



**METROPOLITAN
TRADING
COMPANY**

THE METROPOLITAN TRADING COMPANY SOC LTD
Annual Financial Statements
for the year ended 30 June 2012

These annual financial statements were prepared by:
Juan Klopper (Acting CFO)

The Auditor-General of South Africa

THE METROPOLITAN TRADING COMPANY SOC LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2012

General Information

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Management of retail markets for formal and informal traders, ranking and holding facilities for public transport operators, provision of support to traders. The company provides support to traders and taxi operators in the form of market promotions and business training. Management of ticket sales, security and cleaning of Bus Rapid Transit System on behalf of the City of Johannesburg Metropolitan Municipality.
DIRECTORS	Mr C Coovadia (Chairman) Mr M Bahula Ms X Hloma Mr M J Makgonye Mr N Mametja Mrs L Nxumalo Mr N Rau Ms F Segole Mr L Vutula
CHIEF FINANCE OFFICER (CFO)	Mr J Klopper (Acting) - (Appointed 20 April 2012) Mr V Kgopa (Resigned 30 April 2012)
REGISTERED OFFICE	171 Bree Street Newtown Johannesburg 2113
BUSINESS ADDRESS	171 Bree Street Metro Mall Top Deck Johannesburg 2113
POSTAL ADDRESS	P O Box 870 Newtown Johannesburg 2113
CONTROLLING ENTITY	The City of Johannesburg Metropolitan Municipality
BANKERS	ABSA Bank Limited
AUDITORS	The Auditor-General of South Africa
SECRETARY	Mrs P Mathebula (Acting)
COMPANY REGISTRATION NUMBER	1999/011422/07

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
NPC	Non-profit company
SOC	State-owned company
SCMP	Supply Chain Management Policy

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Directors' Responsibilities and Approval

The directors are required by the Municipal Finance Management Act, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The City is conducting an institutional review and as a result, it has to be noted that a final decision has been made by the shareholder, the City of Johannesburg, to reintegrate MTC's operations back into the City. The integration will commence on the 1st of November 2012 with the entity ultimately being de-registered by the 30th of June 2013. The entity is currently operating uninterrupted and it is expected that the day to day operations will not be materially impacted by the reintegration. The entity is wholly dependent on the City of Johannesburg Metropolitan Municipality for the continued funding of the operations which they have undertaken and the entity has been allocated a budget for the 2012/13 budget period. There is no indication of significant or material impairments of the assets to be transferred, at market value, to City of Johannesburg. Taking into account the aforementioned, the annual financial statements are prepared on the basis that the entity is to be liquidated.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 4.

The annual financial statement set out on pages 4 to 50, which have been prepared on the going concern basis, were approved by the directors on 31 August, 2012 and were signed on its behalf by:


Mr C Coovadia (Chairman)
Non-executive Director


Mr N Rau
Non-executive Director

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Directors' Report

The directors submit their report for the year ended 30 June 2012.

1. INCORPORATION

The entity was incorporated on 01 March 1999 and obtained its certificate to commence business on the same day.

2. REVIEW OF ACTIVITIES

Main business and operations

The entity is engaged in management of retail markets for formal and informal traders, ranking and holding facilities for public transport operators, provision of support to traders, the company provides support to traders and taxi operators in the form of market promotions and business training, management of ticket sales, security and cleaning of bus rapid transit system on behalf of the City of Johannesburg Metropolitan municipality.

The mandate of the company includes the management of the Rea Vaya BRT stations. This resulted in a significant increase in grants received from the City of Johannesburg Metropolitan Municipality as well as related expenditure which consists mainly of an increase in salaries and wages as well as security and cleaning costs. It is expected that the station contractor agreement between the MTC and the Department of Transport related to the management of the Rea Vaya BRT stations will cease in the 2012/13 financial period.

The operating results and the state of affairs of the company are set out fully in the attached annual financial statements and do not in our opinion require any further comment.

The company incurred a net surplus of R 6,212,599 (2011: deficit R 2,349,021).

Included in the 2011 deficit of R2,349,021 is an abnormally high leave accrual of R1,695,519 (Refer Note 19). Company policy allows a maximum of 5 leave days to be carried over to the next financial year unless approved by the CEO. All leave was cancelled in the last part of the last quarter to meet operational requirements and therefore resulted in a much larger than usual leave accrual.

3. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to liquidation. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business until the entity is de-registered.

