m^2)	**14,90**	14,34	99
Output per employee (m^2)	**84 500**	82 400	80
1st grade yield %	**92,2**	93,1	98
Unit selling price	↑	↑	96
Unit costs	↑	↓	103
Margin	↓	↑	75
New products introduced	**103**	62	

Vitro

Focus
This factory manufactures full bodied glazed and unglazed extruded punched tiles for indoor and outdoor use. The product's target markets are the upmarket domestic and contract sectors. Vitro has an annual production capacity of 5,6 million m^2.

Overview
Vitro delivered a consistently solid production performance. However, failure to respond timeously to intensified competition from Chinese imports impacted negatively on sales volumes, resulting in a decline in sales revenue of R4 million.

In order to contain stock levels in the context of weaker demand, production volumes were reduced by 40% in the last two months of the financial year, putting pressure on unit costs and margins. Yields remained constant.

Innovations
The Slimtech format innovation was rolled out to both the glazed Vitro and unglazed NCI products. The new format larger, thinner tiles serve to reduce production and distribution costs and their ease of installation and environmentally friendly credentials have received favourable response from consumers.

A range of new product sizes has been developed in order to improve utilisation of kiln width, an innovation which will serve to enhance production efficiencies and cost management.

Outlook
Selection line automation has been commissioned for the forthcoming period which will assist in increasing production of the popular larger size format product.

Key performance indicators

	2011	2010	2011 as a % of target
Production volumes (million m^2)	**5,40**	5,26	89
Sales volumes (million m^2)	**5,09**	5,27	84
Output per employee (m^2)	**60 700**	62 600	86
1st grade yield %	**92,4**	93,0	99
Unit selling price	↑	↑	96
Unit costs	↑	↓	102
Margin	↓	↑	86
New products introduced	**35**	30	

Centaurus

Focus

This factory produces glazed porcelain floor tiles in a range of size formats and is the only volume tile manufacturer in Australia. Targeted at sophisticated consumers, Centaurus' high-quality offering competes strongly against imported product from Europe and Asia. The plant has an annual production capacity of 6,5 million m^2.

Overview

Trading conditions remained difficult, with the Australian tile market contracting by 5% year-on-year.

Centaurus failed to meet management's expectations, delivering a disappointing performance featuring poor production and sales volumes and a significantly lower margin. The factory operated at break-even, and utilised only 62% of its capacity.

Failure to resolve product development issues and adequately match production planning and product mix with market demand were central to Centaurus' poor performance. Bedding down the inkjet technology commissioned in the prior period was substantially more difficult than anticipated and expectations created in the marketplace were not met, resulting in a loss of sales. The inability of the factory to deliver a consistent supply of high-quality product resulted in a loss of market share to opportunistic importers of low-priced Asian products. Lower production led to increased unit costs, which, combined with reduced sales volumes, resulted in a decline in profitability.

Innovations

The introduction of inkjet technology has facilitated new range developments, and once bedded down, will be critical in meeting customer requirements for high fashion, high-quality products.

Outlook

Management is confident that the investment in inkjet technology is sound and will afford the factory a strategic advantage in the long term, a view reinforced by customers seeking to support Australian manufactured products. In this regard, significant time has been dedicated to ensuring customers remain committed to the factory through the implementation phase of the technology. Centaurus' priority goal will be to regain market share through better alignment of product development with customer demand.

Key performance indicators

	2011	2010	2011 as a % of target
Production volumes (million m^2)	**4,02**	5,47	71
Sales volumes (million m^2)	**3,95**	5,31	67
Output per employee (m^2)	**89 300**	111 600	73
1st grade yield %	**90,7**	90,1	98
Unit selling price	↓	↑	97
Unit costs	↑	↓	120
Margin	↓	↑	
New products introduced	**135**	61	

Sanitaryware division overview

The sanitaryware division increased production and sales volumes and succeeded in improving profitability for the year despite a reduction in market size and the proliferation of imported product.

Total sanitaryware sales in Southern Africa declined to 2,1 million pieces from 2,2 million pieces. Local production amounted to 1,7 million pieces of which Ceramic manufactured 1,2 million pieces.

Total sales of acrylic baths in Southern Africa increased marginally to 410 000 pieces from 400 000 pieces in the prior year. Of the total local production, Ceramic increased its volumes to 97 000 pieces from 94 000 pieces.

Betta sanitaryware

Focus

This factory is a high-volume low-cost manufacturer of glazed porcelain sanitaryware. Betta's annual production capacity is 1,8 million pieces.

Overview

Following three months of industrial action in 2010, this factory returned to stability and operated at 67% of capacity. New staff engaged over the past year have now been trained up, improving operating efficiencies and delivering yields in line with prior years.

Increased production volumes reduced unit costs. Sales volumes improved due to better product mix (including greater volumes of higher margin box suites) and enhanced logistics, inventory management and customer service. As a result, both revenue and profitability improved, while margins doubled.

Approximately 20% of this factory's production is exported to African countries, a market which offers good growth potential for Betta's products.

Innovations

A range of initiatives was implemented during the review period, including the introduction of complete bathroom solutions comprising matching ceramic pieces and baths. In addition, increased production of box suites was prioritised. These complete units which include a flushing mechanism, seat and fixation pieces have widespread consumer appeal and in addition to being high-margin products, afford the factory efficiencies in distribution.

An AVM casting machine was installed in order to increase production of wall-hung pieces, a category of product which is rapidly growing in popularity.

Outlook

Central to Betta's improved performance was intensified focus on client service, including range, quality and delivery. The evident benefits of this strategy dictate that enhanced client service remains a priority.

Betta's products gained market share in Africa and management is confident that an aggressive marketing strategy will assist in growing this footprint further.

Key performance indicators

	2011	2010	2011 as a % of target
Production volumes (pieces)	**1 244 695**	1 093 604	92
Sales volumes (pieces)	**1 199 289**	1 057 281	89
Output per employee (pieces)	**4 500**	4 100	88
Waste %	**13,0**	15,0	118
Unit selling price	↑	↑	97
Unit costs	↓	↑	120
Margin	↑	↓	83
New products introduced	**10**	4	

Aquarius bath factory

Focus

This plant manufactures drop-in and free-standing acrylic baths for the local and export market.

Overview

The bath market remained over-traded. However, efficiencies implemented at Aquarius had a positive impact on turnover and served to reduce losses in the reporting period. Production costs and scrap levels declined, while production yields increased slightly to meet marginally improved customer demand. Despite this, the factory only operated at 50% to 60% of capacity. A change in product sales mix enabled the factory to realise a modest increase in average selling prices. Improved product quality and service resulted in stronger sales, and Aquarius reduced its loss of R8 million in 2010 to R3 million for the 2011 financial year. Despite this loss the factory is cash-generative.

Outlook

No major additional capital expenditure is required at Aquarius in the near future and operational efficiencies implemented should continue to deliver improved results for the business.

Management is confident that Aquarius will operate at break-even over the next 12 months.

Key performance indicators

	2011	2010	2011 as a % of target
Production volumes (pieces)	**98 652**	93 635	95
Sales volumes (pieces)	**102 433**	93 609	100
Output per employee (pieces)	**1 450**	1 486	87
Waste %	**2,0**	4,0	100
Unit selling price	↑	↑	96
Unit costs	↓	↓	106
Margin	↑	↑	
New products introduced	**1**	2	

Operating environment

Weak demand, exacerbated by the influx of cheap imported product made possible by the strong local currency, led to an under-utilisation of the Group's factories and put pressure on unit costs. In addition, above-CPI increases in energy and glaze expenses were not able to be recovered through price increases which had a negative impact on sales and margins.

Financial results

Group revenue decreased 3,4% to R1 547,2 million from R1 601,2 million in the year under review.

Revenue from tiles declined 5,7% to R1 299,6 million from R1 378,0 million, with sales volumes across the Group decreasing 4,3% to 34,59 million m^2 from 36,17 million m^2. Tile production fell 5,1% to 35,05 million m^2 from 36,93 million m^2.

The Group's sanitaryware division reported an improved performance. While neither Betta nor Aquarius delivered results in line with their full potential, the improvement is reward for ongoing management attention.

Revenue from the sanitaryware division grew 11,0% to R247,6 million from R223,2 million in the prior year. Production volumes of sanitaryware increased 13,1% to 1 343 347 pieces from 1 187 239 pieces, matched by the same percentage growth in sales volumes to 1 301 722 pieces from 1 150 890 pieces.

Group operating profit decreased 23,3% to R191,8 million from R250,1 million. Profit from tiles declined 30,3% to R174,2 million from R250,1 million, while the sanitaryware division increased its profit to R17,6 million from R68 000 in the prior year.

The effective tax rate increased to 39,5% from 27,9% in the comparable period as a result of the STC charge on the R304 million special dividend declared during the year. Of the R87,1 million tax payable, R30,4 million comprised the STC component on the special dividend.

Finance income increased to R22,5 million from R20,8 million due to increased interest earned in the current year. Finance expenses rose to R1,5 million from R311 000 as a result of foreign exchange losses.

Headline earnings per share declined 30,6% to 785,3 cents from 1 131,3 cents per share, while basic earnings per share decreased 30,3% to 788,0 cents from 1 130,1 cents per share.

Inventories increased to R118,2 million from R110,8 million. Inventory was managed through the temporary shut-down of at least one kiln in each of the Group's tile factories other than Pegasus.

The Group generated R316,2 million from operations during the review period. Due to delays in new capital projects and the resultant accumulation of cash the Board elected to return R304 million to shareholders by way of a special dividend. Capital expenditure of R130 million was incurred on equipment upgrades and new technology in the factories. The primary expenditure related to the high-definition inkjet printer technology initially introduced in the Centaurus and the Samca Wall factories and scheduled for commissioning in the Pegasus and Vitro factories in the near future. These cash outflows together with the R92,9 million expenditure on income tax and STC were the major factors contributing to the R218,0 million decrease in cash reserves to R217,7 million (2010: R435,7 million).

Ceramic's net asset value per share declined 10,4% to 7 088 cents (2010: 7 912 cents) as a result of the payment of the special dividend.

The Group's financial position remains strong. The business is cash-generative and will remain so in the future.

Investment

During the year under review the Group increased its shareholding in Ezee Tile, a manufacturer of adhesives, grout and related products. The R11 million additional investment gives the Group significant influence over the Ezee Tile group of companies.

The results of the Ezee Tile group of companies are accounted for in accordance with the equity accounting requirements of IAS 28: *Investments in associates*.

Special dividend

On 17 May 2011, the Board declared a special dividend of 1 500 cents per Ceramic ordinary share to all shareholders of the Group. The reason for the special dividend, which should be treated by shareholders as a payment out of profit, was to return surplus cash to shareholders.

Ordinary dividend

The Board declared a final dividend (number 43) of 160 cents, which together with the interim dividend of 140 cents maintains the total dividend of 300 cents per share for the year.

Prospects

It is anticipated that trading conditions in the Group's markets will remain subdued. The local currencies in both South Africa and Australia are expected to remain relatively strong and this will continue to facilitate the influx of imported product. The key priority in the forthcoming period will be to improve operating efficiencies in the business and retain and grow market share in a highly competitive environment.

Attitude to governance

Ceramic Industries ("Ceramic") takes cognisance of the King Code and Report on Governance for South Africa ("King III") and complies with the additional corporate governance and Listings Requirements of the JSE Limited.

In order to achieve alignment with the principles of King III, a thorough review of the implications of the Code was conducted. A gap analysis comparing the Group's governance practices with those recommended by King III was implemented and two key outcomes were achieved:

- Strategic management of sustainability and stakeholder considerations, including the Integrated Report, were prioritised; and
- Key risk areas which the Group has traditionally identified and managed have been disclosed and formally reported on in the Material Issues Report.

This is the Group's first Integrated Report in an attempt to comply with the requirements of King III which recommends that the contents should explain how sustainability is connected to the Company's strategy, how sustainability performance, risks and targets are measured and monitored, and the financial impact of sustainability. We recognise that this report will evolve and improve over time, but believe that this endeavour is an indication of our commitment to the process and presents a balanced and integrated overview of the performance of the Group across the business. The Group is committed to formalise its approach to integrated reporting over the next year and will during this process review the necessity for formal reporting against a generally accepted framework.

The directors recognise that high standards of corporate governance protect the interests of the Company and its shareholders and therefore management continues to instil a culture of openness, accountability and integrity, which is reflected in the Group's commitment to best practice.

The Group's governance structures are continually enhanced to take account of changes in the business as well as ongoing developments in corporate governance best practice.

Legislation

The Group retains the services of external experts to identify and manage legislative compliance including legislation governing health and safety, labour, the environment and mining. The necessary changes are highlighted by these experts and then implemented to ensure full legal compliance with all relevant legislation.

The company secretary ensures that the Group complies with all regulations, and reports to the Board in this regard on a regular basis. The company secretary provides the Board with guidance as to how their responsibilities should be properly discharged and is responsible to the Board to ensure that Board procedures are followed.

Board of Directors

The Board of Directors acknowledges and accepts its statutory, regulatory and ethical responsibilities as set down by the Companies Act, the rules of the JSE Limited, the Securities Regulation Code and the King Code. The directors keep abreast of developments in corporate governance.

The members of the Board also play an important role in providing strategic vision and guidance to the Company, based on their own relevant fields of specific and diverse experience as non-executive directors.

In line with its fiduciary duty to Ceramic Industries, the Board fosters and encourages the existing transparent, open and honest management style of the Company and the values that exist throughout the workforce, which are constantly evolving and evaluated.

Classification of directors

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

- Executive directors are employed in a full-time capacity by Ceramic Industries;
- 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 including those who have served for longer than nine years whose independence has been confirmed by the Board.

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

Composition of the Board

The Board consists of 10 members, with two executive directors, five independent non-executive directors and three non-executive directors. The chief executive officer (CEO) is an executive director and the Board is chaired by G A M Ravazzotti, who is a non-executive director.

The credentials of Board members and senior management are made available for inspection prior to nominations to the Board. New directors are subject to a "fit and proper" test. An induction programme is available to all new Board appointees, providing guidance on their responsibilities.

The CEO takes responsibility for senior management's performance and is accountable to the Board. The directors are individuals of a high calibre with diverse backgrounds and expertise, facilitating independent judgement and broad deliberations in the decision-making process. There is an appropriate balance of power and authority on the Board.

Board meetings

The Board meets quarterly, or more frequently if circumstances require. Prior to meetings each director receives an information pack regarding the performance of the Group for the year to date and any other matters for discussion at the meeting. The agenda for the meeting covers all financial and non-financial matters that have relevance for the Group's stakeholders.

In addition, an annual meeting is held between management and the Board members to discuss strategy, benchmarks and targets.

The directors and their sub-committee responsibilities are listed below:

			Meeting attendance			
Name	Classification	Committee	Board	Audit	Remco‡	Risk
G A M Ravazzotti	Chairman: Non-executive	Remuneration	4/4	–	1/1	
N Booth	Chief executive officer	Risk	4/4	3/3*	1/1*	1/1
D R Alston	Chief financial officer	Risk	4/4	3/3*	–	1/1
S D Jagoe#	Director: Independent non-executive	Audit	4/4	3/3	–	
E M Mafuna	Director: Independent non-executive	Remuneration	4/4	–	1/1	
N S Nematswerani	Director: Independent non-executive	Audit and Risk	4/4	3/3	–	1/1
N D Orleyn	Director: Independent non-executive	Remuneration	4/4	–	1/1	
L E V Ravazzotti	Director: Non-executive		4/4	–	–	
K M Schultz	Director: Independent non-executive	Audit	4/4	3/3	–	
G Zannoni	Director: Non-executive		4/4	–	–	

Lead independent director

* *Attendance by invitation*

‡ *Remuneration and nomination committee*

Monitoring

Implementation and monitoring of the Group's compliance with its corporate governance obligations is managed by the Board of Directors. The Board has an informal evaluation process to identify and develop goals for improvement and initiate focused changes to meet those goals.

Company secretary

The company secretary is responsible to the Board for ensuring that procedures are properly followed. All directors have unlimited access to her advice and services.

Professional advice

With the approval of the chairman, all directors are entitled to seek independent advice on matters concerning the Group at its expense.

Board committees

Risk management

Ceramic Industries regards the responsibility of managing risk on behalf of its shareholders and other stakeholders in a serious light. The risk committee is chaired by CEO, N Booth, and comprises the executive committee and independent non-executive director, N S Nematswerani.

Risk is discussed monthly at management meetings and the risk committee meets at least once per annum. Risk identification and assessment are carried out bi-annually by the executive members of the committee and the chairman reports the committee's findings to the Board.

The analysis includes identification of new risks to the business, which are given a monetary value. The risks are then cross-referenced against the probability of occurrence, which determines the ranking of each risk. The potential impact on earnings is then measured and action plans are put in place to manage the top-ranked risks.

Audit committee

This committee is chaired by an independent non-executive director, N S Nematswerani. Two other independent non-executive directors, S D Jagoe and K M Schultz, also sit on the committee. Meetings of the audit committee are held at least three times a year, and are attended by the CEO, the chief financial officer (CFO) and a representative of the external auditors. The committee reviews and evaluates the Company's corporate governance processes, financial reporting, risk management processes, internal audit and controls, as well as its external auditors. The committee reports its findings to the Board. The report of the audit committee is on page 39.

Remuneration and nomination committee ("Remuneration")

This committee meets at least once a year, and is chaired by E M Mafuna, an independent non-executive director, and consists of two additional non-executive members, N D Orleyn who is an independent director and G A M Ravazzotti.

The responsibility of the committee is to review executive remuneration, performance bonuses, directors' fees and the allocation of shares in terms of the share incentive schemes. Remuneration of senior executives is based on their performance within their area of responsibility and is calculated using key performance indicators, which include operational and financial performance. Senior management incentives are linked to achieving divisional targets and profits. The Group's CEO and CFO are assessed on the growth performance of the Group as a whole.

