

# Accounting policies

FOR THE YEAR ENDED 30 SEPTEMBER 2001

These financial statements are presented in South African rand since that is the currency in which the majority of the group's transactions are denominated.

The financial statements for the current period cover the 12-month period ended 30 September 2001.

The principal accounting policies of the group, which are set out below, comply with currently applicable South African Statements of Generally Accepted Accounting Practice. These policies are, in all material respects, consistent with those applied in the previous year except as detailed in note 8 to the annual financial statements.

Where necessary the comparative figures have been adjusted or extended to take account of the new requirements of the following revised South African Statements of Generally Accepted Accounting Practice that the group implemented in 2001:

AC 105 Leases  
AC 117 Discontinuing operations  
AC 128 Impairment of assets  
AC 129 Intangible assets  
AC 130 Provisions, contingent liabilities and contingent assets  
AC 131 Business combinations  
AC 132 Consolidated financial statements  
AC 134 Accounting for government grants

With the exception of AC 131 Business combinations (see note 8), there are no changes in accounting policy that materially affect operating profit resulting from the adoption of the above statements in these financial statements.

## 1. BASE OF ACCOUNTING

The financial statements are prepared on the historical cost basis of accounting, as modified for the revaluation of property.

## 2. COMPARATIVE FIGURES

When an accounting policy is changed, comparative figures are restated in accordance with the new policy.

## 3. BASIS OF CONSOLIDATION

The group annual financial statements incorporate the financial statements of the company, its subsidiaries and joint ventures.

A subsidiary is an enterprise over which the group has control. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Operating results of subsidiaries acquired are included from the effective date of acquisition. Operating results of subsidiaries disposed of are included up to the effective date of sale.

Where the ability of certain foreign subsidiaries to transfer funds to South Africa is severely restricted these subsidiaries are not consolidated and the results of these subsidiaries are brought to account to the extent of dividends received.

Outside shareholders are measured as a percentage of the fair value of net assets.

All intercompany trading within the group is eliminated in the consolidated statements.

## 4. GOODWILL

Positive goodwill, being the excess of cost of acquisition of subsidiaries, associates and joint ventures and other businesses over the attributable fair value of the net assets at the date of acquisition, is capitalised and amortised over the expected useful life of the asset, not exceeding 20 years.

Where negative goodwill relates to expectations of future losses and expenses identified at acquisition, these are recognised in income as the losses and expenses are incurred. The portion not relating to future losses and expenses is recognised as follows:

- a. the amount not exceeding the fair values of identified non-monetary assets is recognised over the remaining average useful lives of identifiable acquired depreciable or amortisable assets;
- b. the amount in excess of the fair values of these assets is recognised in income immediately.

## 5. JOINT VENTURES

Joint ventures are those entities which are not subsidiaries and over which the group exercises joint control.

Joint control is the contractually arranged sharing of control over an economic activity.

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Joint ventures are accounted for using the proportionate consolidation method, whereby the group's share of each of the assets, liabilities, income, expenses and cash flows of joint ventures are included on a line-by-line basis in the consolidated annual financial statements.

Intergroup transactions with joint ventures are accounted for as follows:

On sales made by the rest of the group to the joint venture, where the asset is returned by it, only that portion of the gain attributable to the other venturers is recognised. Where the sale is made at a loss, the full loss is recognised immediately.

Where sales are made by the joint venture to the rest of the group, no profits made by the joint venture are recognised in the group accounts until the asset has been sold to an independent party.

Any difference between the cost of the acquisition and the group's share of the net identifiable assets, fairly valued, is recognised and treated according to the group's accounting policy for goodwill.

## 6. ASSOCIATE COMPANIES

Associate companies are those companies in which investments are held which provide the group with the power to exercise significant influence over the financial and operating policies of those companies, but are not considered to be joint ventures.

Associate companies are accounted for by the equity method from their audited or unaudited financial statements to 30 September.

Post-acquisition earnings and reserves retained by associate companies are transferred to non-distributable reserves.

In accordance with the accounting policy on associates, goodwill, being the excess of the cost of the investment over the fair values of the proportion of the net assets purchased at the date of acquisition is added to the carrying value of the investment. The goodwill is amortised against the group's share of the associate's profits over the expected useful life of the investment.

## 7. INVESTMENTS

Investments are stated at cost to the group, less amounts written off. Investments are written down to give recognition to permanent declines in value.

## 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are generally stated at cost to the group except for certain properties which have been revalued. Major improvements to existing buildings, plant and equipment are capitalised.

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected cash flows are discounted to their present values.

Depreciation is calculated on cost over the estimated useful lives of the assets. The methods and rates used are determined by conditions in the relevant industry.

Buildings, which the group regards as investment properties are not depreciated. The group defines investment properties as those for which a ready market exists should the group wish to sell the property. Where market conditions indicate a permanent decline in value, these properties are written down to this value.

## 9. CAPITALISATION OF LEASED ASSETS

Assets subject to financial lease agreements, where considered material and where the group assumes substantially all the benefits and risks of ownership, are capitalised at the fair value of the leased assets and the corresponding liability raised.

The cost of the assets is depreciated at appropriate rates on the straight-line basis over the estimated useful lives of the assets.

Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under the operating leases are charged to income on a straight-line basis over the term of the relevant lease.