The City of Johannesburg Metropolitan Municipality has provided an operating subsidy of R51.775 million (2011: R45.293 million). Capital expenditure was funded by the City of Johannesburg Metropolitan Municipality for the current financial year of R5 million (2011: R7 million).

As has been noted in the Directors' responsibility and approval note, it is expected that the entity will be reintegrated into the City of Johannesburg during the next financial period.

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Directors' Report

4. SUBSEQUENT EVENTS

The directors and management are not aware of any matter or circumstance, other than the items mentioned below, arising since the end of the financial year, to the date of this report in respect of matters which would require adjustments to the annual financial statements.

The City of Johannesburg undertook an institutional review and in principle it has been decided that the MTC mandate will be taken over by the City of Johannesburg and various other municipal owned entities. This will result in the entity being re-integrated back into the City. As of 01 November 2012 the core functions of MTC will be incorporated into the Johannesburg Property Company as part of the integration process.

The Institutional Review and the consequential moratorium on senior appointments, resulted in significant challenges for the company. The moratorium resulted in a shortfall in crucial areas of expertise and thus posed significant challenges within the company.

In 2006/2007, 3M Vat Recovery (Pty) Ltd assisted MTC to recover R 16,262,547.57 from SARS by advising MTC to issue revised VAT returns for various return periods between 2001 and 2005, in relation to the treatment of VAT at zero rates on operating grants received from the CoJ, instead of at standard rates. Commission paid to 3M VAT Recovery Pty (Ltd) was based on a contingency fee of 25% in the 2006/7 financial year and has been pursued by MTC during the 2009 year under review. However it was established that the company had been liquidated. The company and its director's were subsequently blacklisted.

During the current financial period a voluntary disclosure was made to SARS in terms of the "VDP" Voluntary Disclosure Programme and Taxation Laws Amendment Act, 2010. On the 15th of August 2012, correspondence has been received from SARS to submit revised returns in relation to the VDP. There is a risk that the commission paid to 3M VAT Recovery will be recovered by SARS in addition to the R16,262,547.57.

5. DIRECTORS' INTEREST IN CONTRACTS

The directors of the company have declared that they did not have any personal interest in contracts entered into by the company during the year under review.

6. BORROWING LIMITATIONS

The Metropolitan Trading Company SOC Limited does not have the authority to borrow funds on its own behalf. All external funding is managed under the auspices of the City of Johannesburg Metropolitan Municipality.

7. NON-CURRENT ASSETS

There were no major changes in the nature of the non-current assets of the company during the year.

8. DIVIDENDS

No dividends were declared or paid to shareholder during the year.

9. DIRECTORS

The directors of the entity during the year were as follows:

Name	Changes
Mr C Coovadia (Chairman)	Appointed on 25 April 2012
Mr M Bahula	Appointed on 25 April 2012
Ms X Hloma (Chairman until 25 April 2012)	
Mr M J Makgonye	Appointed on 25 April 2012
Mr N Mametja	Appointed on 25 April 2012
Mrs L Nxumalo	
Mr N Rau	Appointed on 25 April 2012
Mr A Sam (CEO)	Passed away on 27 June 2012
Ms F Segole	
Mr L Vutula	Appointed on 25 April 2012

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Directors' Report

The following directors resigned during the financial year:

Ms D Dondur	Resigned 10 February 2012
Mr F Matabane	Resigned 20 July 2011
Ms N Singh	Retired 25 April 2012
Ms B Skenjana	Retired 25 April 2012

Chief Executive Officer

On 7 April 2010 the Chief Executive Officer of the company was put on special leave and resumed his duties on 26 July 2010. He was again put on special leave on 4 April 2011. Mr MJ Mashele was appointed as acting Chief Executive Officer on the same day. It is with regret that we note that the Chief Executive Officer passed away on the 27th of June 2012 in a fatal motor accident.

10. SECRETARY

The secretary of the entity is Mrs P Mathebula (Acting)

Business address

Top Deck, Metro Mall
171 Bree Street
Newtown
Johannesburg

Postal address

PO Box 870
Newtown
2113

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Directors' Report

11. CORPORATE GOVERNANCE

General

The board of directors is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the board of directors supports the highest standards of corporate governance and the ongoing development of best practice.

The Metropolitan Trading Company SOC Ltd confirms and acknowledges its responsibility to comply with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Code on Corporate Governance. Where applicable the board of directors discuss the responsibilities of management in this respect at Board meetings and monitor the company's compliance with the Code every three months.

Directors' meetings

Non-executive directors have access to all members of management of the entity.