The Board has instituted a remuneration philosophy that balances the reward to executives with the interests of the Group and its shareholders. Each executive's remuneration has the following elements:

- A monthly salary;
- A short-term incentive, based on the profit of the specific division (or, in the case of the CEO and CFO, the Group). This incentive aligns the short-term interest of executives and shareholders;
- A long-term incentive (through participation in the Group share incentive trust and Share Appreciation Rights Scheme), which aligns the long-term interest of executives and shareholders; and lastly
- The Long Term Incentive Plan, which provides a retention mechanism to ensure business continuity even if stock markets decline.

Ethics policy

Ceramic prides itself on its commitment to principles of integrity, human dignity and fairness in practice.

The Group operates according to a comprehensive ethics policy, which is integral to its business values. The management team sets an example with its actions which are governed by the ethics policy. It is therefore expected of every employee to follow the example set by the management team. Management is highly visible and accessible in the factories with an "open door" policy throughout the organisation. This encourages informal processes which enable employees to report unethical behaviour at all levels.

Internal audit and control

The Group implements an unconventional but effective approach to internal audit which continues to be successful. In line with Ceramic's philosophy of optimising its resources, each deputy factory manager swaps duties with one of his colleagues, in order to evaluate the status of the Group's production facilities. This includes an assessment of internal controls around the inventory management, purchase and sales systems. In addition there is an evaluation of processes in the factory. The report of each deputy factory manager is discussed at the audit committee. An advantage of this approach is that best practice can be migrated across the Group.

This process, which is overseen by the finance department, has won substantial support from the Group's employees and is considered more effective than employing external resources.

Auditors

KPMG, the external auditors employed by the Group during the year, had direct access to the chairman of the audit committee.

The Group is satisfied that the non-audit services provided did not compromise KPMG's independence as auditors. The fees for KPMG for the year under review were as follows:

Audit	R1 844 671
Non-audit	R423 754

Price sensitive information

In accordance with the JSE Limited's guidelines on price sensitive information, only the chairman, CEO and CFO hold discussions with the media, institutional investors and analysts. The Group follows a "closed period" principle for the month before the close of the half-year until publication of the interim results and the month before the close of the financial year until final results are made public. During these periods, employees and directors are prohibited from dealing in the Company's shares.

Executive management

The CEO and the executive management team meet regularly to consider issues of strategic importance to the Group.

Financial statements and internal control

The annual financial statements, which are set out on pages 31 to 79 of this report, are prepared by the Board in accordance with International Financial Reporting Standards in a manner that fairly represents the state of affairs and results of the operations of the Company and the Group. The financial statements are externally audited to ensure their fair presentation and compliance with International Financial Reporting Standards.

In order to ensure that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices, the Group maintains financial and operational control systems which include proper delegation of responsibilities, effective accounting procedures and adequate segregation of duties which are monitored regularly throughout the Group. Employees are required to act with integrity in all transactions.

SUSTAINABILITY REPORT

Ceramic Industries embraces the King Code's guidelines for socially responsible reporting according to the "triple bottom line" (economic, social and environmental impacts of its operations) as a method of enhancing its commercial success as well as improving the likelihood of its long-term success.

The Group recognises 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 aims to conform to its stringent requirement for transparency, while operating profitably and remaining accountable to the broader community which it serves and the natural environment in which it operates.

Stakeholder engagement

The Board has a clear policy in terms of accountability for sustainability and for keeping the Group's stakeholders informed and updated with regard to its practices, policies and financial results.

Direct discussions with stakeholders are welcomed by the Board. In addition to communication at the interim and annual results presentation which is made to key shareholders and members of the investment community, media releases are published when appropriate and ad hoc meetings with interested parties are held on request.

The Group meets regularly with its shareholders and recognises its fiduciary duty to maximise the value of its assets for their benefit. In addition, shareholders are encouraged to attend the Group's annual general meeting to vote on resolutions of the Company, and where appropriate, to enter into discussion with the directors.

Ceramic Industries is committed to engaging with the local communities where its operations have a potential impact. In line with good corporate citizenship, the Group aims to develop a positive working relationship with local communities through organised committees.

The Group has defined its major stakeholders and communicates with them as follows:

Stakeholder	Communication
Investors	Annual and interim reports, SENS announcements, annual general meeting, investor relations programme, formal results presentations, site visits, website and email.
Employees	Quarterly newsletter, intranet, invitation to all staff to attend the monthly factory committee meetings. Participative structures to deal with matters affecting employees directly and materially set up with trade unions to achieve good employer/employee relations through effective sharing of relevant information, consultation and the early identification and resolution of conflict. Training, email and notice-board announcements, monthly income statement reports, employee handbook, and information gathering and dissemination meetings at the beginning of each factory shift.
Customers	Contracts, meetings, letters, email updates and account statements.
Suppliers	Contracts, letters, emails, invoices and statements.
Government and regulators	Submissions and meetings (Departments of Labour, Mineral Resources and Trade and Industry).
Communities	Public relations initiatives, profit announcements, website, meetings with local community committees and social investment.

Transformation

The Group is committed to ongoing transformation in South Africa and supports the principles embodied in the Black Economic Empowerment (BEE) Code and the Mining Charter. Ceramic has achieved substantial success in its employment equity plans. Staff are encouraged to regard themselves as owners of their respective divisions or factories by a profit sharing scheme through which approximately 7% of divisional or factory pre-tax profit is distributed to factory employees, the majority of whom are historically disadvantaged South Africans.

Ownership

The remaining component of the BEE equity ownership transaction approved at a general meeting on 11 December 2008, comprising the empowerment of Ceramic's clay quarries with majority ownership passing to the Group's employees, has received shareholder approval, but still requires final approval from the Department of Mineral Resources. The impact of this transaction on operating profit will be a once-off non-cash IFRS 2 charge of approximately R8 million. Shareholders will be advised once this suspensive condition has been fulfilled.

Employment equity

The Group submits its employment equity report to the Department of Labour on an annual basis. During 2011, Ceramic met the overall targets set out in its employment equity reports.

Ceramic Industries' employment statistics at:

	31 July 2011		31 July 2010	
Senior management				
Historically disadvantaged individuals	**3**	**(37,5%)**	3	(37,5%)
Other	**5**	**(62,5%)**	5	(62,5%)
Middle management				
Historically disadvantaged individuals	**11**	**(37,9%)**	10	(33,3%)
Other	**18**	**(62,1%)**	20	(66,7%)
Other				
Historically disadvantaged individuals	**758**	**(91,0%)**	724	(92,0%)
Other	**75**	**(9,0%)**	64	(8,0%)
Total workforce				
Historically disadvantaged males	**682**	**(78,4%)**	648	(79,2%)
Historically disadvantaged females	**90**	**(10,3%)**	89	(10,9%)
White males	**71**	**(8,2%)**	64	(7,0%)
White females	**27**	**(3,1%)**	25	(2,9%)

Skills development

To address the skills shortage which remains a reality across the industry, the Group continues investing heavily in training initiatives in its factories for on-the-job practical knowledge improvement. The internal training and development programme conducted in the factories aims to improve the workforce's day-to-day ability to run each plant and has been successful in developing employees' skills.

During the year R2,3 million (2010: R2,0 million) was spent on training across the skills levels in the Group.

A total of 452 employees (2010: 150) attended 174 (2010: 206) training courses arranged by the training officer during the year.

Employees attended more than 113 (2010: 110) technical and administrative training courses to enhance the skills of the workforce. In addition, ABET training courses were attended by 21 employees (2010: 25).

Four (2010: seven) artisans qualified through the Group's internal programmes which include on-the-job training as well as attendance of formal academic training programmes. The Group also implements a mentorship programme, which exposes trainees to practical operational and administrative aspects of the business as well as providing for formal academic training programmes. There are currently two new internal candidates on the programme (selected at the end of July 2011), and it is planned to recruit a further four external candidates by the end of the calendar year.

The Group's other training and development initiatives included among others, debt management training; ISO training; HIV and Health and Safety training.

Bursaries were granted to four employees (2010: five) completing studies related to their work, while four employees' children (2010: two) benefited from educational sponsorship.

Investments are also made in formal training at local colleges, universities and technikons to extend employees' theoretical knowledge and to ensure that employees can contribute to both the quality and profitability of the Group's products.

Information technology (IT)

The Group's IT strategy is integrated with the organisation's strategic and business processes. All major business processes are computerised and the Group has a formally documented and tested disaster recovery plan in place. Policies and governance principles are in place to ensure optimum functionality of the IT environment and appropriate implementation of controls.

The Group utilises state-of-the-art systems, and ensures that software and hardware are continuously maintained and updated. In-house management of IT is complemented by comprehensive support of the Group's respected service providers including Dell, Apple, Microsoft and SAP.

SOCIAL IMPACT

Responsibility to employees

The Group places great importance on its responsibility to uphold basic human rights within the organisation. In support of its commitment to good corporate citizenship the Group subscribes to an ethics policy which is made available to all members of staff and is strictly adhered to at all times. Transparent guidelines are core to Ceramic's culture, values and beliefs and are regarded as critical to empowering and entrusting its people, who are the Group's most valuable asset.

The Company operates a profit share scheme for all employees, which not only provides an incentive to improve performance, but creates a culture of accountability where each employee takes responsibility and ownership of the work they do. An annual employee awards ceremony acknowledges outstanding employees with substantial prizes for performance and innovation, among other areas.

Labour relations

37% of the South African workforce are members of COSATU affiliated unions. Annual wage negotiations were underway at three of the factories at the time of preparing this report.

Health and safety

The Group's health and safety policy complies with the Occupational Health and Safety Act 1970 and other relevant legislation, regulations and codes of practice for South Africa. It aims to prevent and minimise work-related health impairments by applying international best practice and ensuring that all employees are supplied with adequate training and supervision for the roles they undertake.

A safe working environment makes sound commercial sense, and given the inherent potential risk in conducting the Group's activities, health and safety obligations are regarded extremely seriously.

Ceramic Industries implements a range of incentives to reduce work-related injury among its employees, and this together with ongoing health and safety training enables the Group to record a very low accident rate statistic. During the year, more than 503 employees (2010: 71) attended health and safety training.

On-site clinics are situated at all of the Group's factories. They provide employees with primary healthcare and other wellness programmes as well as services including interventions aimed at preventing diseases such as HIV, Aids and tuberculosis. Preventative measures including undertaking regular dust surveys in the working environment are also employed to avoid occupational health hazards such as silicosis.

HIV and Aids

The Group maintains a fully comprehensive programme for employees affected by this disease. Voluntary counselling and testing, anti-retroviral medication as well as comprehensive lectures on wellness and nutrition are available at all of its factory sites. During the year, 353 employees undertook voluntary counselling and testing for HIV and Aids. The cost of implementing the Group's HIV and Aids programme in the reporting period was R324 000 (2010: R182 000).

Staff welfare

During the year, expenditure of R2,2 million (2010: R1,8 million) was incurred on on-site clinic facilities, X-rays, hearing tests, medicals, spectacles and first aid kits.

Corporate Social Investment (CSI)

The Group makes donations to a range of projects which benefit local communities around the Group's factories. The total amount spent on these programmes during 2011 exceeded R300 000 (2010: R100 000).

ENVIRONMENTAL IMPACT

Overall policy and standards

The Group's business activities include quarrying, which could potentially have a negative impact on the environment. It is therefore a high priority for the long-term sustainability of the business to mitigate any such effects at every possible opportunity.

An environmental forum, chaired by Ceramic Industries' non-executive chairman, G A M Ravazzotti, exists to ensure among other initiatives that the Group develops an energy management plan to reduce its carbon footprint. Members of the committee include the Group's CEO, N Booth, independent non-executive director, N D Orleyn, and several of the Company's senior managers.

Awareness of environmental issues is raised among employees through the Group's comprehensive environmental protection policy. This policy is complemented by environmental management plans (EMPs) at each of the factories and quarries. The EMPs aim to systematically and efficiently ensure that Ceramic Industries' goal of sustainable development is sympathetic to the environment. In this regard, environmental impact assessments (EIAs) are conducted on all new projects to assess potential environmental consequences as well as determine preventative remedial actions. EIAs are incorporated into each site's EMP and monitored for effectiveness for the duration of the project.

Impacts

Energy, water, clay and glaze are the primary materials used by the Group in its business activities. The Group subscribes to relevant environmental legislation and a management plan is in place to optimise consumption of each of these materials in order to reduce the negative impact on the environment.

A range of energy-efficient practices is being implemented in the Group's factories, including the production of thinner environmentally friendly tiles at Vitro, Samca Floor and Wall and NCI. A heat-recycling plant installed at Betta has reduced gas consumption by 11% and emissions by 9%; a study is currently underway to assess the feasibility of installing a similar plant at Vitro.

No hazardous emissions are produced by the business in its daily activities and only natural gas is used in order to reduce carbon dioxide emissions. Regular surveys are conducted to evaluate the impact of Ceramic's seven quarries on air pollution in order to ensure compliance with regulations.

Betta has recently implemented a glaze recycling programme with favourable results, and further development will be undertaken to advance this initiative.

Substantial volumes of water are used in the quarrying operations of the Group, largely to reduce the amount of dust in the air. Captured rainwater is used whenever possible. Ceramic's objective is to recycle all water and reuse as much of its waste water as possible. All water released back into the environment is treated to a standard that exceeds municipal regulations. Water purification plants commissioned at Vitro and Pegasus during the year have continued to make a significant contribution to reducing water consumption. No industrial effluent is emitted from the Vereeniging site and all waste water is re-used. A new water plant will be commissioned at Samca in the new year and is expected to reduce consumption by 25%.

The Group produces approximately 800 tons of inert fired scrap per month, which is used to fill and shape redundant quarries in order to rehabilitate the land so it may be used for other purposes. The Company's administration and service centre in the Vaal Triangle is situated on the site of a rehabilitated quarry which the Group continues to develop to an attractive parkland suitable for alternative use.

Environmental sponsorships

Ceramic Industries supports the World Wildlife Fund (WWF) as part of its CSI programme. WWF's goal is to conserve the diversity of life. It is the world's largest privately financed conservation organisation.

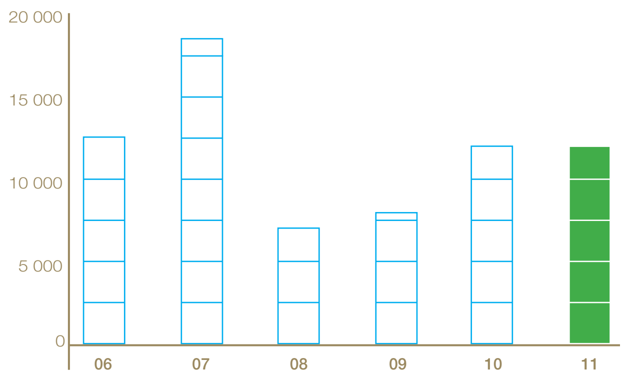
Party political support

The Group does not support any individual political party, financially or otherwise.

	GROUP			
	%	2011 R000's	%	2010 R000's
Revenue		1 547 249		1 601 187
Less: Paid and payable to suppliers for goods and services		(1 027 964)		(1 030 032)
Value added		519 285		571 155
Finance income		22 535		20 803
Finance expenses		1 516		311
Income from associated companies		7 500		–
Total wealth created	100,0	547 804	100,0	591 647
Applied as follows:				
Employees' salaries, wages and benefits	35,5	194 734	33,3	197 042
Government	16,1	88 072	12,9	76 074
Company taxes		87 139		75 456
Rates and taxes		933		618
Providers of capital	62,2	340 473	9,6	56 777
Retained for future growth	(13,8)	(75 475)	44,2	261 754
		547 804		591 647

Stock exchange performance

		2011	2010	2009	2008	2007	2006
Market price per share							
– Closing at year-end	cents	**12 000**	12 000	8 000	7 020	18 445	12 550
– High	cents	**14 800**	12 100	8 000	19 000	19 000	15 000
– Low	cents	**11 000**	7 800	6 500	7 020	12 570	10 750
Volume of shares traded as % of issued shares	%	**6,6**	7,8	7,2	12,6	6,6	8,2
Closing share price as % of net asset value per share	%	**169,30**	151,7	112,1	103,9	315,2	256,3
Number of transactions recorded on the JSE Securities Exchange South Africa		**1 017**	834	586	1 186	795	1 013
Number of shares traded	000's	**1 333**	1 597	1 467	2 298	1 207	1 494
Value of shares traded	R000's	**177 828**	171 658	106 882	269 250	189 423	188 427



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These annual financial statements have been prepared under the supervision of D R Alston CA(SA) and have been audited in compliance with the requirements of the Companies Act, of 2008, as amended.

Approval of the annual financial statements

The Group and Company annual financial statements, set out on pages 34 to 79, were approved by the Board of Directors on 12 October 2011 and are signed on its behalf by:

G A M Ravazzotti
Non-executive chairman

N Booth
Chief executive officer

Certificate by the company secretary

In terms of Section 88(2)(e) of the Companies Act, 2008, as amended, I certify that, to the best of my knowledge and belief, the Company has lodged with the Companies and Intellectual Property Commission for the financial year ended 31 July 2011 all such returns required of a public company in terms of the Companies Act, 2008, as amended, and that all such returns are true, correct and up to date.

E J Willis
Company secretary

12 October 2011

To the members of Ceramic Industries Limited

We have audited the consolidated and separate annual financial statements of Ceramic Industries Limited, which comprise the statements of financial position at 31 July 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 34 to 79.

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 management, 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 Ceramic Industries Limited at 31 July 2011, 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 the requirements of the Companies Act of South Africa.

