Summary of accounting policies for the year ended 30 June 2006

Steinhoff International Holdings Limited (Steinhoff) is a South African registered company. The consolidated annual financial statements of Steinhoff for the year ended 30 June 2006 comprise Steinhoff and its subsidiaries (together referred to as the "Steinhoff group") and the group's interest in associate companies and joint venture companies.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the interpretations adopted by the International Accounting Standards Board (IASB), the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and the requirements of the South African Companies Act.

Adoption of IFRS

The group has adopted IFRS for the year ended 30 June 2006. These are the group's first consolidated financial statements prepared in compliance with IFRS and hence IFRS 1 – First-time Adoption of IFRS has been applied in preparing these financial statements. The group has adopted all applicable IFRS statements and interpretations issued or revised and effective up to the annual reporting date, 30 June 2006.

An explanation of how the transition to IFRS has affected the reported financial position and performance of the group is provided in note 40 of the annual financial statements.

BASIS OF PREPARATION

The annual financial statement are prepared in thousands of South African rands on the historical-cost basis, except for the following assets and liabilities which are stated at fair value or amortised cost as appropriate: certain financial instruments and biological assets.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

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 only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

The accounting policies set out below have been applied consistently to the periods presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at 1 July 2004 for the purposes of transition to IFRS.

The accounting policies have been applied consistently by all group entities.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the company (including special-purpose entities). Control exists when the company has the power to, directly or indirectly, govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the group's interest in the fair values of the identifiable net assets acquired exceeds the cost of acquisition (negative goodwill), the excess is recognised in profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent, unless the minority has a binding obligation to fund the losses and is able to make an additional investment to cover their losses.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All material intergroup transactions, balances, income and expenses and unrealised gains and losses between group companies are eliminated on consolidation.

Associate companies

An associate company is an entity over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the entity, but which it does not control.

The results of associate companies are incorporated in the consolidated financial statements using the equity method of accounting, from the date that significant influence commences until the date that significant influence ceases, except when the investment is classified as held-for-sale, in which case it is accounted for under IFRS 5 – Non-current Assets Held-for-Sale and Discontinued Operations. When the group’s share of losses exceeds its interest in an associate company, the group’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate company.

Where a group entity transacts with an associate company, unrealised profits and losses are eliminated to the extent of the group’s interest in the relevant associate company, except where unrealised losses provide evidence of an impairment of the asset transferred.

Any difference between the cost of acquisition and the group’s share of the net identifiable assets, liabilities and contingent liabilities, fairly valued, is recognised and treated according to the group’s accounting policy for goodwill and is included in the carrying value of the investment in associate companies.

Joint ventures companies

A joint venture company is defined as a contractual arrangement whereby two or more entities undertake an economic activity, which is subject to joint control. Joint control implies that neither of the contracting parties is in a position to unilaterally control the assets of the venture. Joint venture companies are accounted for by the proportionate consolidation method whereby the attributable share of each of the assets, liabilities, income and expenses and cash flows of the joint venture company is combined on a line-by-line basis with similar items in the group’s consolidated financial statements, from the date that joint control commences until the date joint control ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. A proportionate share of intergroup items is eliminated and unrealised profits and losses are eliminated to the extent of the group's interest in the relevant joint venture company, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

Deferred contingent purchase consideration

Where a structured business combination contains a puttable instrument on the interest of apparent minority shareholders, then a financial liability for the present value of the best estimate thereof is recognised upon initial accounting for the business combination.

The liability arising is regarded as a deferred contingent purchase consideration and the unwinding of the present value of the liability is presented as an interest expense. Any other change in the liability is recognised through goodwill as an adjustment to the cost of the business combination, including the impact of changes in interest rates on liabilities measured at fair value.

If the puttable arrangement is not exercised and settled, the derecognition of the financial liability is treated as a disposal of the anticipated interest in the subsidiary in accordance with the group’s accounting policy for common control transactions.

Common control transactions – premiums and discounts arising on subsequent purchases from, or sales to, minority interest in subsidiaries

Any increases and decreases in ownership interest in subsidiaries without a change in control are recognised as equity transactions in the consolidated financial statements. Accordingly, any premiums or discounts on subsequent purchases of equity instruments from, or sales of equity instruments to, minority interest are recognised directly in the equity of the parent shareholder.

Black economic empowerment (BEE) transactions

BEE transactions involving the disposal or issue of equity interests in subsidiaries are only recognised when the accounting recognition criteria have been met.

Although economic and legal ownership of such instruments may have transferred to the BEE partner, the derecognition of such equity interest sold or recognition of equity instruments issued in the underlying subsidiary by the parent shareholder is postponed until the accounting recognition criteria have been satisfied.

A dilution in the earnings attributable to the parent shareholders (in the interim period) is adjusted for in the diluted earnings per share calculation by an appropriate adjustment to the earnings used in such calculation.