Name	Board meeting	Audit & Risk committee meeting	HR Remco & Social Ethics committee meeting	OPS committee meeting	Other
Mr C Coovadia (Chairman)	1	-	-	-	-
Mr M Bahula	1	-	-	1	-
Ms D Dondur	4	5	4	-	2
Ms X Hloma (Chairman until 25 April 2012)	11	-	1	5	4
Mr J Makgonye	1	-	1	-	-
Mr N Mametja	1	1	-	-	-
Mr F Matabane	1	-	-	1	-
Mrs L Nxumalo	5	-	8	-	-
Mr N Rau	1	1	-	-	-
Ms F Segole	7	-	-	5	2
Ms B Skenjana	7	-	6	-	1
Ms N Singh	9	10	-	-	1
Mr L Vutula	1	-	-	1	-

The following members of the board attended the AGM held on the 25th of April 2012:

Mr M Bahula
 Ms X Hloma
 Mr J Makgonye
 Mr N Mametja
 Mrs L Nxumalo
 Mr N Rau
 Ms F Segole
 Ms N Singh

Independent audit committee members:

Name	Board meeting	Audit & Risk committee meeting	Other	AGM
Ms R Kenosi	1	7	2	1
Mr H Moolla	2	10	1	1
Mr R Theunissen (Retired 25 April 2012)	1	6	1	-

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Directors' Report

Committees

The chair persons of the following committees are:

Audit and Risk committee	Mr N Rau (Appointed 20 June 2012) Ms N Singh (Retired 25 April 2012)
Human Resources & Social Ethics committee	Ms L Nxumalo (Reappointed 25 June 2012)
Operations committee	Ms F Segole (Reappointed 19 June 2012)

12. SHARE CAPITAL

There were no changes in the authorised or issued share capital of the company during the year under review.

The entire shareholding of the company is held by the City of Johannesburg Metropolitan Municipality.

Unissued ordinary shares are under the control of the City of Johannesburg Metropolitan Municipality.

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Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has unsuccessfully attempted to lodge with the Commissioner all such returns as are required of a public company in terms of the Companies Act due to an online account error at the Companies and Intellectual Property Commission (CIPC).



Mrs P Mathebula (Acting)
Company Secretary

Johannesburg
31 August 2012

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Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Receivables from exchange transactions	2	44,132,532	57,381,519
VAT receivable	3	567,787	1,074,570
Cash and cash equivalents	4	1,567	16,106
		44,701,886	58,472,195
Non-Current Assets			
Investment property	5	46,143,191	46,237,171
Property, plant and equipment	6	1,191,217	1,790,142
Intangible assets	7	75,525	175,884
Operating lease asset	8	28,147,771	28,577,380
		75,557,704	76,780,577
Non-Current Assets		75,557,704	76,780,577
Current Assets		44,701,886	58,472,195
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		120,259,590	135,252,772
Liabilities			
Current Liabilities			
Finance lease obligation	9	-	417,603
Payables from exchange transactions	10	27,590,954	48,379,131
		27,590,954	48,796,734
Non-Current Liabilities		-	-
Current Liabilities		27,590,954	48,796,734
Liabilities of disposal groups		-	-
Total Liabilities		27,590,954	48,796,734
Assets		120,259,590	135,252,772
Liabilities		(27,590,954)	(48,796,734)
Net Assets		92,668,636	86,456,038
Net Assets			
Share capital and share premium	12	163,897,489	163,897,489
Accumulated surplus		(71,228,853)	(77,441,451)
Total Net Assets		92,668,636	86,456,038

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Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Electricity	14	1,686,690	1,479,765
Public transport rental		491,446	731,717
Municipal grants	15	51,775,000	45,293,000
Advertising revenue		3,580,423	2,006,357
Informal trader rental		5,261,211	4,928,996
Fair value adjustments		(161,056)	(513,399)
Retail rental		4,787,151	5,772,128
Other income	16	3,480,939	2,085,998
Interest received - investment	17	1,413,608	735,004
Total Revenue		72,315,412	62,519,566
Expenditure			
Employee costs	19	(16,077,591)	(17,417,589)
Depreciation and amortisation	20	(1,203,264)	(1,382,825)
Impairment loss	21	-	(257,718)
Finance costs	22	(310,663)	(682,234)
Bad debts	23	(1,238,453)	(4,273,484)
Repairs and maintenance		(1,476,983)	(893,056)
General Expenses	24	(7,305,125)	(7,417,536)
Cleaning		(7,940,031)	(6,158,083)
Security		(20,573,526)	(17,993,753)
Utilities		(9,977,177)	(8,392,309)
Total Expenditure		(66,102,813)	(64,868,587)
Revenue		72,315,412	62,519,566
Expenditure		(66,102,813)	(64,868,587)
Other		-	-
Surplus/(Deficit) for the year		6,212,599	(2,349,021)