KPMG Inc.
Registered auditor

Per T G Cheadle
Chartered Accountant (SA)
Registered Auditor
Director

85 Empire Road
Parktown, South Africa

12 October 2011

Scope and boundary

The directors of Ceramic Industries Limited present herewith the annual financial statements for the Group and Company for the year ended 31 July 2011.

The report covers all of the Group's operations in South Africa and Australia. There have been no material changes to the structure, ownership, products and services of the organisation since the release of the previous annual report for the year ended 31 July 2011, and hence the scope of the current report remains largely unchanged.

In preparing this report, the Group has been guided by the principles of King III, the reporting requirements of the JSE Listings Requirements, and the Companies Act of 2008, as amended, with the intention of providing information which is balanced, accurate and meaningful. The Board and Board committees were involved in finalising disclosures made in this report in order to contribute to enhanced transparency and disclosure.

The Board has identified the key material issues of relevance to our stakeholders. The report in this regard is presented on page 8.

Nature of business

Ceramic Industries Limited ("Ceramic", "the Group" or "the Company") and its subsidiaries manufacture ceramic floor tiles, wall tiles, vitreous china sanitaryware and acrylic bathroomware. The Group is the largest Southern African manufacturer and supplier of ceramic tiles and sanitaryware and is the largest local manufacturer of ceramic tiles in Australia.

Ceramic's South African operation comprises four tile factories, one sanitaryware factory and one bath factory. The tile factories, namely Samca Wall Tiles, Samca Floor Tiles, Pegasus and Vitro are situated in Vereeniging and Babelegi. The sanitaryware factory, Betta Sanitaryware, and the bath factory, Aquarius, are both located in Krugersdorp. The Australian operation comprises a glazed porcelain tile factory situated in Rutherford in New South Wales.

The Group is listed on the JSE Limited, South Africa, in the Construction and Building Materials sector.

Statements of responsibility

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

Group results

The Group applied International Financial Reporting Standards ("IFRS") for the year under review. The results of the Group and the Company are set out on pages 41 to 79.

Property, plant and equipment

During the year the Group spent R130 million on new plant and machinery in order to upgrade the technology at the factories. Details of property, plant and equipment are contained in note 7 of the annual financial statements.

The register of land and buildings is available for inspection at the registered office of the Company during normal business hours.

Dividends

The Board has declared a final dividend of 160 cents per ordinary share, which together with the interim dividend of 140 cents, maintains the total dividend at 300 cents per share.

Significant dates for the final dividend are as follows:

	2011
Last day to trade cum dividend	Friday, 30 September 2011
First day to trade ex dividend	Monday, 3 October 2011
Record date	Friday, 7 October 2011
Dividend payment date	Monday, 10 October 2011

The capital remaining after the payment of the above dividend is considered sufficient by the Board to support current operations and future developments of the Group.

Special dividend

On 17 May 2011, the Board declared a special dividend of 1 500 cents per Ceramic ordinary share to all shareholders of the Group. The reason for the special dividend, which should be treated by shareholders as a payment out of profit, was to return surplus cash to shareholders.

Treasury shares

During the review period the Group's black economic empowerment (BEE) shareholders, namely Aka Ceramic Holdings (Pty) Ltd, Peotona Ceramics (Pty) Ltd, the Ceramic BEE Staff Empowerment Trust No 2 and the Ceramic

Foundation agreed to utilise a fixed percentage of the special dividend (referred to above) to acquire treasury shares from Ceramic's wholly owned subsidiary company, National Ceramic Industries South Africa (Pty) Ltd. Approximately 60% of the Group's treasury shares were acquired by the BEE shareholders through this transaction at an average issue price of R122,52. This transaction enhanced Ceramic's BEE credentials.

Shareholders and capital

The authorised and issued share capital remained unchanged.

	Authorised	Issued
Number of ordinary shares of no par value	27 709 467	20 292 828

A detailed analysis of the Group's shareholders is set out on page 79.

Ceramic Industries share trust

In terms of a resolution passed at a shareholders' meeting held on 12 January 1993, the directors are authorised to make available for the purposes of the scheme, a maximum aggregate number of 2 739 500 ordinary shares. The scheme exists for the directors and senior management of the Group with a limit of 350 000 shares, which any one participant may acquire.

At the annual general meeting of 26 November 2010 shareholders approved the resolution to increase the number of shares which may be held by the Ceramic Industries share trust to 3 043 900 and increase the maximum number of shares which may be acquired by any one participant to 500 000 shares.

The movements in the number of shares allocated to eligible participants are as follows:

	2011 Number of shares	2010 Number of shares
At 1 August	**295 000**	345 000
New allocations made	**617 500**	–
Redeemed allocations	**–**	–
Forfeited allocations	**235 000**	50 000
Allocations at 31 July	**677 500**	295 000
Average subscription price per share	**R95,45**	R95,45

The allocations at 31 July 2011 will mature at various dates up to 13 December 2015. Resignation from the Group before the maturity dates results in participants forfeiting their allocations.

Ceramic Industries Limited ordinary shares totalling 1 067 245 (2010: 1 067 245) were held by the share trust. The surplus, being the difference between allocated shares and shares held by the share trust, decreased to 389 745 (2010: increased to 772 245). The intention is to use the surplus shares for allocation to key management.

There is no dilutive effect on the issued share capital of the Company as shares are bought in the open market by the share trust. Acquisitions are funded by the Company. At 31 July 2011, the total loan to the share trust amounted to R72,2 million (2010: R91,4 million).

Non-executive directors' participation in the share trust

No non-executive directors have any options over shares in the Company.

Share Appreciation Rights Scheme and Long Term Incentive Plan

At the annual general meeting held on 30 November 2007, shareholders approved the introduction of both a Share Appreciation Rights Scheme ("Scheme") and a Long Term Incentive Plan ("Plan") in order to incentivise selected directors and employees of the Group.

In terms of both the Scheme and the Plan, participants will be awarded a certain number of notional Ceramic Industries ordinary shares which are divided into two tranches. The first tranche which comprises 25% of the award becomes unconditional on the third anniversary of the grant date.

The second tranche comprising 75% of the award becomes unconditional on the fifth anniversary of the grant date.

The movement in the notional shares granted to selected directors and employees is as follows:

Grant date	Offer price per notional share	Notional shares allocated at 31 July 2010	Granted	Forfeited	**Notional shares allocated at 31 July 2011**
Scheme					
13 October 2008	70,05	210 00	–	–	**210 000**
1 September 2009	83,00	23 000	–	–	**23 000**
9 March 2010	103,58	265 000	–	–	**265 000**
		498 000	–	–	**498 000**
Plan					
13 October 2008	–	52 500	–	–	**52 500**
1 September 2009	–	9 500	–	–	**9 500**
9 March 2010	–	75 000	–	–	**75 000**
		137 000	–	–	**137 000**

Neither the Scheme nor the Plan has a dilutive effect on the issued share capital of the Company, as both are based on notional Ceramic Industries ordinary shares and both are cash settled.

Resignation from the Group results in participants forfeiting their allocations.

Share buy backs

National Ceramic Industries South Africa (Pty) Ltd, a wholly owned subsidiary of Ceramic Industries Ltd, acquired a number of Ceramic's ordinary shares on the open market. These shares will be held as treasury shares for sale to both the BEE partners and participants of the Share Appreciation Rights Scheme and the Long Term Incentive Plan. The latter two schemes are cash settled but beneficiaries are encouraged to use any gains from the notional schemes to acquire shares in Ceramic Industries.

Details of the treasury shares held by the Group are as follows:

	Number of Ceramic shares	Average purchase price
Balance at 31 July 2010	**300 000**	**R111,20**
Purchased	**14 050**	**R134,99**
Sold	**(198 752)**	
Balance at 31 July 2011	**115 298**	**R112,02**

Black economic empowerment transaction (BEE)

At a general meeting held on 11 December 2008, shareholders approved a BEE equity ownership transaction.

The remaining component of that transaction, comprising the empowerment of Ceramic's clay quarries, with majority ownership passing to the Group's employees, has received shareholder approval, but still requires final approval from the Department of Mineral Resources. It is anticipated that the impact of this transaction on operating profit will be a once-off non-cash charge of approximately R8 million. Shareholders will be advised once this suspensive condition has been fulfilled.

Directors and secretary

The names of the directors and their personal details appear under the section "Directorate and administration" on page 40. The details of the secretary are on page 38.

Subsidiary companies

Details of the Company's interest in and indebtedness to or by its subsidiary companies are set out in note 11.

The attributable interest in the aggregate net profits or losses after taxation of subsidiaries is:

	2011 R000's	2010 R000's
Profits	**183 076**	220 980
Losses	**(13 250)**	(21 379)
Total	**169 826**	199 601

Events subsequent to reporting date

No events took place between the reporting date and the date of this report that would have a material effect on the financial statements as disclosed.

Directors' interest in contracts

No material contracts involving directors exist, or were entered into, during the year under review.

Directors' responsibility

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of Ceramic Industries Limited, comprising the statements of financial position at 31 July 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Report on directors' remuneration

In accordance with the requirements of the JSE Limited, South Africa, a detailed report on directors' remuneration appears in note 26.

Directors' shareholding

The directors' beneficial and non-beneficial interests in the stated share capital of Ceramic Industries at the reporting date are set out in the table below.

There has been no material change in these interests between 31 July 2011 and the date of this report.

Details of the directors' participation in the share trust, the Scheme and the Plan are set out in note 26.

At 31 July 2011

	Beneficial				Non-beneficial			
Director	**Direct**	**Indirect**	**Total**	**% held**	**Direct**	**Indirect**	**Total**	**% held**
N Booth	**121 000**	**—**	**121 000**	**0,6**	—	—	—	—
S D Jagoe	**67 000**	**23 000**	**90 000**	**0,4**	—	—	—	—
E M Mafuna	**15 000**	**—**	**15 000**	**0,1**	—	—	—	—
N S Nematswerani	**—**	**109 331**	**109 331**	**0,5**	—	—	—	—
N D Orleyn	**—**	**127 553**	**127 553**	**0,6**	—	—	—	—
G A M Ravazzotti	**215 478**	**6 691 089**	**6 906 567**	**34,0**	—	—	—	—
G Zannoni	**—**	**4 460 726**	**4 460 726**	**22,0**	—	—	—	—

At 31 July 2010

	Beneficial				Non-beneficial			
Director	Direct	Indirect	Total	% held	Direct	Indirect	Total	% held
N Booth	121 000	—	121 000	0,6	—	—	—	—
S D Jagoe	67 000	23 000	90 000	0,4	—	—	—	—
E M Mafuna	15 000	—	15 000	0,1	—	—	—	—
N S Nematswerani	—	97 406	97 406	0,5	—	—	—	—
N D Orleyn	—	113 640	113 640	0,6	—	—	—	—
G A M Ravazzotti	215 478	6 278 461	6 493 939	32,0	—	—	—	—
G Zannoni	—	4 654 973	4 654 973	22,9	—	—	—	—

Borrowing powers
In terms of the Memorandum of Incorporation of the Company, 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 and Company.

Auditors
KPMG Inc. continued in office as auditors of Ceramic Industries. At the annual general meeting on 25 November 2011 shareholders will be requested to appoint KPMG Inc. as auditors for the 2012 financial year and it will be noted that T G Cheadle will be the individual registered auditor who will undertake the audit.

Company secretary and registered office
The company secretary is E J Willis, whose business and postal address is:

Physical address
3 Atherstone Bower
77 King Edward Road
Lombardy East
2090

Postal address
PO Box 2005
Edenvale
1610

Refer to page 32 for the certificate by the company secretary.

Background

The committee's operation is guided by a charter that is based on the Corporate Laws Amendment Act and the principles set out in King III, and are approved by the Board as and when amended.

Purpose

The purpose of the committee is to:

- assist the Board in discharging its duties relating to:
  - safeguarding Group assets and ensuring the operation of adequate systems and controls; and
  - preparing reports and financial statements in compliance with the applicable legal requirements and accounting standards;
- provide a forum for discussing business risk and control issues for developing recommendations for consideration by the Board;
- oversee the activities of external audit;
- consider the appropriateness of the experience and expertise of the chief financial officer; and
- perform duties that are attributed to it by the Act.

Membership

During the course of the year the membership of the committee comprised the following independent non-executive directors:

- N S Nematswerani (chairman)
- S D Jagoe
- K M Schultz

External audit

The committee has satisfied itself through enquiry that the auditor of Ceramic Industries Limited is independent as defined by the Act.

The committee in consultation with executive management, agreed to a provisional audit fee for the 2011 financial year. The fee is considered appropriate for the work that could reasonably have been foreseen at that time. The final adjusted fee will be agreed on completion of the audit. Audit fees are disclosed in note 2 to the financial statements.

There is a formal procedure that governs the process whereby the auditor is considered for non-audit services and each engagement letter for such work is reviewed by the committee.

The committee has nominated, for approval at the annual general meeting, KPMG Inc. as the external auditor for the 2012 financial year and T G Cheadle as the individual registered auditor.

Internal audit

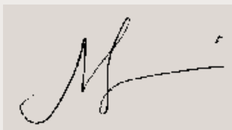
Internal audits are conducted by the deputy factory managers and members of the finance department on the basis discussed in the corporate governance report.

Financial management

The audit committee has satisfied itself that D R Alston has the appropriate expertise and knowledge to fulfil the role of chief financial officer.

Annual financial statements

The committee has tabled the financial statements for approval by the Board. The Board has subsequently approved the financial statements which will be open for discussion at the forthcoming annual general meeting.



N S Nematswerani
Chairman of the audit committee

12 October 2011

Directorate and administration

Directors

G A M Ravazzotti (68)
Non-executive chairman

N Booth (51)
Chief executive officer

D R Alston (57) BCom CA(SA)
Chief financial officer

S D Jagoe (60) BSc (Eng), MBA
Independent non-executive director

E M Mafuna (66) BA Psych Soc, BA (Hons) Soc
Independent non-executive director

N S Nematswerani (50) MCom CA(SA)
Independent non-executive director

N D Orleyn (55) BJuris, BProc LLB
Independent non-executive director

L E V Ravazzotti (42)
Non-executive director

K M Schultz (74) BSc (Geology)
Independent non-executive director

G Zannoni (72)
Non-executive director – Italian

Transfer secretaries

Computershare Investor Services (Pty) Ltd

Sponsors

One Capital

Share codes

JSE: CRM
ISIN: ZAE000008538

Company registration number

1982/008520/06

Auditors

KPMG Inc.

Attorneys

Edward Nathan Sonnenbergs Inc.
Weavind & Weavind

Bankers

Nedbank Limited

Executive management

P de Lange (40) BEng (Mech) (Hons) PrEng
Operational manager: Tiles

L A Foxcroft (39) BSc (Metal) Eng, (Hons IT)
Operational manager: Sanware
Factory manager: Betta Sanitaryware and Aquarius

A J Potgieter (42)
Samca Floor Tiles

J P J Deetlefs (36)
Samca Wall Tiles

T S Mojanko (35)
Pegasus

T Molefakgotla (34) BTech (Mech Eng)
Vitro

L Pereira (50)
Centaurus

E J P Desjardins (40) BSc (Agriculture), BCom
Sales and Marketing – Export

A Ferrara (48)
Factory shop

M Wernli (55) MBA
Sales and Marketing – Tiles

R P Coleman (43)
Sales and Marketing – Sanitaryware

Audit committee

N S Nematswerani (Chairman)
S D Jagoe
K M Schultz

Remuneration and nomination committee

E M Mafuna (Chairman)
N D Orleyn
G A M Ravazzotti

Risk committee

N Booth (Chairman)
D R Alston
P de Lange
L A Foxcroft
T Molefakgotla
N S Nematswerani

Company secretary

E J Willis

	Notes	GROUP 2011 R000's	GROUP 2010 R000's	COMPANY 2011 R000's	COMPANY 2010 R000's
Revenue		**1 547 249**	1 601 187	**–**	–
Cost of sales		**1 150 497**	1 144 930	**–**	–
Gross profit		**396 752**	456 257	**–**	–
Operating expenses/(income)		**204 905**	206 110	**99**	(8 425)
Operating profit/(loss)	2	**191 847**	250 147	**(99)**	8 425
Finance income	3	**22 535**	20 803	**420 525**	6 028
Finance expenses	4	**1 516**	311	**–**	–
Income from associated companies	9	**7 500**	–	**–**	–
Profit before taxation		**220 366**	270 639	**420 426**	14 453
Taxation	5	**87 139**	75 456	**42 246**	6 579
Profit for the year		**133 227**	195 183	**378 180**	7 874
Other comprehensive income					
Foreign currency translation differences for foreign operations		**28 694**	12 316	**–**	–
Total comprehensive income for the year		**161 921**	207 499	**378 180**	7 874
Profit attributable to:					
Owners of Company		**133 204**	193 657	**378 180**	7 874
Non-controlling interests		**23**	1 526		
Total comprehensive income attributable to:					
Owners of Company		**162 936**	205 357	**378 180**	7 874
Non-controlling interests		**(1 015)**	2 142		
Basic earnings per share (cents)	6	**788,0**	1 130,1		
Diluted earnings per share (cents)	6	**761,3**	1 085,4		
Dividends per share (cents)		**1 800,0**	300,0		