Intangible assets and goodwill

Goodwill

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 April 2004, goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the net identifiable assets and liabilities of a subsidiary, associate or joint venture company at the date of acquisition.

The group made an election in terms of IFRS 1 that in respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice on 1 April 2004, subject to impairment tests performed at that date. The classification and accounting treatment of business combinations that occurred prior to 1 April 2004 has not been reconsidered in preparing the group's opening IFRS balance sheet at 1 July 2004 (refer to note 40).

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment or more frequently when there is an indication that the unit may be impaired. In respect of associate companies, the carrying amount of goodwill is included in the carrying amount of the investment in the associate company.

On disposal of a subsidiary, associate or joint venture company, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisition is recognised directly as a capital item in the income statement.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process can be identified, the products and processes are technically and commercially feasible, it is probable that the asset created will generate future economic benefits, the cost can be measured reliably and the group intends to and has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Other intangible assets

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses. If an intangible asset is acquired in a business combination, the cost of that intangible asset is measured at its fair value at the acquisition date.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation of intangible assets is recognised in the income statement on a straight-line basis over the assets' estimated useful lives, unless such lives are indefinite. Goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use are not amortised but are tested for impairment annually and whenever there is an indication that the asset may be impaired. Other intangible assets are amortised from the date they are available for use.

The amortisation methods, estimated useful lives and residual values are reassessed annually.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost to the group, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the costs of materials, direct labour, the initial estimate, where relevant, of the cost of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Certain items of property were revalued to fair value on 1 July 2004, the date of transition to IFRS, and measured on the basis of deemed cost, being the revalued amount at that date, in accordance with the transition provisions of IFRS 1.

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The gain or loss on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leased assets

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease.

The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective-interest rate method to determine the lease finance costs, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Subsequent costs

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, if it is probable that additional future economic benefits embodied within the item will flow to the group and the cost of such item can be measured reliably. Costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as an expense when incurred.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis at rates that will reduce the book values to estimated residual values over the estimated useful lives of the assets.

Land is not depreciated. Leasehold improvements on premises occupied under operating leases are written off over their expected useful lives or, where shorter, the term of the lease.

The depreciation methods, estimated useful lives and residual values, if not insignificant, are reassessed annually.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease.

Consumable biological assets

The group's timber plantations are classified as consumable biological assets. These assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the asset to the market. Gains and losses arising from changes in the fair value of the plantations less estimated point-of-sale costs are recorded in the income statement.

Impairment of assets

The carrying amounts of the group's assets, other than biological assets and inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually and when there is an indication of impairment.

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 the income statement as capital items.

Financial assets are considered to be impaired if objective evidence indicates one or more events have had a negative effect on the estimated future cash flows of that asset. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

Calculation of recoverable amount

The recoverable amount of the group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (ie the effective interest rate computed at initial recognition of these financial assets).

The recoverable amount of non-financial assets is the greater of an asset's fair value less cost to sell and 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 the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of impairment losses
An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss but recognised directly in equity. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, 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.

Operating leases
Payments and receipts under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received or granted are recognised in the income statement as an integral part of the total lease expense or revenue.

Inventories
Inventories are stated at the lower of cost and 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 and distribution expenses.

The cost of harvested timber is its fair value less estimated point-of-sale costs at the date of harvest, determined in accordance with the accounting policy for biological assets. Any change in fair value at the date of harvest is recognised in the income statement. The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Where necessary, the carrying amount of inventory is adjusted for obsolete, slow-moving and defective inventories.

Cash and cash equivalents
Cash and cash equivalents are defined as cash and bank and short-term, highly liquid investments, including certain derivative financial instruments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are only included where the group has a legal right of setoff due to cash management.

Share capital
Preference shares
Preference shares are classified as equity if they are non-redeemable and any dividends are discretionary, or are redeemable but only at the company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

In order to calculate earnings attributable to ordinary shareholders, the amount of preference dividends (taking into account secondary taxation on companies (STC)) for cumulative preference shares required for that period, whether or not declared, is deducted from profit attributable to equity holders in determining earnings per ordinary share. The amount of preference dividends for the period used to calculate earnings per ordinary share does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

Increasing-rate preference shares provide for an above-market dividend in later periods to compensate investors for purchasing preference shares at a premium. Any original issue premium on increasing rebate preference shares is amortised to retained earnings using the effective-interest rate method and treated as a preference dividend for the purposes of calculating earnings per ordinary share.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in accordance with the dividend policy below.

Treasury shares
When shares recognised as equity are purchased by group companies in their holding company and by the employee share trusts, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

Repurchase of issued shares
Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends
Dividends on redeemable preference shares are recognised as a liability and recognised as an interest expense using the effective-interest rate method. Other dividends are recognised as a liability in the period in which they are declared.