## 10. INVENTORY AND CONTRACTS IN PROGRESS

Inventory is stated at the lower of cost and net realisable value. The basis of determining cost is mainly the first-in first-out basis. The value of

finished goods and work in progress include direct costs and relevant overhead expenditure.

Redundant and slow-moving inventory is identified and written down with regard to its estimated economic or realisable value. Consumables are written down with regard to their age, condition and utility.

Contracts in progress are valued at the lower of actual cost less progress invoicing and net realisable value. Cost comprises direct materials, labour, expenses and a proportion of overhead expenditure.

#### 11. DEFERRED TAXATION

The charge for taxation is based on the results for the year as adjusted for items which are non-taxable or disallowed. Temporary differences arise from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill, to the extent that it is not deductible for tax purposes or from the initial recognition of other assets and liabilities which affects neither the tax profit nor the accounting profit at the time of the transaction.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

#### 12. REVENUE RECOGNITION

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the

goods are transferred to the buyer, while revenue from services is recognised when the services are rendered.

Where the outcome of a construction contract can be reliably estimated, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that the contract costs incurred for work performed to date bear to the estimated contract cost. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

Capitalisation share awards are included in dividend income in the income statement.

Interest is recognised on the time-proportion basis, taking account of the principal amount outstanding and the effective rates over the period to maturity.

#### 13. REVENUE

Revenue comprises net invoiced sales to customers, rental from leasing fixed and moveable properties, commission and interest earned and excludes value added tax.

#### 14. FOREIGN CURRENCIES

##### 14.1 FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling on the transaction date. If a foreign currency denominated transaction is appropriately hedged with a forward exchange contract, the costs of hedging are included in the measurement of the underlying transaction and the transaction is therefore recorded at the forward rate.

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## 14.2 FOREIGN CURRENCY BALANCES

Foreign assets and liabilities of South African companies, are translated into South African rand at rates ruling at 30 September.

Profits and losses on translation of trading assets and liabilities are included in operating profit. Unrealised profits on translation of non-current assets and liabilities are deferred until realised.

## 14.3 FOREIGN ENTITIES

Financial statements of foreign subsidiaries are translated into South African rand as follows:

- Assets and liabilities at rates of exchange ruling at the group's financial year-end.
- Income, expenditure and cash flow items at the weighted average rates of exchange during the financial year.

Differences arising on translation are reflected in non-distributable reserves.

Goodwill and fair value adjustments are considered to relate to the foreign entity.

## 14.4 FOREIGN CURRENCY RISK MANAGEMENT POLICY

The group covers all foreign currency commitments.

## 15. BORROWING COSTS

Interest on borrowings raised specifically to finance the construction of qualifying assets to prepare them for sale or use, is capitalised as part of the cost of these assets up to the date that the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from borrowing costs capitalised.

All other borrowing costs are expensed in the period in which they are incurred.

## 16. PROVISIONS

A provision is raised when a reliable estimate can be made of a present obligation, resulting from a past

event, which will probably result in an outflow of resources, and there is no realistic alternative to settling the obligation created by the event, which occurred before the balance sheet date.

## 17. FINANCIAL INSTRUMENTS

### 17.1 FINANCIAL ASSETS

The group's principal financial assets are bank balances and cash, trade receivables and equity investments.

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Equity investments, where the group is not in a position to exert significant influence or joint control, are stated at cost less impairment losses recognised, where the investment's carrying amount exceeds its estimated recoverable amount.

### 17.2 FINANCIAL LIABILITIES

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Debt instruments issued which carry a right to convert to equity that is dependent on the outcome of uncertainties that is beyond the control of both the group and the holder, are classified as liabilities except where the possibility of non-conversion is remote.

Significant financial liabilities include interest-bearing bank loans and overdrafts and trade and other payables.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables are stated at their nominal value.

### 17.3 OFF-BALANCE SHEET DERIVATIVE INSTRUMENTS

Derivative financial instruments, comprising currency forward contracts, interest rate swap agreements and options, are not recognised in the financial statements on inception. Net income or expenses associated with interest rate swap agreements are recognised on an accrual basis over the life of the swap agreements as a component of interest.

### 18. RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to operating profit in the year in which it is incurred.

### 19. ABNORMAL ITEMS

Abnormal items are items of income or expense that arise from ordinary activities but are of such size, nature or incidence that they are separately disclosed in order to best reflect the group's performance.

### 20. EXTRAORDINARY ITEMS

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the group and therefore are not expected to occur frequently or regularly.

The following two events give rise to extraordinary items:

- The expropriation of assets
- An earthquake or other natural disaster

### 21. RETIREMENT FUNDING POLICY

Eligible employees are members of retirement schemes administered by the group which are funded in accordance with recommendations of the actuaries, or schemes with the various industries in which they are employed. The group's contributions for current service costs, past service and any supplemental benefits or enhanced contributions are charged against income when due in accordance with the rules of the funds or actuaries' recommendations.

### 22. INFLATION ACCOUNTING

The group recognises that financial statements prepared on a historical cost basis do not disclose true profits as they are unable to reflect the impact of inflation.

However, conventionally prepared financial statements still form the basis upon which business decisions are made and the yardstick by which companies are judged. Until a method of accounting for the effect of changing prices is developed which is meaningful, standardised, generally accepted and of benefit to users of financial statements, the group prefers to refrain from any attempt to disclose such effect.