Statements of financial position *as at 31 July 2011*

		GROUP		COMPANY	
	Notes	**2011 R000's**	2010 R000's	**2011 R000's**	2010 R000's
ASSETS					
Non-current assets		**887 577**	855 584	**403 432**	398 529
Property, plant and equipment	7	**861 418**	845 560	**2 708**	2 708
Goodwill	8	**4 520**	4 520	**–**	–
Investment in associated company	9	**21 399**	5 504		
Share trust loan	10			**72 184**	91 399
Deferred taxation assets	18	**240**	–	**–**	–
Investment in subsidiaries	11			**328 540**	304 422
Current assets		**560 487**	767 433	**3 536**	9 435
Inventories	12	**118 248**	110 800	**–**	–
Trade and other receivables	13	**224 089**	218 011	**3 526**	9 435
Income taxation receivable		**438**	2 874	**–**	–
Cash and cash equivalents	14	**217 712**	435 748	**10**	–
Total assets		**1 448 064**	1 623 017	**406 968**	407 964
EQUITY AND LIABILITIES					
Shareholders' equity		**1 198 085**	1 355 799	**262 654**	245 777
Share capital	15	**64 816**	64 816	**64 816**	64 816
Shares held by share trust	16	**(122 861)**	(145 316)		
Share-based payment reserve		**47 212**	47 212	**47 212**	47 212
Share awards reserve		**12 451**	8 483	**12 451**	8 483
Reserves		**111 153**	83 426	**30 235**	30 235
Retained earnings		**1 077 697**	1 288 546	**107 940**	95 031
Equity holders of parent		**1 190 468**	1 347 167	**262 654**	245 777
Non-controlling interests		**7 617**	8 632		
Total liabilities		**249 979**	267 218	**144 314**	162 187
Non-current liabilities		**76 242**	78 787	**14 035**	9 522
Shareholders' loans	17	**9 231**	9 561	**–**	–
Deferred taxation liabilities	18	**67 011**	69 226	**14 035**	9 522
Current liabilities		**173 737**	188 431	**130 279**	152 665
Trade and other payables	19	**166 254**	180 738	**–**	–
Taxation payable		**–**	–	**1 285**	1 284
Provisions for rehabilitation	20	**7 148**	7 480	**–**	–
Shareholders for dividends		**335**	213	**335**	213
Loans from subsidiaries	11			**128 659**	151 168
Total equity and liabilities		**1 448 064**	1 623 017	**406 968**	407 964

GROUP	Share capital R000's	Shares held by share trust R000's	Share-based payment reserve R000's	Share awards reserve R000's	Foreign currency translation R000's	Dividend R000's	Retained earnings R000's	Total R000's	Non-controlling interest R000's	Total R000's
	Attributable to equity holders of the parent									
					Reserves					
Balance as at 1 August 2009	64 816	(112 110)	47 235	7 959	44 859	16 234	1 151 666	1 220 659	6 490	1 227 149
Movement in translation of foreign subsidiaries					7 830			7 830	616	8 446
Movement in translation of long-term amounts owing by foreign subsidiaries					5 371			5 371		5 371
Movement in deferred taxation relating to movement in translation of long-term amounts					(1 501)			(1 501)		(1 501)
Total income and expense for the year recognised in other comprehensive income	–	–	–	–	11 700	–	–	11 700	616	12 316
Profit for the year							193 657	193 657	1 526	195 183
Total comprehensive income	–	–	–	–	11 700	–	193 657	205 357	2 142	207 499
Transactions with owners recorded directly in equity										
Contributions by and distributions to owners										
Movement in share awards reserve				524				524		524
Dividends paid						(48 703)		(48 703)		(48 703)
Dividends received by share trust						2 559		2 559		2 559
Additional shares acquired by subsidiary		(33 206)						(33 206)		(33 206)
Costs incurred in respect of BEE transaction			(23)					(23)		(23)
Transfer to dividend reserve						56 777	(56 777)	–		–
Balance as at 31 July 2010	64 816	(145 316)	47 212	8 483	56 559	26 867	1 288 546	1 347 167	8 632	1 355 799
Movement in translation of foreign subsidiaries					12 973			12 973	943	13 916
Movement in translation of long-term amounts owing by foreign subsidiaries					20 525			20 525		20 525
Movement in deferred taxation relating to movement in translation of long-term amounts					(5 747)			(5 747)		(5 747)
Total income and expense for the year recognised in other comprehensive income	–	–	–	–	27 751	–	–	27 751	943	28 694
Profit for the year							133 204	133 204	23	133 227
Total comprehensive income	–	–	–	–	27 751	–	133 204	160 954	966	161 921
Transactions with owners recorded directly in equity										
Contributions by and distributions to owners										
Movement in share awards reserve				3 968				3 968		3 968
Dividends paid						(365 271)		(365 271)		(365 271)
Dividends received by share trust						24 774		24 774		24 774
Additional shares acquired by subsidiary		(1 897)						(1 897)		(1 897)
Treasury shares sold to BEE partners		24 352						24 352		24 352
Premium on acquisition of NCIA shares							(3 580)	(3 580)		(3 580)
Acquisition of NCIA shares									(1 981)	(1 981)
Transfer to dividend reserve						340 473	(340 473)	–		–
Balance as at 31 July 2011	64 816	(122 861)	47 212	12 451	84 310	26 843	1 077 697	1 190 468	7 617	1 198 085

COMPANY	Share capital R000's	Share awards reserve R000's	Share-based payment reserve R000's	Dividend reserve R000's	Retained earnings R000's	Total R000's
Balance as at 1 August 2009	64 816	7 959	47 235	18 060	148 035	286 105
Profit for the year					7 874	7 874
Total comprehensive income	–	–	–	–	7 874	7 874
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Movement in share awards reserve		524				524
Costs incurred in respect of BEE transaction			(23)			(23)
Dividends paid				(48 703)		(48 703)
Transfer to dividend reserve				60 878	(60 878)	–
Balance as at 31 July 2010	64 816	8 483	47 212	30 235	95 031	245 777
Profit for the year					378 180	378 180
Total comprehensive income	–	–	–	–	378 180	378 180
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Movement in share awards reserve		3 968				3 968
Dividends paid				(365 271)		(365 271)
Transfer to dividend reserve				365 271	(365 271)	–
Balance as at 31 July 2011	64 816	12 451	47 212	30 235	107 940	262 654

	Notes	GROUP 2011 R000's	GROUP 2010 R000's	COMPANY 2011 R000's	COMPANY 2010 R000's
CASH GENERATED BY OPERATIONS	24.1	**316 816**	470 183	**9 778**	387
Finance income		**22 535**	20 803	**420 525**	6 028
Finance expenses		**(1 516)**	(311)	**–**	–
Dividends paid	24.2	**(340 375)**	(47 468)	**(365 149)**	(50 027)
Taxation paid	24.3	**(93 814)**	(74 064)	**(37 732)**	(6 456)
Net cash (outflow)/inflow from operating activities		**(96 354)**	369 143	**27 422**	(50 068)
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions to property, plant and equipment to expand operations		**(130 042)**	(56 538)	**–**	–
Proceeds from disposal of property, plant and equipment		**2 325**	3 291	**–**	3 500
(Increase)/decrease in investment in subsidiary		**–**	–	**(24 118)**	1 383
(Increase)/decrease of share in investment in associated company		**(10 529)**	178	**–**	–
Net cash (outflow)/inflow from investing activities		**(138 246)**	(53 069)	**(24 118)**	4 883
CASH FLOWS FROM FINANCING ACTIVITIES					
Costs incurred in respect of BEE transaction		**–**	(23)	**–**	(23)
Additional shareholding acquired in NCI Australia		**(5 561)**	–	**–**	–
Share buy back		**(1 897)**	(33 206)	**–**	–
Treasury shares sold to BEE partners		**24 352**	–	**–**	–
Borrowings repaid		**–**	(1 932)	**–**	–
Shareholders' loans repaid		**(330)**	(175)	**–**	–
(Decrease)/increase in net amounts owing to subsidiaries				**(22 509)**	42 638
Decrease in share trust loan				**19 215**	2 570
Net cash inflow/(outflow) from financing activities		**16 564**	(35 336)	**(3 294)**	45 185
Movement in cash and cash equivalents		**(218 036)**	280 738	**10**	–
Cash and cash equivalents at beginning of year		**435 748**	155 010	**–**	–
Cash and cash equivalents at end of year		**217 712**	435 748	**10**	–

Reporting entity

Ceramic Industries Limited ("the Company") is a company domiciled in South Africa. The address of the Company's registered office is Farm 2, Old Potchefstroom Road, Vereeniging. The consolidated financial statements of the Company as at and for the year ended 31 July 2011 comprise the Company and its subsidiaries (together referred to as "the Group"), the Group's interest in associate and share trust.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB") and the requirements of the Companies Act and AC 500 series and JSE Listings Requirements.

The consolidated financial statements were authorised for issue by the Board of Directors on 12 October 2011.

Basis of preparation

The consolidated and separate financial statements have been prepared on the historical cost basis, except for liabilities for cash-settled share-based payment arrangements which are measured at fair value.

Use of estimates and judgements

The preparation of the consolidated and separate 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. 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 assumptions and estimates that have the potential to cause a material adjustment to the carrying amount of assets and liabilities within the next financial year relate to the measurement of share-based payment, the provision for inventory obsolescence and the provision for rehabilitation of clay quarries.

Provision for inventory obsolescence: 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. More details of the inventory write-off are given in note 12.

Provision for rehabilitation of clay quarries: The Group determines, on an annual basis, the quantum of rehabilitation required to return clay quarries to a useable state. This requires an estimation of the future useful life of each quarry. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes in environmental laws and regulations, life of quarry estimates and discount rates could affect the carrying amount of the provision. More details of the provision for rehabilitation of clay quarries are given in note 20.

Functional and presentation currency

The financial statements are presented in rand which is the Company's functional and Group's presentation currency, and all values are rounded to the nearest thousand rand (R000's) except when otherwise indicated.

Changes in accounting policies

Accounting for acquisition of non-controlling interests

From 1 August 2010 the Group has applied IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has no impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of the transaction. The adjustments to non-controlling interests are based on the proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisitions of non-controlling interests in a subsidiary, which represented the excess cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all Group entities during the financial year, except as explained above.

Basis of consolidation

Business combinations

The Group has changed its accounting policy with respect to accounting for business combinations. Refer above.

Subsidiaries

Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control, so as to obtain benefits from their activities. In assessing control, potential voting rights that are currently exercisable are taken into account.

Where an investment in a subsidiary is acquired or disposed of during the financial year its results are included from, or to, the date control commences or ceases.

The Company's investments in subsidiaries are accounted for at cost, less impairment losses.

Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost.

The consolidated financial statements include the Group's share of profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in the equity accounted for investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

All intra-Group transactions and balances, and any unrealised income and expenses arising from the intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted for investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currencies

Foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of Group entities at the rates of exchange ruling at the dates of the transactions. Balances on monetary assets and liabilities denominated in foreign transactions at the end of the financial year are translated to the functional currency at the rates ruling at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the end of the year.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to rand at the foreign exchange rates ruling at the dates the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

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.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments on acquisition, whose functional currencies are not rand, are translated into rand at rates of exchange ruling at the end of the financial year and the income and expenses of the foreign operations to rand at exchange rates at the date of the transaction.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share is allocated to non-controlling interests. When the foreign operation is disposed of, such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of a gain or loss on disposal. When the Group disposes of only a part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group only disposes of part of its investment in an associate, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Exchange rates utilised to convert financial information are as follows:

	2011		2010	
	Weighted average rate for the year	Closing rate	Weighted average rate for the year	Closing rate
ZAR : AUD	6,97 : 1	7,39 : 1	6,71 : 1	6,62 : 1
ZAR : EUR	9,55 : 1	9,65 : 1	10,44 : 1	9,62 : 1
ZAR : USD	6,95 : 1	6,75 : 1	7,36 : 1	7,56 : 1

Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Allocated items comprise mainly corporate assets (primarily the Clay Quarry Support Centre – CQSC), CQSC expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Revenue recognition

Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the Company and/or the Group and the amount of revenue can be measured reliably. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods, and continuing managerial involvement with the goods.

Goods

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates and after eliminating sales within the Group.

Finance income

Dividends

Dividends are recognised when the right to receive payment is established, with the exception of dividends on preference share investments which are recognised on a time proportion basis, using the effective interest rate method, in the period to which they relate.

Interest

Interest income is recognised in profit or loss as it accrues using the effective interest rate method exchange gains.

Gains and losses on foreign currency transactions are reported on a net basis as either finance income or finance expense depending on whether foreign currency movements are in a net gain or a net loss position.

Finance expenses

Interest

Finance expenses comprise interest payable on borrowings calculated on the principal outstanding using the effective interest rate method.

Exchange gains and losses

Gains and losses on foreign currency transactions are reported on a net basis as either finance income or finance expense depending on whether foreign currency movements are in a net gain or a net loss position.

Taxation

The income tax expense comprises current and deferred tax and is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

Current taxation is the expected taxation payable or receivable on the taxable income or loss for the year, using the taxation rates enacted or substantively enacted at the reporting date, and any adjustment of taxation payable for previous years. Current taxation payable also includes any tax liability arising from the declaration of dividends.

Deferred taxation is provided on temporary differences which are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. Deferred taxation is recognised in profit or loss except to the extent that it relates to a transaction that is recorded directly in equity or a business combination that is an acquisition in which case it is recognised in equity. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the reporting date. A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused taxation losses and deductible temporary differences can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Deferred taxation is not recognised for the following temporary differences:

- The initial recognition of goodwill
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit
- Differences relating to investments in subsidiaries to the extent that the timing of the reversal is controlled by the Group and it is probable that they will not reverse in the foreseeable future

Deferred taxation assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority on the same taxable entity, or on different entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Secondary taxation on companies ("STC") is recognised in the year dividends are declared, net of dividends received. A deferred taxation asset is recognised on unutilised STC credits when it is probable that such unutilised STC credits will be utilised in the future.

Dividends payable

Dividends payable and any secondary taxation on companies pertaining thereto are recognised in the period in which such dividends are declared.

Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalise borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Land is not depreciated. Buildings, plant and equipment are depreciated on the straight-line method over their expected useful lives to an estimated residual value. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The current estimated useful lives are generally:

• Freehold buildings	10 to 20 years
• Plant and machinery	5 to 15 years
• Motor vehicles	5 years
• Office equipment	5 years
• Computer equipment	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Any revisions are accounted for prospectively as a change in accounting estimates. Where the carrying amount of an asset is greater than its estimated recoverable amount (ie the higher of value in use and net fair value less costs to sell) it is written down immediately to its recoverable amount.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the property, plant and equipment will flow to the Group and/or Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.
Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation of an item of property, plant and equipment begins when it is available for use and ceases at the earlier of the date it is classified as held for sale or the date that it is derecognised.

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 property, plant and equipment are determined by reference to their carrying amount and the net disposal proceeds and are taken to profit or loss in the year the asset is derecognised.

Lease assets

Operating leases

Leases which do not transfer substantially all the risks and rewards of ownership of an asset are treated as operating leases with lease payments charged against operating income. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Goodwill

The Group measures goodwill at the acquisition date as the fair value of consideration transferred plus the recognised amount of any non-controlling interests in the acquiree less the net recognised amount of the identifiable assets acquired and the liabilities assumed. When the excess is negative a bargain purchase gain is recognised immediately in profit or loss.

Impairment of assets

Financial assets

A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the 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 use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

Non-financial assets

The carrying amount of the Group's non-financial assets, other than inventories and deferred taxation assets, are reviewed at each reporting date to determine whether there is an indication of impairment and at any time when there is an indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell and its value in use. 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 risks specific to the asset or cash-generating unit.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets or groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the cash-generating units, and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

A previously recognised impairment loss, other than for goodwill, is reversed if there is an indication that the impairment loss has reversed and if the recoverable amount increases as a result of change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in previous years. Impairment losses in respect of goodwill are not reversed.

Inventories

Inventories are stated at the lower of cost or net realisable value. The costs of inventories include expenditure incurred in acquiring inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work-in-progress, costs include an appropriate share of production overheads based on normal operating capacity. These costs are regularly reviewed and updated to reflect the input costs of raw materials, direct labour, other direct costs and related normal production overheads. Slow-moving goods and obsolete inventories are written down to their estimated net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Provisions

Provisions are recognised when the Group and/or Company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Rehabilitation costs

Provisions for rehabilitation costs are based on the estimated expenses to be incurred in order to return clay quarries to a usable state. These costs include estimates made by management in order to comply with legislated environmental requirements. The adequacy of the provisions is reviewed annually against changed circumstances and legislation and any adjustment is recognised in profit or loss.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of shares

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

An accrual is made for the estimated liability for annual leave and performance bonuses as a result of services rendered by employees up to the reporting date. The accruals have been calculated at undiscounted amounts based on current salary rates.

Retirement benefits

The Group contributes to a defined contribution fund for employees. A defined contribution plan is a post-employment benefit plan under which the entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the period during which services are rendered by employees.

Share-based payment transactions

Equity settled

The fair value of share options and deferred delivery shares granted to selected employees, including directors, is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and expensed over the period during which the employees are required to provide services in order to become unconditionally entitled to the equity instruments. The fair value of the instruments granted is determined by using a binomial option-pricing model, further details of which are given in note 2. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

The cost of the share options is recognised, together with a corresponding increase in shareholders' equity, over the vesting period ending on that date on which the employees become fully entitled to take up the share options. The cumulative expense recognised for share options granted at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of share option grants that will ultimately vest in the opinion of the directors of the Company, 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, except for where forfeiture is only due to share prices not achieving the threshold for vesting.

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

Where an unvested share option is cancelled, the unrecognised cost is charged to profit or loss. However, 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.

Cash settled

Share-linked instruments have been granted to selected employees, including directors, in the Group. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and expensed over the period during which the employees are required to provide services in order to become unconditionally entitled to payment. The fair value of the instruments granted is measured using generally accepted valuation techniques, taking into account the terms and conditions upon which the instruments are granted. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as employees' remuneration in profit or loss.

Group share-based payment transactions

Transactions in which a parent grants rights to its equity instruments directly to the employees of its subsidiaries are classified as equity settled in the financial statements of the subsidiary, provided the share-based payment is classified as equity settled in the consolidated financial statements of the parent. The subsidiary recognises the services acquired with the share-based payment as an expense and recognises a corresponding increase in equity for a capital contribution from the parent for those services acquired. The parent recognises in equity the equity-settled share-based payment and recognises a corresponding increase in the investment in subsidiary.