Dividends received on treasury shares are eliminated on consolidation.

Share-based payment transactions

Equity settled
The fair value of share options and deferred delivery shares granted to employees 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 measured using generally accepted valuation techniques, taking into account the terms and conditions upon which the instruments are granted. The amount recognised as an expense is adjusted to reflect the actual number of share options and deferred delivery shares that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting. This accounting policy has been applied to all equity instruments granted after 7 November 2002 that had not yet vested at 1 January 2005. The fair value of share-based payments was not recognised under the group's previous accounting policies.

Cash settled
The fair value of the amount payable to employees in respect of share appreciation rights 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 liability is remeasured at each balance sheet date to fair value and at settlement date. 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.

Black economic empowerment transactions
Where goods or services are considered to have been received from black economic empowerment partners as consideration for equity instruments of the group, these transactions are accounted for as share-based payment transactions, even when the entity cannot specifically identify the goods or services received. This accounting policy is applicable to equity instruments that had not vested by 1 January 2005 (as above).

Convertible bonds

Bonds which are convertible to share capital, where the number of shares to be issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of the proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective-interest method.

Taxation

Current taxation
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further exclude items that are never taxable or deductible.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation
Deferred tax is provided using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities for financial

reporting purposes and the amounts used in the computation of taxable income. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset will be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary taxation on companies and additional income taxes on distribution of dividends
Secondary taxation on companies (STC) and other additional taxes arising from the distribution of dividends are recognised in the year dividends are declared. A deferred taxation asset is recognised on unutilised STC credits when it is probable that such unused STC credits will be utilised in the future.

Foreign currency

Foreign currency transactions
Transactions in currencies other than the functional currency of entities are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates ruling on the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement. 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 at rates ruling at the dates the fair value was determined.

Financial statements of foreign operations
The assets and liabilities of all foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at rates approximating the foreign exchange rates ruling at the date of the transactions.

Foreign exchange differences arising on translation are recognised directly in a separate component of equity, the foreign currency translation reserve (FCTR). The foreign currency translation reserve applicable to a foreign operation is released to the income statement as a capital item upon disposal of that foreign operation.

The group has elected to reset its FCTR to zero at date of transition to IFRS in accordance with the transition provision of IFRS 1.

Net investment in foreign operations
Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are taken directly to the FCTR reserve. They are released to the income statement as a capital item upon disposal of that foreign operation.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Revenue recognition

Goods sold and services rendered
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at balance sheet date. The stage of completion is assessed by reference to surveys of the work performed.

Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods as well as continuing management involvement with goods to a degree usually associated with ownership. Where the group acts as agent and is remunerated on a commission basis, only the commission income, and not the value of the business transaction, is included in revenue.

Insurance premiums
Insurance premiums are stated before deducting reinsurances and commissions, and are accounted for at the commencement of the risk.

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

Rental income
Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

Dividend income
Dividend income from investments is recognised when the right to receive payment has been established.

Government grants
Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the group will comply with the conditions attached to it. Grants that compensate the group for expenses incurred are recognised as other operating income in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset.

Borrowing costs
Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent that it is directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period to prepare for their intended use or sale. Borrowing costs directly attributable to these qualifying assets are capitalised as part of the costs of those assets.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs capitalised are the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purposes of obtaining a qualifying asset, the amount of borrowing costs capitalised are determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate applied is the weighted average of the borrowing costs applicable to the borrowings of the group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

Capitalisation of borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Employee benefits
Short-term employee benefits
The costs of all short-term employee benefits are recognised during the period in which the employee renders the related service. The provisions for employee entitlements to salaries, performance bonuses and annual leave represent the amounts which the group has a present obligation to pay as a result of the employee's services provided. The provisions have been calculated at undiscounted amounts based on current salary levels.

Defined-contribution plans
Obligations for contributions to defined-contribution pension plans are recognised as an expense in the income statement as incurred.

Obligations to state-managed pension schemes are dealt with as defined-contribution plans where the group's obligations under the schemes are equivalent to those arising in a defined-contribution pension plan.

Defined-benefit plans
The group's net obligation in respect of defined-benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan's assets is deducted. The calculations are performed by qualified actuaries using the projected unit credit method with actuarial updates being carried out at each balance sheet date and formal valuations performed every three years.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that benefits vest immediately, the expense is recognised immediately in the income statement.

Actuarial gains and losses are recognised in equity in the period in which they occur.

Where the calculation results in a benefit to the group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past-service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Long-term service benefits
The group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value, and the fair value of any related assets is deducted.

Provisions

Provisions are recognised when the group has a present constructive or legal obligation as a result of a past event, and it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties
A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Restructuring
A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligation under the contract.