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Statement of Changes in Net Assets

Figures in Rand	Share capital and share premium	Share premium	Total share capital	Accumulated surplus	Total net assets
Balance at 01 July 2010	475	163,897,014	163,897,489	(75,092,430)	88,805,059
Changes in net assets	-	-	-	(2,349,021)	(2,349,021)
Surplus for the year	-	-	-	(2,349,021)	(2,349,021)
Total changes	-	-	-	(2,349,021)	(2,349,021)
Balance at 01 July 2011	475	163,897,014	163,897,489	(77,441,452)	86,456,037
Changes in net assets	-	-	-	6,212,599	6,212,599
Surplus for the year	-	-	-	6,212,599	6,212,599
Total changes	-	-	-	6,212,599	6,212,599
Balance at 30 June 2012	475	163,897,014	163,897,489	(71,228,853)	92,668,636
Note(s)	12	12	12		

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Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		87,110,875	57,389,778
Interest income		1,264,826	735,004
		<u>88,375,701</u>	<u>58,124,782</u>
Payments			
Employee costs		(16,077,591)	(16,162,048)
Suppliers		(71,174,382)	(39,925,908)
Finance costs		(145,952)	(257,335)
		<u>(87,397,925)</u>	<u>(56,345,291)</u>
Total receipts		88,375,701	58,124,782
Total payments		(87,397,925)	(56,345,291)
Net cash flows from operating activities	27	<u>977,776</u>	<u>1,779,491</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(255,400)	(452,698)
Additions to investment property	5	(154,600)	-
Additions to other intangible assets	7	-	(170,098)
Impairment loss		-	(257,718)
Net cash flows from investing activities		<u>(410,000)</u>	<u>(880,514)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments		(582,314)	(883,548)
Net increase in cash and cash equivalents		<u>(14,538)</u>	<u>15,429</u>
Cash and cash equivalents at the beginning of the year		16,106	677
Cash and cash equivalents at the end of the year	4	<u>1,568</u>	<u>16,106</u>

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant Judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the entity for similar financial instruments.

Useful lives

The entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Allowance for doubtful debts

On debtors, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	6 - 25 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

- Where the owner occupied space is less than 40% of total space, property is classified as investment property.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Plant and machinery	3 - 6 years
Furniture and fixtures	6 - 10 years
Motor vehicles	4 - 6 years
Office equipment	3 - 5 years
IT equipment	2 - 5 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

THE METROPOLITAN TRADING COMPANY SOC LTD

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation of intangible assets begin when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases when the intangible asset is derecognised.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 - 7 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Financial Instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the entity's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable 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.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the entity's accounting policy for borrowing costs.

1.6 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

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1. Presentation of Annual Financial Statements (continued)

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

1.7 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

1.8 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Management fees

Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity for its own account.

Cash received in terms of the service level agreement between MTC and the City of Johannesburg Metropolitan Municipality to pay for cleaning and security services for the BRT stations is not recognised as revenue.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the entity's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.9 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Municipal grants

Municipal grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed program may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbusement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.10 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

1.11 Unauthorised expenditure

Unauthorised expenditure means:

- overspending
- expenditure not in accordance with the budget.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.14 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
2. Receivables from exchange transactions		
Trade debtors	18,573,055	16,064,840
Deposits	460,468	489,522
Less: Provision for impairment	(14,460,497)	(13,505,056)
Fair value adjustments	(81,198)	532,521
Sundry debtors	169,074	214,779
Related party debtors	39,471,630	53,584,913
	44,132,532	57,381,519

Trade and other receivables past due but not impaired

Trade and other receivables which are past due but are not considered to be impaired. At 30 June 2012, R 26,211,413 (2011: R 37,882,061) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	5,659,084	9,374,424
2 months past due	1,445,923	26,108,074
3 months past due	19,106,406	2,399,563

Reconciliation of provision for impairment of trade and other receivables

Opening balance	13,505,056	10,766,879
Provision for impairment	1,238,453	4,273,484
Amounts written off as uncollectable	(283,012)	(1,535,307)
	14,460,497	13,505,056

3. VAT receivable

VAT	567,787	1,074,570
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4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,055	276
Bank balances	512	15,830
	1,567	16,106

As at 30 June 2012 The Metropolitan Trading Company SOC Ltd had one current account held at ABSA bank (Account number 4050 839 158 with a closing balance of R512 (2011: R15,380).