A recharge arrangement exists whereby the subsidiary is required to fund the difference between the exercise price on the share options and the market price of the share at the time of exercising the option. The recharge arrangement is accounted for separately from the underlying equity-settled share-based payment upon initial recognition, as follows:

- The subsidiary recognises a recharge liability and a corresponding adjustment against equity for the capital contribution recognised in respect of the share-based payment.
- The parent recognises a recharge asset and a corresponding adjustment to the carrying amount of the investment in the subsidiary.

Subsequent to initial recognition the recharge arrangement is remeasured at fair value at each subsequent reporting date until settlement date to the extent vested. Where the recharge amount recognised is greater than the initial capital contribution recognised by the subsidiary in respect of the share-based payment, the excess is recognised as a net capital distribution to the parent. The amount of the recharge in excess of the capital contribution recognised as an increase in the investment in subsidiary is deferred and recognised as dividend income by the parent when settled by the subsidiary.

Financial instruments

Financial instruments are initially recognised at fair value and, except for financial instruments stated at fair value through profit or loss, include directly attributable transaction costs. 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.

Subsequent to initial recognition these instruments are measured as detailed below.

Financial assets

Financial assets are recognised when the Group and/or Company has rights or other access to economic benefits. Such assets consist of cash and cash equivalents, a contractual right to receive cash or another financial asset or a contractual right to exchange financial instruments with another entity on potentially favourable terms.

Trade and other receivables

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, these are carried at amortised cost, using the effective interest rate method, less impairment losses. 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, deposits held on call with banks and in money market instruments. Bank overdrafts that are repayable on demand and form an integral part of the Group and/or Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement. Cash and cash equivalents are measured at amortised cost using the effective interest method.

Financial liabilities

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities other than derivative instruments are measured at amortised cost, using the effective interest method.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the Group and/or Company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 and/or Company 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 and/or Company 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 and/or Company 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 and/or Company'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 and/or Company 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 and/or Company's continuing involvement is the amount of the transferred asset that the Group and/or Company 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 and/or Company'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 or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees and shares granted to BEE partners that have not yet met the applicable recognition criteria.

IFRS and IFRIC Interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning after 1 August 2011 and have not been applied in the preparation of these financial statements. At the date of authorisation of the annual financial statements of Ceramic Industries Limited for the year ended 31 July 2011, the following standards and interpretations were in issue but not yet effective:

	Standard/Interpretation	Effective date
IAS 1 amendment	*Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*	Annual periods beginning on or after 1 July 2012*
IAS 12 amendment	*Deferred tax: Recovery of Underlying Assets*	Annual periods beginning on or after 1 January 2012*
IAS 19 amendments	*Employee Benefits: Defined benefit plans*	Annual periods beginning on or after 1 January 2013*
IAS 24 (revised)	*Related Party Disclosures*	Annual periods beginning on or after 1 January 2011*
IAS 27	*Separate Financial Statements (2011)*	Annual periods beginning on or after 1 January 2013*
IAS 28	*Investments in Associates and Joint Ventures (2011)*	Annual periods beginning on or after 1 January 2013*
11 individual amendments to 6 standards	*Improvements to International Financial Reporting Standards 2010*	Amendments are effective for annual periods beginning on or after 1 January 2011*
IFRS 7 amendment	*Disclosures – Transfers of Financial Assets*	Annual periods beginning on or after 1 July 2011*
IFRS 9 (2009)	*Financial Instruments*	Annual periods beginning on or after 1 January 2013*
IFRS 9 (2010)	*Financial Instruments*	Annual periods beginning on or after 1 January 2013*
IFRS 10	*Consolidated Financial Statements*	Annual periods beginning on or after 1 January 2013*
IFRS 12	*Disclosure of Interests in Other Entities*	Annual periods beginning on or after 1 January 2013*
IFRS 13	*Fair Value Measurement*	Annual periods beginning on or after 1 January 2013*

** All standards and interpretations will be adopted at their effective date.*

1. Segmental reporting

The segment information has been prepared in accordance with IFRS 8 – Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments.

The standard requires segmentation based on the Group's internal organisation and reporting of revenue and operating income based upon internal accounting presentation.

In identifying its operating segments, management generally follows the Group's products.

Each of the operating segments is managed separately. The management policies the Group uses for segment reporting are the same as those used in its financial statements.

The Group is organised into two main business segments, the manufacturing of a wide range of wall and floor tiles and the manufacturing of a comprehensive range of vitreous china sanitaryware products and acrylic bathroomware. The Group manufactures in two geographical areas, South Africa and Australia.

Segment assets consist primarily of:
– property, plant and equipment;
– inventories;
– receivables; and
– cash.

Segment liabilities consist primarily of:
– borrowings; and
– payables.

Deferred tax assets and liabilities are excluded.

	2011			
	Sanitaryware	**Tiles**		
	South Africa	**South Africa**	**Australia**	**Total**
	R000's	**R000's**	**R000's**	**R000's**
Revenue	**247 632**	**1 080 285**	**219 332**	**1 547 249**
Depreciation	**36 735**	**67 348**	**31 291**	**135 374**
Operating profit	**17 599**	**177 987**	**(3 739)**	**191 847**
Net finance income	**2 882**	**14 980**	**3 157**	**21 019**
Assets	**227 237**	**856 926**	**363 661**	**1 447 824**
Cost of assets acquired	**13 739**	**96 419**	**19 884**	**130 042**
Liabilities	**27 645**	**118 076**	**37 247**	**182 968**

	2010			
	Sanitaryware	Tiles		
	South Africa	South Africa	Australia	Total
	R000's	R000's	R000's	R000's
Revenue	223 174	1 089 770	288 243	1 601 187
Depreciation	37 408	58 017	29 449	124 874
Operating profit	68	224 165	25 914	250 147
Net finance income	3 146	15 365	1 981	20 492
Assets	550 335	729 882	342 800	1 623 017
Cost of assets acquired	10 566	35 273	10 699	56 538
Liabilities	29 603	123 167	45 222	197 992

There were no intersegmental sales in either the 2011 or 2010 financial years.

Other than the information disclosed in note 25 no single customer accounted for more than 10% of the Group's revenue.

		2011 R000's	2010 R000's
2. Operating profit			
Group			
The following items have been charged/(credited) in arriving at operating profit:			
Auditors' remuneration		2 970	2 327
Fees for audit		1 870	1 389
Prior year underprovision		269	307
Fees for other services		831	631
Depreciation		135 374	124 874
Buildings		21 662	16 675
Plant and machinery, vehicles and office equipment		113 712	108 199
Directors' remuneration	Refer note 26	9 547	8 232
Fees paid for		14 053	15 366
Administrative services		1 569	–
Managerial services		3 824	5 853
Secretarial services		107	132
Technical services		8 553	9 381
Inventory impairment		5 578	4 000
Impairment of trade receivables		425	2 224
(Profit)/loss on disposal of property, plant and equipment		(461)	205
Operating lease charges in respect of equipment		8 872	7 719
Retirement fund contributions		10 649	9 443
Salaries and wages		184 085	187 599
Company			
Reversal of impairment of share trust loan		–	(8 425)

Share-based payments arrangements

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 12 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 is 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 26 November 2010, the directors are authorised to make available for the purposes of the scheme a maximum aggregate number of 3 043 900 ordinary shares (2010: 2 739 500). The scheme exists for the directors and senior management of the company with a limit of 500 000 shares (2010: 350 000 shares) which any one participant may acquire.

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

	2011	2010
Expected volatility (%)	22,09 to 30,48	20
Risk-free interest rate (%)	7,22 to 9,00	7,26 to 8,89
Expected dividend yield (%)	2,37 to 3,02	2
Expected life (years)	3 to 5	3 to 5

The expected life of the options is based on historical data and expected future trends and is not necessarily indicative of exercise patterns that may occur. The expected volatility in 2011 of 22,09% to 30,48% reflects the assumption that the historical volatilities are indicative of future trends.

The fair value of the share options that were granted over the year to 31 July 2011 is R26,2 million (2010: Rnil). Included in the expenses in the profit or loss for the year is R3 968 679 (2010: R523 505), relating to the current year share option expense.

2. Operating profit (continued)

Share incentive trust (continued)

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

	2011		2010	
	Number of share options	**Weighted average exercise price (R)**	Number of share options	Weighted average exercise price (R)
At 1 August	**295 000**	**139,22**	345 000	139,04
New allocations made	**617 500**	**129,13**	—	—
Redeemed allocations	**—**	**—**	—	—
Forfeited allocations	**(235 000)**	**138,00**	(50 000)	138,00
Outstanding at 31 July	**677 500**	**130,45**	295 000	139,22
Average subscription price per share		**95,45**		95,45

The options outstanding at 31 July 2011 become unconditional on the following dates:

	2011	
	Sub-scription price (R)	**Number of shares**
21 September 2011	**144,00**	**60 000**
13 December 2015	**129,13**	**617 500**
		677 500

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

A breakdown of the share options in issue to executive directors is given in note 26.

Share Appreciation Rights Scheme and Long Term Incentive Plan

At the annual general meeting held on 30 November 2007 shareholders approved the introduction of both a Share Appreciation Rights Scheme ("Scheme") and a Long Term Incentive Plan ("Plan") in order to incentivise selected directors and employees of the Group.

In terms of the rules of the Scheme participants will receive a conditional right to a cash award equal to the increase in value of a number of Ceramic ordinary shares between the date that the remuneration committee offers the award to the participant and the date that the award becomes unconditional.

In terms of the rules of the Plan participants will receive a conditional right to a cash award equal to the market value of a number of Ceramic ordinary shares on the date that the award becomes unconditional.

The awards may be conditional upon the achievement of performance targets set by the remuneration committee and specified in the award certificate. In addition, the awards will in all cases be conditional upon the participant being and remaining employed within the Group. If the participant ceases to be employed within the Group the participant's awards will automatically lapse and be of no further force or effect.

2. Operating profit (continued)

The number of notional share awards which may be issued under the Scheme and the Plan combined in any 10-year period may not exceed 10% of the issued share capital of Ceramic. The total number of notional share awards which may be issued to any participant in a 10-year period may not exceed 2% of the issued share capital of Ceramic.

The awards are divided into two tranches. The first tranche will comprise 25% of the award and provided the performance conditions are satisfied and the participant remains employed by the Group will become unconditional on the third anniversary of the grant date. The second tranche comprising 75% of the award and provided the performance conditions are satisfied and the participant remains employed by the Group will become unconditional on the fifth anniversary of the grant date.

In terms of IFRS 2 the fair value of the cash-settled share-based awards have been calculated using a variant of the binomial model, taking into account the terms and conditions on which the awards were granted and using the following assumptions:

	2011	2010
Expected volatility (%)	**29**	30
Risk-free interest rate (%)	**5,57 to 7,22**	7,53
Expected dividend yield (%)	**2,80**	4
Expected life (years)	**3 to 5**	3 to 5

The fair value of the awards outstanding at 31 July 2011 is R36 683 233 (2010: R33 525 631). Included in the expenses in the profit or loss for the year is R9 404 992 (2010: R8 248 848) relating to the current year expensing of the awards granted.

The following table reflects the number of notional Ceramic ordinary shares granted and the exercise price of such awards held by the eligible participants, including directors:

	2011		2010	
	Number of awards	**Weighted average exercise price (R)**	Number of awards	Weighted average exercise price (R)
Scheme				
At 1 August	**498 000**	**88,49**	255 000	70,05
New allocations – 1 September 2009	**–**	**–**	23 000	83,00
New allocations – 9 March 2010	**–**	**–**	265 000	103,58
Resignations	**–**	**–**	(45 000)	70,05
Outstanding at 31 July	**498 000**	**88,49**	498 000	88,49
Plan				
At 1 August	**137 000**	**nil**	63 750	nil
New allocations – 1 September 2009	**–**	**–**	9 500	nil
New allocations – 9 March 2010	**–**	**–**	75 000	nil
Resignations	**–**	**–**	(11 250)	nil
Outstanding at 31 July	**137 000**	**nil**	137 000	nil

2. Operating profit (continued)

Share Appreciation Rights Scheme and Long Term Incentive Plan (continued)

The awards outstanding at 31 July 2011 become unconditional on the following dates:

	Number of awards	Exercise price (R)
Scheme		
13 October 2011	**52 500**	**70,05**
13 October 2013	**157 500**	**70,05**
1 September 2012	**5 750**	**83,00**
1 September 2014	**17 250**	**83,00**
9 March 2013	**66 250**	**103,58**
9 March 2015	**198 750**	**103,58**
	498 000	**88,49**
Plan		
13 October 2011	**13 125**	**nil**
13 October 2013	**39 375**	**nil**
1 September 2012	**2 375**	**nil**
1 September 2014	**7 125**	**nil**
9 March 2013	**18 750**	**nil**
9 March 2015	**56 250**	**nil**
	137 000	**nil**

Should a participant resign from the Group prior to the dates indicated above, the award will be forfeited.

Details of awards issued to executive directors are given in note 26.

	GROUP		COMPANY	
	2011 R000's	2010 R000's	**2011 R000's**	2010 R000's
3. Finance income				
Interest received	**9 937**	13 032	**–**	657
Dividends received	**12 598**	5 634	**400 000**	–
Net foreign exchange gains	**–**	2 137	**20 525**	5 371
	22 535	20 803	**420 525**	6 028
4. Finance expenses				
Interest paid	**8**	311	**–**	–
Bank	**2**	295	**–**	–
South African Revenue Service	**1**	–	**–**	–
Other	**5**	16	**–**	–
Net foreign exchange losses	**1 508**	–	**–**	–
	1 516	311	**–**	–

	GROUP		COMPANY	
	2011 R000's	2010 R000's	**2011 R000's**	2010 R000's
5. Taxation				
South African normal taxation				
– current taxation	**62 276**	63 045	**1 206**	928
– current year	**62 248**	66 671	**1 206**	928
– prior year under/(over)provision	**28**	(3 626)	**–**	–
– deferred taxation	**(9 108)**	7 500	**4 513**	760
– current year	**(4 593)**	7 573	**4 513**	760
– prior year overprovision	**(4 515)**	(73)	**–**	–
– royalty taxation	**–**	41	**–**	21
– current year	**–**	41	**–**	21
Total normal taxation	**53 168**	70 586	**5 719**	1 709
Secondary taxation on companies	**33 971**	4 870	**36 527**	4 870
Total taxation charge	**87 139**	75 456	**42 246**	6 579
The effective rate of taxation differs from the standard rate of taxation as follows:				
	%	%	**%**	%
Standard rate of taxation	**28,00**	28,00	**28,00**	28,00
Disallowed expenditure	**0,53**	0,21	**–**	–
Exempt income	**(2,61)**	(0,81)	**(26,64)**	(16,32)
Normal taxation prior year under/(over) provision	**0,01**	(1,62)	**–**	–
Secondary taxation on companies	**15,42**	1,80	**8,69**	33,70
Deferred taxation prior year overprovision	**(2,05)**	(0,05)	**–**	–
Stamp duties	**0,01**	–	**–**	–
Capital gains taxation	**0,23**	–	**–**	–
Deferred taxation asset not recognised	**–**	0,13	**–**	–
Effect of foreign tax rate	**–**	0,21	**–**	–
Royalty taxation	**–**	0,01	**–**	0,14
Effective rate of taxation	**39,54**	27,88	**10,05**	45,52

	GROUP	
	2011 R000's	2010 R000's
6. Earnings per share		
Profit attributable to ordinary shareholders	**133 204**	193 657
Weighted average number of ordinary shares in issue (000's)	**16 904**	17 136
Basic earnings per share (cents)	**788,0**	1 130,1
Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.		
Reconciliation of headline earnings		
Profit attributable to ordinary shareholders of the Group	**133 204**	193 657
(Profit)/loss on disposal of property, plant and equipment	**(461)**	205
	132 743	193 862
Headline earnings per share (cents)	**785,3**	1 131,3
Headline earnings per share is calculated by dividing the headline earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.		
Dilutive effect		
The calculation of diluted earnings per share and diluted headline earnings per share is based on:		
Weighted average number of ordinary shares in issue for basic and headline earnings per share (000's)	**16 904**	17 136
Potentially dilutive ordinary shares resulting from the weighted average number of options outstanding relating to the BEE transaction (000's)	**594**	706
Weighted average number of shares for diluted earnings per shares (000's)	**17 498**	17 842
Diluted earnings per share (cents)	**761,3**	1 085,4
Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the diluted weighted average number of ordinary shares in issue during the year.		
Diluted headline earnings per share (cents)	**758,6**	1 086,5
Diluted headline earnings per share is calculated by dividing the headline earnings attributable to ordinary shareholders by the diluted weighted average number of ordinary shares in issue during the year.		
As the share options issued to employees have been issued at prices in excess of the current market value they are unlikely to be taken up and as such there will be no dilutive effect.		
Calculation of weighted average number of shares		
	Number	Number
Total shares in issue	**20 292 828**	20 292 828
Weighted average number of shares held by share trust	**(1 067 245)**	(1 067 245)
Weighted average number of treasury shares	**(292 479)**	(60 588)
Shares held by BEE partners	**(2 029 285)**	(2 029 285)
	16 903 819	17 135 710

	2011		
	Cost R000's	Accumulated depreciation R000's	Carrying amount R000's
7. Property, plant and equipment			
Group	**1 726 912**	**(865 494)**	**861 418**
Land and buildings	**390 403**	**(102 789)**	**287 614**
Plant and machinery, vehicles and office equipment	**1 247 007**	**(762 705)**	**484 302**
Capital work in progress	**89 502**	**–**	**89 502**
Company			
Land and buildings	**2 708**	**–**	**2 708**

	2010		
	Cost R000's	Accumulated depreciation R000's	Carrying amount R000's
Group	1 606 287	(760 727)	845 560
Land and buildings	366 527	(82 453)	284 074
Plant and machinery, vehicles and office equipment	1 169 254	(678 274)	490 980
Capital work in progress	70 506	–	70 506
Company			
Land and buildings	2 708	–	2 708

	2011			
	Land and buildings R000's	Plant and machinery, vehicles and office equipment R000's	Capital work in progress R000's	Total R000's

7. Property, plant and equipment (continued)

Reconciliation of the carrying amount

	Land and buildings R000's	Plant and machinery, vehicles and office equipment R000's	Capital work in progress R000's	Total R000's
Group				
Carrying amount at beginning of year	284 074	490 980	70 506	845 560
Additions net of transfers from capital work in progress	16 042	95 817	18 183	130 042
Carrying amount of disposals	–	(1 864)	–	(1 864)
Depreciation charge	(21 662)	(113 712)	–	(135 374)
Translation differences	9 160	13 081	813	23 054
Carrying amount at end of year	287 614	484 302	89 502	861 418
Company				
Carrying amount at beginning and end of year	2 708	–	–	2 708

	2010			
	Land and buildings R000's	Plant and machinery, vehicles and office equipment R000's	Capital work in progress R000's	Total R000's
Group				
Carrying amount at beginning of year	280 015	451 588	179 146	910 749
Additions net of transfers from capital work in progress	18 589	145 097	(107 148)	56 538
Carrying amount of disposals	(183)	(1 775)	(1 538)	(3 496)
Depreciation charge	(16 675)	(108 199)	–	(124 874)
Translation differences	2 328	4 269	46	6 643
	284 074	490 980	70 506	845 560
Company				
Carrying amount at beginning of year	6 208	–	–	6 208
Carrying amount of disposals	(3 500)	–	–	(3 500)
Carrying amount at end of year	2 708	–	–	2 708

A register of land and buildings is available for inspection at the registered office.