Rehabilitation provision
In accordance with the group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become a party to contractual provisions of the instrument. Financial instruments are initially measured at fair value, including transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

Financial assets
The group's principal financial assets are investments and loans, accounts receivable, short-term loans, funds on call and deposit, and bank and cash balances:

Accounts receivable
Trade and other receivables originated by the group are stated at their amortised cost less impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Funds on call and deposit, and bank and cash balances
Cash on hand is measured at fair value.

Deposits held on call, and investments in money market instruments, are classified as loans and receivables and carried at amortised cost.

Investments, loans and short-term loans
Financial instruments classified as held for trading are presented as current assets and are measured at fair value, with any resultant gain or loss recognised in the income statement.

Investments in securities are recognised on a trade-date basis and are initially measured at fair value, including transaction costs. At subsequent reporting dates, debt securities that the group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective-interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount of premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity and held-for-trading debt securities are classified as available-for-sale investments and are measured at subsequent reporting dates at fair value.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, except for impairment losses and, in the case of monetary items, foreign exchange gains or losses, which are recognised in the income statement. When these investments are disposed of, the cumulative gain or loss previously recognised in equity is included in the income statement as a capital item.

The group may elect upon initial recognition to designate certain interest-bearing loans at fair value through profit and loss when the rationale for such designation eliminates or substantially reduces an accounting mismatch from measuring related assets and liabilities, and recognising gains and losses on them on different bases.

Financial liabilities
The group's principal financial liabilities are interest-bearing debt, accounts payable and bank borrowings.

Interest-bearing debt
Interest-bearing debt, including finance lease obligations, is initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing debt is recognised at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective-interest basis.

The group may elect upon initial recognition to designate certain interest-bearing debt at fair value through profit and loss when the rationale for such designation eliminates or substantially reduces an accounting mismatch from measuring related assets and liabilities and recognising gains and losses on them on different bases.

Bank overdraft
Bank borrowings, consisting of 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.

Accounts payable
Trade and other payables are stated at amortised cost. Due to the short-term nature of the group's trade and other payables, the cost approximates its fair value.

Equity instruments
Equity instruments are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments
The group uses derivative financial instruments to manage its risk associated with foreign currency and interest rate fluctuations relating to certain firm commitments and forecast transactions arising from operational, financing and investment activities.

Derivative financial instruments are initially recorded at fair value and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments are recognised in profit and loss for the period as they arise. However, where derivatives qualify for hedge accounting (effective hedge of future cash flows), recognition of any resultant gain or loss depends on the nature of the item being hedged, are recognised directly in equity and the ineffective portion is recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet, being the present value of the quoted forward price.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with gains or losses reported in profit and loss for the period.

Hedging
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in equity.

When the hedged firm commitment or forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the cumulative amount recognised in equity up to the transaction date is adjusted against the initial measurement of the asset or liability. For other cash flow hedges, the cumulative amount recognised in equity is recognised in the income statement in the period when the commitment or forecast transaction affects the income statement.

Where the hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative unrealised gain or loss remains in equity and is recognised in the income statement when the underlying transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealised gain or loss is immediately recognised in the income statement.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Derecognition

Financial assets (or a portion thereof) are derecognised when the group realises the rights to the benefits specified in the contract, the rights expire or the group surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in profit and loss for the period.

Financial liabilities (or a portion thereof) are derecognised when the obligation specified in the contract is discharged, cancelled or expires. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and amount paid for it are included in profit and loss for the period.

Fair value methods and assumptions

The fair value of financial instruments traded in an organised financial market is measured at the applicable quoted prices.

The fair value of financial instruments not traded in an organised financial market is determined using a variety of methods and assumptions that are based on market conditions and risk existing at balance sheet date, including independent appraisals and discounted cash flow methods.

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values due to the short-term trading cycle of these items.

Non-current assets held for sale and discontinued operations

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. These assets may be a component of an entity, a disposal group or an individual non-current asset. Upon initial classification as held-for-sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less cost to sell.

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations or a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale. A disposal group that is to be abandoned may also qualify as a discontinued operation, but not as assets held for sale.

Discontinued operations are separately recognised in the financial statements once management has made a commitment to discontinue the operation without a realistic possibility of withdrawal which should be expected to qualify for recognition as a completed sale within one year from date of classification.

Segment reporting

A segment is a distinguishable component of the group that is engaged in providing products or services which are subject to risks and rewards that are different from those of other segments. Primary segment reporting is based on the type of business and correlates with the activities of the main operating divisions, and the secondary basis is by significant geographical region, which is based on the location of assets. The basis of segment reporting is representative of the internal structure used for management reporting.

Segment results include revenue and expenses directly attributable to a segment, whether from external transactions or from transactions with other group segments.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Dividend reinvestments

Ordinary shares issued as a capitalisation dividend award are capitalised by applying the ratio that a cash dividend bears to the issue price of the shares to be issued to a shareholder's shareholding, on the dividend payment date.