Refer to note 22 for details of future contractual commitments to acquire property, plant and equipment.

	GROUP 2011 R000's	GROUP 2010 R000's
8. Goodwill		
Opening and closing balance	**4 520**	4 520
The goodwill arose in previous years on the acquisition of an additional 5% interest in National Ceramic Industries Australia (Pty) Ltd and the investment in Sphinx Acrylic Bathroomware (Pty) Ltd and Mollyn 55 (Edms) Bpk.		
9. Investment in associated company		
Unlisted ordinary shares		
Investment at cost	**16 033**	5 504
Share of accumulated profits since acquisition	**5 366**	–
Dividends received from associate	**(2 134)**	–
Share of profits	**7 500**	–
Carrying amount at end of year	**21 399**	5 504
Directors' valuation of shares	**21 399**	5 504
The information below illustrates summarised financial information of the Group's investment in Ezee Tile (Pty) Ltd at 100%.		
Statement of comprehensive income		
Revenue	**237 912**	
Profit before taxation	**22 054**	
Income tax expense	**7 096**	
Net profit for the year	**14 958**	
Statement of financial position		
Non-current assets	**6 080**	
Current assets	**65 936**	
Total assets	**72 016**	
Capital and reserves	**42 327**	
Non-current liabilities	**698**	
Current liabilities	**28 991**	
Total equity and liabilities	**72 016**	

Ezee Tile is a manufacturer of adhesives, grout and related products. Ezee Tile has six manufacturing plants located throughout South Africa. Each plant is a separate legal entity and the Group's interest in each entity varies between 10,2% and 37,5%.

The Group's share of profits has been determined by reference to the unaudited management accounts for the period 1 July 2010 to 30 June 2011.

Ezee Tile has only been accounted for as an associated company since 1 August 2010. In prior years it was accounted for as an investment at historical cost.

10. Share trust loan

The loan is long term in nature, not callable on demand and is unsecured, does not bear interest and has no fixed terms of repayment.

		Issued share capital	Percentage holding 2011 %	2010 %	Cost of shares 2011 R000's	2010 R000's	Loans to/(from) 2011 R000's	2010 R000's
11. Investment in subsidiaries								
Held by Ceramic Industries Limited								
Operating companies								
Aquarella Investments 389 (Pty) Ltd	(R)	100	100	100	*	*	–	–
National Ceramic Industries South Africa (Pty) Ltd	(R)	2 000	100	100	39 630	35 881	(122 837)	(145 346)
Sphinx Acrylic Bathroomware (Pty) Ltd	(R)	102	100	100	15 963	15 744	(5 822)	(5 822)
Holding companies and indirect subsidiaries								
National Ceramic Industries (Pty) Ltd	(R)	100 000	100	100	11 272	11 272	8 398	8 398
National Ceramic Industries Australia Pty Ltd	(AUD)						182 232	174 615
Ceramic Holdings Pty Ltd	(AUD)	1	96,2	94,6	71 045	58 506	–	–
Dormant companies								
Gail Ceramics (Pty) Ltd**	(R)	–	–	100	–	6	–	–
Samcastone (Pty) Ltd**	(R)	–	–	100	–	–	–	–
					137 910	121 409	61 971	31 845

* *Less than R1 000*

** *Entities deregistered during the current year*

	COMPANY 2011 R000's	2010 R000's
Shares at cost	137 910	121 409
Loans to subsidiaries	190 630	183 013
Investment in subsidiaries	328 540	304 422
Loans from subsidiaries	(128 659)	(151 168)

		Issued share capital	Percentage holding 2011 %	2010 %	Cost of shares 2011 R000's	2010 R000's
11. Investment in subsidiaries (continued)						
Held by National Ceramic Industries South Africa (Pty) Ltd						
Operating companies						
Mollyn 55 (Pty) Ltd	(R)	100	**100**	100	**–**	–
Dormant						
Pegasus Pressed Tiles (Pty) Ltd**	(R)	–	**–**	100	**–**	–
Held by National Ceramic Industries (Pty) Ltd						
Property companies						
CRM Brick and Associated Industries (Pty) Ltd	(R)	2 000	**100**	100	**2**	2
Tilecor Properties (Pty) Ltd	(R)	1	**100**	100	*****	*
Dormant companies						
Ceramic Development Corporation (Pty) Ltd	(R)	860 000	**100**	100	**860**	860
Ceramic Industries Properties (Pty) Ltd	(R)	200	**100**	100	**1**	1
Held by Aquarella Investments 389 (Pty) Ltd						
East Cape Quarries (Pty) Ltd	(R)	10 000	**100**	–	**10**	–
Mayfield Clays (Pty) Ltd	(R)	100	**100**	–	*****	–
Held by Ceramic Holdings Pty Ltd						
National Ceramic Industries Australia Pty Ltd	(AUD)	200	**98,0**	98,0	**71 045**	58 506

All holdings are in the ordinary share capital of the undertaking concerned.

The loans are unsecured, have no fixed terms of repayment, are not callable on demand and do not bear interest.

The fair value of the unquoted ordinary shares has not been determined.

** Less than R1 000*

*** Entities deregistered during the current year*

	GROUP 2011 R000's	GROUP 2010 R000's	COMPANY 2011 R000's	COMPANY 2010 R000's
12. Inventories				
Raw materials	**33 315**	32 754	**–**	–
Finished goods and merchandise	**84 933**	78 046	**–**	–
	118 248	110 800	**–**	–

The write-down of inventories recognised as an expense is R5 578 255 (2010: R4 000 045).

This expense is included in the cost of sales line item in the statement of comprehensive income.

	GROUP		COMPANY	
	2011 R000's	2010 R000's	**2011 R000's**	2010 R000's
13. Trade and other receivables				
Trade receivables	**216 989**	208 237	**–**	–
Prepayments	**2 728**	1 635	**–**	–
Other	**4 372**	8 139	**3 526**	9 435
	224 089	218 011	**3 526**	9 435
Trade receivables comprise:				
Gross receivables – external	**171 367**	164 596		
– related parties	**80 576**	81 826		
	251 943	246 422		
Allowance for impairment of trade receivables	**(5 637)**	(6 586)		
Other allowances against trade receivables	**(29 317)**	(31 599)		
	216 989	208 237		

The amount of the write-down of trade receivables recognised as an expense is R424 970 (2010: R2 223 627).

Movement in the allowance for impairment of trade receivables was as follows:

	GROUP	
	2011 R000's	2010 R000's
Balance at beginning of year	**6 586**	6 755
Charge for the year	**425**	2 224
Utilised	**(1 425)**	(2 381)
Movement in foreign currency translation reserve ("FCTR")	**51**	(12)
Balance at end of year	**5 637**	6 586
Other allowances against trade receivables comprise:		
Allowance for rebates	**27 340**	29 397
Allowance for settlement discounts	**1 977**	2 202
	29 317	31 599

The Group generally deals with large corporates who have a sound credit standing. Management sees the risk profile of customers per industry as well spread and managed as discussed below.

Collaterals are generally not held for blue chip companies as their payment history does not require it, but collateral is obtained for certain smaller entities and certain foreign customers, where appropriate, as security for outstanding amounts.

Trade receivables comprise a widespread customer base. This is made up primarily of merchants and wholesalers trading in ceramic and porcelain tiles, vitreous china sanitaryware and acrylic bathroomware. The Group does not have any significant exposure to any one customer, other than Italtile Limited, through its own and franchised stores, which comprises 32% (2010: 33%) of the gross trade receivables balance.

13. Trade and other receivables (continued)

The Group sells principally to merchants and wholesalers in South Africa and most Southern African countries. The Group also has entrenched itself in Australasia as a small manufacturer of porcelain tiles. The maximum exposure to credit risk for gross trade receivables at the reporting date by geographical region was:

	GROUP	
	2011 R000's	2010 R000's
South Africa	**149 379**	154 396
Rest of Africa	**48 473**	37 836
Australasia	**49 812**	52 199
Other	**4 279**	1 991
	251 943	246 422

Credit risk is minimised through an initial new client acceptance procedure whereby potential customers are individually assessed before an appropriate credit limit is allocated to the new client. Ongoing credit evaluation of the financial position of customers is performed. Credit insurance cover has been taken on specific customers.

Management views the trade receivables days per geographic region as within expectations compared with the Group's standard payment terms for that region. Trade receivables' terms differ in the Africa and Australia regions due to local economic and market conditions and the risks involved in trading in that geographical region. The decrease in trade receivables days is due to improved credit control that have been enforced during the financial year in order to maximise cash flow and minimise associated credit risk.

The following table illustrates the ageing of gross trade receivables. The provision for impairment of trade receivables of R5,6 million (2010: R6,6 million) relates to the past due 61+ days ageing category only.

	GROUP	
	2011 R000's	2010 R000's
Not past due	**227 464**	218 201
Past due 0 to 30 days	**10 610**	12 043
Past due 31 to 60 days	**3 104**	4 587
Past due 61+ days	**10 765**	11 591
	251 943	246 422

Listings of overdue customer balances are reviewed monthly and evaluated against their credit terms and limits. Any customer exceeding their credit terms/limits must settle their overdue balances before any further credit is extended. Appropriate action is taken to recover outstanding amounts, where necessary.

At 31 July 2011, management did not consider there to be any material concentration of credit risk which has not been adequately provided for. Management considers the risk of irrecoverability as low.

	GROUP		COMPANY	
	2011 R000's	2010 R000's	**2011 R000's**	2010 R000's
14. Cash and cash equivalents				
Cash and bank balances	**76 191**	80 137	**10**	–
Short-term deposits and marketable securities	**141 521**	355 611	**–**	–
	217 712	435 748	**10**	–

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 the 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.

	GROUP		COMPANY	
	2011 R000's	2010 R000's	**2011 R000's**	2010 R000's
15. Share capital				
Authorised				
27 709 467 ordinary shares of no par value				
Issued				
20 292 828 (2010: 20 292 828) ordinary shares of no par value	**64 816**	64 816	**64 816**	64 816

Ordinary shares totalling 3 043 900 (2010: 2 739 500) are reserved for the company's employee share incentive scheme.

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

	GROUP AND COMPANY	
	2011	2010
Number of shares issued to external parties:		
Total shares in issue	**20 292 828**	20 292 828
Shares held by share trust	**(1 067 245)**	(1 067 245)
Treasury shares	**(115 298)**	(300 000)
Net shares held by external parties	**19 110 285**	18 925 583

16. Shares held by share trust

The Group has consolidated its share trust again in the current year. The effect of consolidating the share trust was to decrease the weighted average number of shares in issue by 1 067 245 (2010: 1 067 245) and has resulted in an accumulated adjustment to retained earnings of R12,1 million (2010: R12,1 million) and the inclusion of the shares held by the share trust of R101,9 million (2010: R101,9 million).

17. Shareholders' loans

The shareholders' loans are unsecured, have no fixed terms of repayment, are not callable on demand and do not bear interest.

The loans are payable to non-controlling shareholders in National Ceramic Industries Australia Pty Ltd.

	GROUP		COMPANY	
	2011 R000's	2010 R000's	**2011 R000's**	2010 R000's
18. Deferred taxation				
The movement on the deferred taxation account is as follows:				
Balance at beginning of year	**69 226**	60 286	**9 522**	8 762
Statement of comprehensive income charge	**(9 108)**	7 500	**4 513**	760
– current year	**(4 593)**	7 573	**4 513**	760
– prior year overprovision	**(4 515)**	(73)	**–**	–
Statement of financial position	**6 653**	1 440	**–**	–
– movement through equity	**5 747**	1 501	**–**	–
– foreign currency difference	**906**	(61)	**–**	–
Balance at end of year	**66 771**	69 226	**14 035**	9 522
Balance at end of year is made up of:				
Deferred taxation assets	**240**	–	**–**	–
Deferred taxation liabilities	**67 011**	69 226	**14 035**	9 522
	66 771	69 226	**14 035**	9 522
Comprising:				
Capital allowances	**73 055**	75 950	**–**	–
Provisions	**(21 939)**	(18 002)	**–**	–
FCTR included in equity	**18 457**	12 710	**–**	–
Foreign currency translation			**18 457**	12 710
Estimated taxation losses	**(2 802)**	(1 432)	**(4 422)**	(3 188)
	66 771	69 226	**14 035**	9 522
19. Trade and other payables				
Trade payables	**97 618**	110 216	**–**	–
Liability for SARS and LTIP	**17 654**	10 221	**–**	–
Accruals	**50 982**	60 301	**–**	–
	166 254	180 738	**–**	–

For terms and conditions relating to related-party payables, refer to note 25.

Trade payables are non-interest bearing and are normally settled on 30-day terms.

Accruals are non-interest bearing and have an average term of 30 days.

The fair value of the trade and other payables approximates the carrying value, due to the short-term nature of these balances.

	GROUP		COMPANY	
	2011 R000's	2010 R000's	**2011 R000's**	2010 R000's
20. Provisions for rehabilitation				
Provision for rehabilitation of clay quarries				
Carrying amount at beginning of year	**7 480**	6 480	**–**	–
Provision utilised	**(332)**	–	**–**	–
Additional provision raised	**–**	1 000	**–**	–
Carrying amount at end of year	**7 148**	7 480	**–**	–

A provision is recognised for the rehabilitation of the quarries based on an assessment from an independent consultant working in conjunction with management. Reports on the rehabilitation assessment are lodged with the Department of Mining Resources.

The provision represents the best estimate of the future costs of either restoring the quarries to their original state or eliminating adverse environmental impacts to a long-term acceptable condition.

21. Financial instruments

The Group's principal financial liabilities comprise trade and other payables and borrowings. 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 and other receivables and cash and short-term deposits, which arise directly from its operations.

The Group enters into derivative transactions to manage the currency risk arising from the Group's operations.

It is, and has been throughout 2011 and 2010, the Group's policy that no trading in derivatives shall be undertaken.

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.

Currency risk

The Group incurs currency risk as a result of purchases, borrowings and cash held in foreign currencies.

The foreign currencies in which the Group primarily deals are euros, US dollars, Australian dollars and British pounds.

The Group has exposure to foreign currency relating to the following assets/(liabilities) which have not been covered by forward exchange contracts at 31 July 2011:

	Foreign currency 000's	**Currency**	**Rand equivalent R000's**
Trade and other payables			**(37 283)**
	(3 286)	**EUR**	**(31 727)**
	(823)	**USD**	**(5 556)**
Trade receivables			**24 189**
	2 094	**EUR**	**20 220**
	588	**USD**	**3 969**
Currency held in foreign bank accounts			**65 928**
	7 221	**AUD**	**53 403**
	216	**EUR**	**2 089**
	127	**GBP**	**1 397**
	1 339	**USD**	**9 039**

21. Financial instruments (continued)

	Foreign currency 000's	Currency	Rand equivalent R000's
The following foreign currency balances have been consolidated in the Group financial statements at 31 July 2011:			
Assets			
Property, plant and equipment	**30 271**	**AUD**	**223 869**
Inventories	**4 704**	**AUD**	**34 788**
Trade and other receivables	**6 498**	**AUD**	**48 056**
Cash and cash equivalents	**7 221**	**AUD**	**53 403**
Liabilities			
Trade and other payables	**(3 265)**	**AUD**	**(24 146)**
Statement of comprehensive income			
Revenue	**31 448**	**AUD**	**219 333**
Cost of sales	**(26 630)**	**AUD**	**(185 730)**
Operating expenses	**(5 354)**	**AUD**	**(37 341)**
Finance income	**452**	**AUD**	**3 152**

The exchange rates used for the conversions are as follows:

	USD	EUR	AUD	GBP
Closing rate	6,75	9,65	7,40	11,03
Average rate	6,95	9,55	6,97	11,09

Australian dollar denominated loan balance

As a result of the Australian dollar denominated loan balance, the Group's statement of financial position can be affected by movements in the Australian dollar/rand exchange rate. Due to the nature of the loan any movements are unlikely to have a material effect on the results of the Group.

Sensitivity analysis

A 10% strengthening of the rand against the following currencies at 31 July would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	Equity 000's	Profit/(loss) R000's
2011		
USD	**(745)**	**(745)**
EUR	**942**	**942**
GBP	**(140)**	**(140)**
AUD	**(13 247)**	**–**
2010		
USD	(761)	(761)
EUR	665	665
GBP	(146)	(146)
AUD	(11 825)	–

A 10% weakening of the rand against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

21. Financial instruments (continued)

Credit risk

Credit risk primarily relates to exposure on cash and cash equivalents and trade receivables. The Group only deposits cash surpluses with well-established financial institutions of high credit standing. Trade receivables comprise a widespread customer base. Ongoing credit evaluation of the financial position of customers is performed and, where appropriate, credit guarantee insurance is purchased.

The granting of credit is made on application and is approved by management. At 31 July 2011 management did not consider there to be any material concentration of credit risk which has not been adequately provided for. Management considers the risk of irrecoverability as low.

Disclosure of the exposure to credit risk is included in note 13.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the finance revenue generating ability of the Group's cash surplus, due to floating interest rates.

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.

Liquidity risk

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 (eg accounts receivables) and projected cash flows from operations.

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 memorandum of incorporation 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.

	Carrying amount R000's	Contractual cash flows R000's	Less than 1 year R000's	More than 1 year R000's
2011				
Non-derivative financial liabilities				
Shareholders' loans	**9 231**	**9 231**	**–**	**9 231**
Trade and other payables	**148 600**	**148 600**	**148 600**	**–**
	157 831	**157 831**	**148 600**	**9 231**
2010				
Non-derivative financial liabilities				
Shareholders' loans	9 561	9 561	–	9 561
Trade and other payables	170 617	170 617	170 617	–
	180 178	180 178	170 617	9 561

The Group has cash and cash equivalents, net of borrowings, of R217,7 million (2010: R435,7 million), and unutilised credit facilities of R135,9 million (2010: R132,9 million) in respect of which all conditions precedent had been met.

21. Financial instruments (continued)

Fair value

The fair values of all financial instruments are substantially the same as the carrying amounts reflected in the statement of financial position.

Capital management

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 years ended 31 July 2011 and 2010.

Capital includes equity attributable to the equity holders of the parent. Refer to note 15 for a quantitative summary of authorised and issued share capital.

	GROUP		COMPANY	
	2011 R000's	2010 R000's	**2011 R000's**	2010 R000's
22. Commitments				
22.1 Capital commitments				
Capital expenditure authorised and contracted for	**4 117**	27 524	**–**	–
Capital expenditure authorised, but not yet contracted for	**38 720**	56 357	**–**	–
Property, plant and equipment	**42 837**	83 881	**–**	–
The proposed capital expenditure will be financed by cash generated from operations.				
22.2 Operating commitments				
The Group leases certain of its office equipment in terms of operating leases.				
The total future minimum lease payments under non-cancellable operating leases are:				
Not later than 1 year	**3 130**	3 732	**–**	–
Between 1 and 5 years	**1 875**	5 071	**–**	–
	5 005	8 803	**–**	–

23. Retirement benefit information

In South Africa the Group contributes to a defined contribution retirement fund for its employees. The fund is governed by the Pension Funds Act. The fund is administered by Alexander Forbes.

All permanent employees are required to join the fund.

The present market value of the assets in the fund is R59,5 million (2010: R52,4 million).

At year-end the total number of permanent employees in the Group belonging to the fund was 789 (2010: 622).

In Australia the Group contributes the legislated defined contribution amounts into the various superannuation funds specified by its 76 (2010: 75) employees.

	GROUP		COMPANY	
	2011 R000's	2010 R000's	2011 R000's	2010 R000's
24. Cash flow information				
24.1 Cash generated by operations				
Profit before taxation	220 366	270 639	420 426	14 453
Adjustments for:				
Depreciation	135 374	124 874	–	–
Finance costs	1 516	311	–	–
Finance income	(22 535)	(20 803)	(420 525)	(6 028)
Income from associated company	(5 366)			
Reversal of impairment of share trust loan	–	–	–	(8 425)
(Profit)/loss on disposal of property, plant and equipment	(461)	205	–	–
SARS penalties and interest	3	(13)	–	–
Share-based payment costs	3 968	524	3 968	524
Unrealised foreign currency loss	12 293	7 113	–	–
Changes in working capital				
(Increase)/decrease in inventories	(7 448)	8 447	–	–
(Increase)/decrease) in trade and other receivables	(6 078)	26 493	5 909	(137)
Decrease/(increase) in trade and other payables	(14 816)	52 393	–	–
	316 816	470 183	9 778	387

	GROUP		COMPANY	
	2011 R000's	2010 R000's	2011 R000's	2010 R000's
24. Cash flow information (continued)				
24.2 Dividends paid				
Shareholders for dividends at beginning of year	(213)	(1 537)	(213)	(1 537)
Dividends paid	(340 497)	(46 144)	(365 271)	(48 703)
Shareholders for dividends at end of year	335	213	335	213
	(340 375)	(47 468)	(365 149)	(50 027)
24.3 Taxation paid				
Balance payable at beginning of year	2 874	(3 247)	(1 284)	(1 921)
Charge to statement of comprehensive income	(96 247)	(67 956)	(37 733)	(5 819)
SARS penalties and interest	(3)	13	–	–
Balance (receivable)/payable at end of year	(438)	(2 874)	1 285	1 284
	(93 814)	(74 064)	(37 732)	(6 456)

25. Related party transactions

The Company is controlled by Rallen (Pty) Ltd and Rolrose Investments (Pty) Ltd (incorporated in South Africa), which own 54,95% (2010: 53,3%) of the Company's shares and all related transactions are concluded at arm's length.

The subsidiaries of the Group are identified in note 11, including loans owed to/(from) the Company.

The directors are listed on page 40.

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided to, or received from, any related party receivables or payables. For the year ended 31 July 2011, the Group has made provision for doubtful debts relating to amounts owed by related parties of R1,2 million (2010: R1,7 million).

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.

Sale transactions

Total sales to Rallen (Pty) Ltd's subsidiary, Italtile Limited, its own stores and its franchised stores amounted to R760 million (2010: R702 million).

Purchase transactions

Total purchases from Ser Export S.R.L., a company in which Italtile Limited has an equity share, amounted to R48,6 million (2010: R43,5 million).

Outstanding balances

The total value of accounts receivable from Italtile Limited's own stores and franchised stores amounted to R80,6 million at year-end (2010: R81,8 million).

25. Related party transactions (continued)

Management fees

A total amount of R962 646 (2010: R913 704) was paid to Rallen (Pty) Ltd for management fees.

Loans to directors

At 31 July 2011 there were no loans to directors or executive management, other than through their participation in the share trust.

Directors' remuneration and share options

Detailed disclosure of directors' remuneration is made in note 26.

Compensation of prescribed officers and other key management personnel of the Group

	GROUP			
	Short-term employee benefits R000's	Share-based payments R000's	Long-term employee benefits R000's	Total R000's
2011				
Prescribed officer 1	**2 002**	**1 988**	**124**	**4 114**
Prescribed officer 2	**1 454**	**1 738**	**116**	**3 308**
Prescribed officer 3	**1 525**	**1 504**	**98**	**3 127**
Other key management	**7 679**	**2 107**	**655**	**10 441**
	12 660	**7 337**	**993**	**20 990**
2010				
Prescribed officer 1	1 390	1 463	98	2 951
Prescribed officer 2	1 348	1 287	70	2 705
Prescribed officer 3	1 215	1 119	90	2 424
Other key management	6 884	695	443	8 022
	10 837	4 564	701	16 102

Details of options held by prescribed officers are as follows:
As at 31 July 2011, Prescribed officer 1 had 125 000 share options at an average price of R129,13, 30 000 notional shares in the Share Appreciation Rights Scheme at an offer price of R70,05, an additional 45 000 notional shares at an offer price of R103,58 and 22 500 notional shares in the Long Term Incentive Plan at an offer price of Rnil.

As at 31 July 2011, Prescribed officer 2 had 112 500 share options at an average price of R129,13, 30 000 notional shares in the Share Appreciation Rights Scheme at an offer price of R70,05, an additional 40 000 notional shares at an offer price of R103,58 and 17 500 notional shares in the Long Term Incentive Plan at an offer price of Rnil.

As at 31 July 2011, Prescribed officer 3 had 75 000 share options at an average price of R129,13, 30 000 notional shares in the Share Appreciation Rights Scheme at an offer price of R70,05, an additional 40 000 notional shares at an offer price of R103,58 and 17 500 notional shares in the Long Term Incentive Plan at an offer price of Rnil.

26. Directors' remuneration

	Basic remuneration R000's	Other benefits R000's	Retirement and medical R000's	Incentives and bonuses R000's	Share-based payment expense	Directors' fees R000's	Total R000's
2011							
Executive							
N Booth	**1 740**	**194**	**225**	**725**	**2 078**	**–**	**4 962**
D R Alston	**1 320**	**137**	**168**	**435**	**1 660**	**–**	**3 720**
Non-executive							
G A M Ravazzotti[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
S D Jagoe[2]	**–**	**–**	**–**	**–**	**–**	**148**	**148**
E M Mafuna	**–**	**–**	**–**	**–**	**–**	**117**	**117**
N S Nematswerani[3]	**–**	**–**	**–**	**–**	**–**	**147**	**147**
N D Orleyn[4]	**–**	**–**	**–**	**–**	**–**	**110**	**110**
L E V Ravazzotti	**–**	**–**	**–**	**–**	**–**	**102**	**102**
K M Schultz	**–**	**–**	**–**	**–**	**–**	**139**	**139**
G Zannoni	**–**	**–**	**–**	**–**	**–**	**102**	**102**
	3 060	**331**	**393**	**1 160**	**3 738**	**865**	**9 547**
2010							
Executive							
N Booth	1 512	174	197	1 109	1 776	–	4 768
D R Alston	1 080	104	138	409	1 119	–	2 850
Non-executive							
G A M Ravazzotti[1]	–	–	–	–	–	–	–
S D Jagoe[2]	–	–	–	–	–	114	114
E M Mafuna	–	–	–	–	–	77	77
N S Nematswerani[3]	–	–	–	–	–	100	100
N D Orleyn[4]	–	–	–	–	–	83	83
L E V Ravazzotti	–	–	–	–	–	70	70
K M Schultz	–	–	–	–	–	100	100
G Zannoni	–	–	–	–	–	70	70
	2 592	278	335	1 518	2 895	614	8 232

[1] *G A M Ravazzotti is paid by Rallen (Pty) Ltd for his services as a director of Ceramic Industries Limited (refer note 25).*
[2] *S D Jagoe is also a non-executive director of National Ceramic Industries Australia Pty Ltd and receives additional director's fees from this company.*
[3] *Director's fees for N S Nematswerani are paid to AKA Capital (Pty) Ltd.*
[4] *Director's fees for N D Orleyn are paid to Peotana Group Holdings (Pty) Ltd.*

The remuneration of the executive directors is determined by the remuneration committee.

Other benefits include the fringe benefit value of a company car for the executive directors.

Directors participate in the Company's share trust, which is designed to recognise the contributions of employees, including salaried directors and non-executive directors, to the continued growth of the Company's business operations. Scheme shares are acquired at a price determined by the Board of Directors in accordance with the rules of the scheme. No non-executive director currently participates in the share trust.

Details of options held by directors are as follows:

As at 31 July 2011, N Booth had 75 000 share options at an average price of R129,13, 40 000 notional shares in the Share Appreciation Rights Scheme at an offer price of R70,05, an additional 60 000 notional shares at an offer price of R103,58, and 30 000 notional shares in the Long Term Incentive Plan at an offer price of Rnil.

As at 31 July 2011, D R Alston had 100 000 share options at an average price of R129,13, 30 000 notional shares in the Share Appreciation Rights Scheme at an offer price of R70,05, an additional 40 000 notional shares at an offer price of R103,58 and 17 500 notional shares in the Long Term Incentive Plan at an offer price of Rnil.

Analysis of shareholders

	Number of shareholders	% of total	Number of shares	% of shares held
1 – 1 000 shares	349	59,97	122 192	0,60
1 001 – 10 000 shares	144	24,74	491 964	2,42
10 001 – 100 000 shares	72	12,37	2 221 659	10,95
100 001 – 1 000 000 shares	15	2,58	5 639 948	27,79
1 000 001 shares and over	2	0,34	11 817 065	58,24
Total	582	100,00	20 292 828	100,00

Shareholders' spread

Category of shareholders	Number of shareholders	%	Number of shares held	%
Non-public shareholders	13	2,2	13 468 265	66,4
Ceramic Industries Limited (Treasury)	1	0,2	115 298	0,6
Directors of the Company	4	0,7	418 478	2,1
Associates of directors	6	0,9	11 411 699	56,2
Ceramic Industries Share Incentive Trust	1	0,2	1 067 245	5,3
Ceramic BEE Staff Empowerment Trust No 2	1	0,2	455 545	2,2
Public shareholders	569	97,8	6 824 563	33,6
Individuals	323	55,5	1 588 608	7,8
Companies, funds and other corporate bodies	97	16,7	2 814 608	13,9
Nominees and trusts	149	25,6	2 421 347	11,9
	582	100,0	20 292 828	100,0

Major shareholders (holding > 4%)

	Number of shares held	% of total
Rallen (Pty) Ltd (including Rolrose (Pty) Ltd)	11 151 815	54,95
Ceramic Industries Share Incentive Trust	1 067 245	5,26
Tommaso Altini Trust	870 213	4,29
The Ceramic Foundation	861 402	4,24
	13 950 675	68,74

Shareholders' diary

Financial year-end	31 July 2011
Annual general meeting	25 November 2011

Dividends

Interim dividend	Declared	6 March 2011
	Paid	18 April 2011
Final dividend	Declared	6 September 2011
	Paid	10 October 2011

Future reports

Interim results	8 March 2012
Preliminary financial results	6 September 2012
Annual financial statements	31 October 2012

Ceramic Industries Limited
Registration number 1982/008520/06
Incorporated in the Republic of South Africa
Share code: CRM
ISIN: ZAE000008538
("Ceramic" or "the Company")

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 adviser, accountant or other professional adviser immediately.

Notice is hereby given that the twenty seventh annual general meeting ("AGM") of the shareholders of Ceramic ("Shareholders") will be held at Zenzele Park, corner Likkewaan and Dr Vosloo Streets, Bartlett Ext 40, Boksburg, on Friday, 25 November 2011 at 09:00 to (i) consider and, if deemed fit to pass, with or without modification, the resolutions set out below; and (ii) deal with such other business as may be dealt with at the AGM, or such adjournment thereof in the manner required in terms of the Companies Act, No 71 of 2008, as amended ("Companies Act"), as read with the Listings Requirements ("Listings Requirements") of the stock exchange operated by the JSE Limited ("JSE").

It should be noted that the minimum voting rights for ordinary resolutions 1 to 7 below to be adopted is 50% (fifty percent) of the voting rights plus one vote to be cast in favour of these resolutions. The voting requirements for the remainder of the resolutions are as indicated below.

Ordinary resolutions

1. To consider and, if deemed fit, pass the following resolutions as ordinary resolutions:

1.1 Ordinary resolution number 1 – Consideration of the annual financial statements
To receive, consider and adopt the annual financial statements of the Company and its subsidiary companies for the year ended 31 July 2011, together with the reports of the directors and the audit committee, a complete copy of which is contained in pages 34 to 79 of this annual report.

1.2 Ordinary resolution number 2 – Re-election of the directors
RESOLVED THAT, by way of a separate vote, each of the following directors who are retiring by rotation in terms of the Memorandum of Incorporation of the Company ("MOI") and, being eligible, are offering themselves for re-election:

1.2.1 Resolved that Ms N D Orleyn retires as a director of the Company in accordance with article 53.1 of the MOI and, being eligible for re-election as a director of the Company in terms of article 53.4 of the MOI, offers herself for re-election by the holders and be and is hereby re-elected as a director of the Company with immediate effect;
1.2.2 Resolved that Mr N S Nematswerani retires as a director of the Company in accordance with article 53.1 of the MOI and, being eligible for re-election as a director of the Company in terms of article 53.4 of the MOI, offers himself for re-election by the holders and be and is hereby re-elected as a director of the Company with immediate effect; and
1.2.3 Resolved that Mr G Zannoni retires as a director of the Company in accordance with article 53.1 of the MOI and, being eligible for re-election as a director of the Company in terms of article 53.4 of the MOI, offers himself for re-election by the holders and be and is hereby re-elected as a director of the Company with immediate effect.

A brief curriculum vitae in respect of each of the abovementioned directors is contained on page 86 of this annual report.

1.3 Ordinary resolution number 3 – Re-appointment of external auditor
RESOLVED THAT, in terms of section 90 of the Companies Act and on the recommendation of the current Audit Committee:
1.3.1 KPMG Inc. be and is hereby appointed as the independent registered auditors of the Company for the ensuing year terminating on the conclusion of the next AGM of the Company; and
1.3.2 Terence Cheadle, being a director of KPMG Inc., be and is hereby appointed as the individual registered auditor who will undertake the audit of the Company for the ensuing year terminating on the conclusion of the next AGM of the Company.

1.4 Ordinary resolution number 4 – Election of members of the independent audit committee
RESOLVED THAT, by way of a separate vote, each of the following independent non-executive directors are elected as members of the Company's audit committee:
1.4.1 Resolved that Mr N S Nematswerani, an independent non-executive director, be and is hereby elected as a member and the chairman of the Company's Audit Committee, subject to the re-election of Mr N S Nematswerani as a director in terms of ordinary resolution 1.2.2 above;
1.4.2 Resolved that S D Jagoe, an independent non-executive director, be and is hereby elected as a member of the audit committee; and
1.4.3 Resolved that K M Schultz, an independent non-executive director, be and is hereby elected as a member of the audit committee.

A brief curriculum vitae in respect of each of the abovementioned directors is contained on page 86 of this annual report.

Explanatory note on resolution number 4
Section 94(2) of the Companies Act requires that the audit committee must be elected by the holders at each AGM. The Board of Directors of the Company is satisfied that the audit committee members are suitably skilled and experienced and collectively they have sufficient qualifications and experience to fulfil their duties as contemplated in section 94(7) of the Companies Act.

1.5 Ordinary resolution number 5 – Directors' remuneration
RESOLVED THAT the executive directors' remuneration paid to the executive directors of the Company for the year ended 31 July 2011, as set out on page 78 of the financial statements, be and is hereby approved.

1.6 Ordinary resolution number 6 – Endorsement of the remuneration policy
RESOLVED THAT, by way of a non-binding advisory vote, the Company's remuneration policy, as described on page 24 of the annual report, and its implementation (excluding the remuneration of non-executive directors and members of committees for their services as directors and members of such committees) be and is hereby endorsed.

1.7 Ordinary resolution number 7 – Unissued shares to be placed under the control of the directors
RESOLVED THAT the authorised but unissued ordinary shares in the share capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors be and are hereby authorised and empowered to allot and issue all or any of such ordinary shares to such person or persons on such terms and conditions and at such times as the directors may from time to time in their discretion deem fit, subject to the proviso that the aggregate number of shares to be allotted and issued in terms of this ordinary resolution shall be limited to 15% (fifteen percent) of the authorised share capital and subject to the provisions of the MOI, the Companies Act and the Listings Requirements.

1.8 Ordinary resolution number 8 – General authority to issue shares and to sell treasury shares for cash
RESOLVED THAT, subject to the approval of the authority in ordinary resolution number 7, the directors of the Company and/or any of its subsidiaries from time to time be and are hereby authorised, by way of a general authority, to:

1.8.1 allot and issue shares or options in respect of all or any of the authorised but unissued ordinary shares in the capital of the Company; and/or

1.8.2 sell or otherwise dispose of or transfer, or issue any options in respect of, ordinary shares in the capital of the Company purchased by subsidiaries of the Company, for cash, to such person/s on such terms and conditions and at such times as the directors in their discretion deem fit,

subject to the Companies Act, the MOI, the Listings Requirements and the following limitations:

- The securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue.
- Any such issue may only be made to public shareholders as defined by the Listings Requirements and not to related parties.
- The number of ordinary shares issued for cash shall not in any one financial year in the aggregate exceed 15% (fifteen percent) of the number of issued ordinary shares, including instruments which are convertible into ordinary shares. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue at the date of such application less any ordinary shares issued during the current financial year, provided that any ordinary shares to be issued pursuant to a rights issue (announced, irrevocable and underwritten) or acquisition (which has had final terms announced) may be included as though they were in issue at the date of application.
- This general authority is valid until the earlier of the Company's next AGM or expiry of a period of 15 (fifteen) months from the date that this authority is given.
- A published announcement giving full details, including the impact on the net asset value per share, net tangible asset value per share, earnings per share and headline earnings per share, will be published when the Company has issued ordinary shares representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of ordinary shares in issue prior to any such issue.
- In determining the price at which an issue of ordinary shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of the ordinary shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the Company.
- Whenever the Company wishes to use ordinary shares, held as treasury stock by a subsidiary company of the Company, such use must comply with the Listings Requirements as if such use was a fresh issue of ordinary shares.

In terms of the Listings Requirements a 75% (seventy five percent) majority of the votes cast by holders present or represented by proxy at the AGM must be cast in favour of ordinary resolution number 8 for it to be approved.

Special resolutions

In terms of the Listings Requirements the minimum voting rights for the following special resolutions to be adopted is a 75% (seventy five percent) majority of the votes cast in favour thereof.

2. To consider and, if deemed fit, pass the following resolutions as special resolutions:

2.1 Special resolution number 1 – Acquisition of own securities

RESOLVED THAT the mandate be given to the Company (or any of its wholly owned subsidiary companies) 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 MOI, the provisions of the Companies Act and the Listings Requirements, provided that:

(a) 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 (reported trades are prohibited);
(b) at any point in time, the Company may only appoint one agent to effect any repurchase on the Company's behalf;
(c) this general authority shall only be valid until the Company's next AGM, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution (whichever period is shorter);
(d) an announcement be published as soon as the Company has cumulatively repurchased 3% (three percent) 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% (three percent) in aggregate of the initial number of that class acquired thereafter, in compliance with paragraph 11.27 of the Listings Requirements;
(e) repurchases by the Company, and/or its subsidiaries, in aggregate in any one financial year may not exceed 20% (twenty percent) of the Company's issued share capital as at the date of passing this special resolution or 10% (ten percent) of the Company's issued share capital in the case of an acquisition of shares in the Company by a subsidiary of the Company;
(f) the Board of Directors of Ceramic passes a resolution that it has authorised the repurchase, that the Company passed the solvency and liquidity test and that since the test was done there have been no material changes to the financial position of the Group;
(g) repurchases may not be made at a price greater than 10% (ten percent) above the weighted average of the market value of the securities traded on the JSE for the 5 (five) business days immediately preceding the date on which the repurchase of such securities by the Company and/or any of its subsidiary companies was effected;
(h) repurchases may not be undertaken by the Company or one of its wholly owned subsidiaries during a prohibited period, as defined in the Listings Requirements, unless a repurchase programme is in place, where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been disclosed in an announcement over the JSE's Securities Exchange News Service prior to the commencement of the prohibited period;
(i) the Company and/or its subsidiaries undertake that they will not enter the market to repurchase the Company's shares until the Company's sponsor has provided written confirmation to the JSE regarding the adequacy of the Company's working capital in accordance with Schedule 25 of the Listings Requirements; and
(j) a press announcement will be published giving such details as may be required in terms of the Listings Requirements as soon as the Company and/or any subsidiary has cumulatively repurchased 3% (three percent) of the number of shares in issue at the date of the passing of this resolution, and for each 3% (three percent) in aggregate of the initial number of shares acquired thereafter.

The following information, which is required in terms of paragraph 11.26 of the Listings Requirements with regard to the resolution granting a general authority to the Company to repurchase securities, appears on the pages of the financial statements to which this notice of AGM is annexed, is indicated below:

- Directors of the Company – page 40
- Major shareholders – page 79
- Directors' shareholding – page 37
- Share capital of the Company – page 69
- Directors' responsibility statement – page 37
- There are no legal or arbitration proceedings, either pending or threatened against the Company or its subsidiaries, of which the Company is aware, which may have, or have had in the last 12 (twelve) months, a material effect on the financial position of the Company or its subsidiaries.

Statement by the Board of Directors of the Company pursuant to and in terms of the Listings Requirements:

The directors of the Company hereby state that:

(a) the intention of the directors of the Company is to utilise the authority if, at some future date, the cash resources of the Company are in excess of its requirements. In this regard the directors will take account of, inter alia, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company and will ensure that any such utilisation is in the interests of the shareholders; and
(b) the method by which the Company intends to re-purchase its securities and the date on which such re-purchase will take place, has not yet been determined.

At the time that the contemplated repurchase of Ceramic securities is to take place, the directors of the Company will ensure that:

- the Company and its subsidiaries will be able to pay their debts as they become due and payable in the ordinary course of business for a period of 12 (twelve) months after the date of the AGM on which date the Board of Directors of the Company authorises the applicable repurchase;
- the consolidated assets of the Company and its subsidiaries, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the consolidated liabilities of the Company and its subsidiaries for a period of 12 (twelve) months after the date of the AGM on which date the Board of Directors of the Company authorises the applicable repurchase;
- the issued share capital and reserves of the Company and its subsidiaries will be adequate for the purpose of the business of the Company and its subsidiaries for a period of 12 (twelve) months after the date of the AGM on which date the Board of Directors of the Company authorises the repurchase;
- the working capital available to the Company and its subsidiaries will be sufficient for the Group's requirements for a period of 12 (twelve) months after the date of the AGM on which date the Board of Directors of the Company authorises the applicable repurchase; and
- the Company will provide its sponsor and the JSE with all documentation as required in Schedule 25 of the Listings Requirements, and will not commence any repurchase programme until the sponsor has signed off on the adequacy of its working capital, advised the JSE accordingly and the JSE has approved this documentation.

2.2 Special resolution number 2 – Financial assistance to related and inter-related entities

RESOLVED THAT the Board may, subject to compliance with the requirements of the MOI and the Companies Act, authorise the provision by the Company, at any time and from time to time during the period of 2 (two) years commencing on the date of adoption of this special resolution, of direct or indirect financial assistance, by way of a loan, guaranteeing a loan or other obligation or the securing of a debt or other obligation to any one or more related or interrelated companies or corporations of the Company and/or to any one or more members of any such related or inter-related company or corporation related to any such company or corporation as contemplated in section 2 of the Companies Act, on such terms and conditions as the Board may deem fit.

The Board will, before making any such financial assistance available, satisfy itself that:

- immediately after providing the financial assistance, the Company will satisfy the solvency and liquidity test contemplated in section 4 of the Companies Act; and
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

Explanatory note on special resolution number 2

A strict interpretation of section 45 of the Companies Act prohibits the Company from providing the financial assistance contemplated in such section without a special resolution. As it is difficult to foresee the exact details of financial assistance that the Company may be required to provide over the next two years, yet the Company needs to be able to operate effectively on a day-to-day basis, the passing of this resolution is necessary.

It should be noted that this resolution does not authorise financial assistance to a director or a prescribed officer of the Company or any company, corporation or person related or inter-related to a director or prescribed officer.

2.3 Special resolution number 3 – Approval of non-executive directors' remuneration

RESOLVED THAT, unless otherwise determined by the Company in general meeting, the fees payable to non-executive directors for their services as directors, for the financial year ending 31 July 2012, as set out below, be and are hereby approved:

- A basic annual fee of R25 000 (twenty five thousand rand).
- R16 000 (sixteen thousand rand) per Board meeting attended.
- R18 000 (eighteen thousand rand) per strategy session.
- R13 000 (thirteen thousand rand) per audit committee meeting attended.
- R10 000 (ten thousand rand) per remuneration committee and/or risk committee meeting attended.

Explanatory note to special resolution number 3

The Companies Act requires that remuneration paid to directors for their services as directors must be approved by the shareholders.

Litigation statement

The directors of the Company, whose names are given on page 40 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 40 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 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 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.

Voting and proxies

A shareholder entitled to attend, participate, speak and vote at the AGM is entitled to appoint a proxy to attend, participate, 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 Ceramic ordinary shares in certificated form; or
- recorded on the electronic subregister maintained by a CSDP in "own name" dematerialised form.

Shareholders who have dematerialised their shares through a CSDP or broker and wish to attend the AGM, 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, 23 November 2011. Any holder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the AGM.

Holders of dematerialised Ceramic shares wishing to attend the AGM 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
12 October 2011

Registered office
Farm 2
Old Potchefstroom Road
Vereeniging, 1930
PO Box 2247
Vereeniging, 1930

Transfer secretaries
Computershare Investor Services 2004 (Pty) Ltd
Ground Floor, 70 Marshall Street
Johannesburg, 2001
PO Box 61051
Marshalltown, 2107

Curriculum vitae for Ceramic Industries Limited retiring directors and members of the audit committee

Giuseppe Zannoni (72)

Mr Zannoni, who resides in Italy, started his career in ceramics as an entrepreneur in 1961. Although his formal training is in finance and administration, Mr Zannoni has been deeply involved in the actual manufacturing of tiles, pioneering new methods and technologies in the production of ceramic tiles. He has held the CEO position at several ceramic companies, retiring from the board of Richetti, a company listed on the Milan stock exchange, in 2001. Mr Zannoni has had a long association with Ceramic Industries and his experience in the ceramics industry is valued by the Company.

Mr Zannoni was appointed to the Board of Ceramic on 18 November 1993.

Nkhumeleni Samuel Nematswerani (50)

BComm, BAcc, MComm, CA(SA)

Sam is the CEO of Aka Capital, a private equity and investment holding company.

He is a Chartered Accountant with over ten years' experience in accounting, auditing and merchant banking. He specialised in corporate finance in merchant banking for over six years. His experience includes mergers/acquisitions, capital raising, stock exchange listings, restructurings and management buy-outs/buy-ins.

Sam serves as a non-executive director of the JSE Limited and a number of other companies in which Aka Capital is invested.

Noluthando Dorian Bahedile Orleyn (55)

B Juris, B Proc LLB

Noluthando practised as an attorney at the Legal Resources Centre and Routledge Modise Commercial Law Firm.

She was previously National Director of the Independent Mediation Services of South Africa (IMSSA) and the Commission for Conciliation Mediation and Arbitration (CCMA) and is a member of the Competition Tribunal.

She chairs the Board of BP Southern Africa and is a non-executive director of the Boards of Toyota SA, Implats Ltd, Reunert Ltd, ArcelorMittal South Africa Ltd, Freeworld Coatings Ltd and Foster Wheeler. Until recently, she was a non-executive director of the South African Reserve Bank and is an executive director of Peotona Group Holdings, a private company wholly owned by women.

Noluthando is also an author and adjunct Professor of Law at the University of Cape Town.

Sean David Jagoe (60)

BSc (Eng), MBA

Sean is an investment banker and Senior Adviser with J P Morgan, with 30 years of experience in corporate finance. He is a member of the audit committee and has recently been appointed the Lead Independent Director of the Board.

Sean has had a long association with the Company, having served on the board of Italtile Limited from 11 April 1990 to 7 February 1992, and then on the Ceramic board from 7 February 1992, when Italtile and Ceramic were listed separately, other than an 18-month period between 12 January 1996 and 9 June 1997. He is also a non-executive director of the Company's Australian subsidiary, National Ceramic Industries Pty Ltd and Reunert Limited.

Klaus Martin Schultz (74)

BSc (Geology)

Klaus Schultz has in excess of 40 years' experience in the refractories and ceramics fields, beginning as a Field Geologist for Messina Transvaal Development in 1961. Klaus then worked at Cullinan Refineries Limited, culminating as Research and Development Manager. During this time Klaus continued Mineralogical studies at Sheffield University (UK) under Professor White, and undertook further studies at Garber Research, USA. Klaus then moved to Vereeniging Refractories Limited for a period of ten years.

In 1972 Klaus received the Junior Business Man of the Year award, and in 1998 received a Laureatus from the University of Pretoria.

Klaus was appointed as Managing Director of National Ceramic Industries in 1985, a position he held until the Company was taken over by Italtile Limited, where he was appointed an Executive Director. In 1992 Italtile Limited unbundled, and Klaus became an Executive Director of Ceramic Industries Limited. Prior to his retirement in 1995, he also held the position of Deputy Chairman of Ceramic Industries. Since his retirement, Klaus has continued as a non-Executive Director of the Company, giving valuable assistance and advice in many areas, but particularly in regard to clay deposits and the mining thereof.

Ceramic Industries Limited
Registration number 1982/008520/06
Incorporated in the Republic of South Africa
Share code: CRM ISIN: ZAE000008538
("Ceramic" or "the Company")

Only to be completed by certificated shareholders and dematerialised shareholders with "own name" registration, nominee companies of CSDP's, bankers and brokers.

For use at the annual general meeting of the holders of ordinary shares in the Company ("Ceramic shareholders") to be held at Zenzele Park, corner Likkewaan and Dr Vosloo Streets, Bartlett Ext 40, Boksburg, on Friday, 25 November 2011 at 09:00.

Ceramic 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 Ceramic 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 Ceramic 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 ____

(full name/s in block letters)
of ____

(address)
being the holders of ____________________ ordinary shares in the Company, hereby appoint (see note 1)

1. ____________________________________ or failing him/her

2. ____________________________________ or failing him/her

3. 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, corner Likkewaan and Dr Vosloo Streets, Bartlett Ext 40, Boksburg, for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special 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:

		Number of votes (1 vote per share)		
		For	Against	Abstain
1.	**Ordinary resolutions**			
1.1	Ordinary resolution number 1 – Consideration of annual financial statements			
1.2	Ordinary resolution number 2 – Re-election of the directors:			
1.2.1	To re-elect Ms N D Orleyn as a director			
1.2.2	To re-elect Mr N S Nematswerani as a director			
1.2.3	To re-elect Mr G Zannoni as a director			
1.3	Ordinary resolution number 3 – Re-appointment of external auditor			
1.3.1	To appoint KPMG as auditors			
1.3.2	To appoint Terence Cheadle as the individual registered auditor			
1.4	Ordinary resolution number 4 – Election of members of the independent audit committee			
1.4.1	To elect N S Nematswerani as a member and chairman			
1.4.2	To elect S D Jagoe as a member			
1.4.3	To elect K M Schultz as a member			
1.5	Ordinary resolution number 5 – Approval of the remuneration paid to directors in the financial year ended 31 July 2011			
1.6	Ordinary resolution number 6 – Endorsement of the remuneration policy			
1.7	Ordinary resolution number 7 – Unissued shares to be placed under the control of the directors			
1.8	Ordinary resolution number 8 – General authority to issue shares, and to sell treasury shares for cash			
2.	**Special resolutions**			
2.1	Special resolution number 1 – Acquisition of own securities			
2.2	Special resolution number 2 – Financial assistance to related and inter-related entities			
2.3	Special resolution number 3 – Approval of non-executive directors' remuneration			

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.)

Please see notes on the reverse hereof.

Signed at ____________________ on ____________________ 2011

Signature ____________________ Assisted by me (where applicable) ____________________

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 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 shareholders' 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 09:00 on 25 November 2011, proxy forms must be lodged on or before 15:00 on 23 November 2011.

4. The completion and lodging of this proxy form will not preclude the relevant shareholder from 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.

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1982/008520/06

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