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Figures in Rand 2012 2011

5. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	119,490,815	(73,347,624)	46,143,191	119,336,215	(73,099,044)	46,237,171

Reconciliation of investment property - 2012

	Opening balance	Additions	Depreciation	Total
Investment property	46,237,171	154,600	(248,580)	46,143,191

Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment property	46,490,431	(253,260)	46,237,171

Estimated fair value of investment properties 55,152,000 55,002,000

Details of property

Metro Mall, Erf 601,602 and 603, Newtown, Extension 1

Investment Property is held under a 99 year lease agreement with the City of Johannesburg

- Cost	112,652,658	112,498,058
- Accumulated impairment	(69,588,058)	(69,588,058)
	43,064,600	42,910,000

Yeoville market & flats, Erf 737 & Erf 1304, Yeoville

- Cost (Land)	487,200	487,200
- Accumulated depreciation	-	-
	487,200	487,200

Yeoville market & flats, Erf 737 & Erf 1304, Yeoville

- Cost (Buildings)	6,350,957	6,350,957
- Accumulated depreciation	(3,759,566)	(3,510,987)
	2,591,391	2,839,970

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Figures in Rand 2012 2011

6. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Plant and machinery	300,899	(237,519)	63,380	261,130	(233,935)	27,195
Furniture and fixtures	885,539	(456,579)	428,960	744,833	(369,585)	375,248
Motor vehicles	315,664	(204,825)	110,839	315,664	(167,685)	147,979
Office equipment	763,543	(674,340)	89,203	717,949	(479,090)	238,859
IT equipment	3,136,335	(2,637,500)	498,835	3,128,335	(2,127,474)	1,000,861
Total	5,401,980	(4,210,763)	1,191,217	5,167,911	(3,377,769)	1,790,142

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Plant and machinery	27,195	61,100	(24,915)	63,380
Furniture and fixtures	375,248	140,706	(86,994)	428,960
Motor vehicles	147,979	-	(37,140)	110,839
Office equipment	238,859	45,594	(195,250)	89,203
IT equipment	1,000,861	8,000	(510,026)	498,835
	1,790,142	255,400	(854,325)	1,191,217

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Plant and machinery	48,526	-	(21,331)	27,195
Furniture and fixtures	429,008	24,670	(78,430)	375,248
Motor vehicles	32,244	142,762	(27,027)	147,979
Office equipment	400,724	35,078	(196,943)	238,859
IT equipment	1,327,391	250,188	(576,718)	1,000,861
	2,237,893	452,698	(900,449)	1,790,142

The following leased assets are included in Property, Plant and Equipment listed above:

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Office equipment	472,002	(468,981)	3,021	381,358	(381,345)	13
Computer equipment	468,981	(445,784)	23,197	468,981	(205,949)	263,032
Total	940,983	(914,765)	26,218	850,339	(587,294)	263,045

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7. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,323,205	(1,247,680)	75,525	1,493,303	(1,317,419)	175,884

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software	175,884	(100,359)	75,525

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	234,901	170,098	(229,115)	175,884

8. Operating lease asset (accrual)

Land held under operating lease in terms of 99 year lease agreement with the City of Johannesburg Metropolitan Municipality being Erf 729 to 732, situated in Yeoville.

9. Finance lease obligation

Minimum lease payments due - within one year	-	610,278
	-	610,278
less: future finance charges	-	(192,675)
Present value of minimum lease payments	-	417,603
Present value of minimum lease payments due - within one year	-	417,603

The average lease term was 3 years and the average effective borrowing rate was 6% (2011: 6%).

All leases had fixed repayments and no arrangements were entered into for contingent rent.

10. Payables from exchange transactions

Accrued expenses	908,310	768,490
Adjustment for fair value at amortised cost	(39,060)	(152,505)
Other payables - Payroll Clearing	1,333,813	2,111,195
Related party creditor	2,304,519	19,781,702
Tenant deposits	506,277	499,557
Trade payables	6,314,105	9,107,702
VAT refund	16,262,990	16,262,990
	27,590,954	48,379,131

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11. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Reversed during the year	Total
Other Provisions	108,000	(108,000)	-

12. Share capital and share premium

Authorised

10,000 Ordinary shares of R1 each 10,000 10,000

Issued

Ordinary	475	475
Share premium	163,897,014	163,897,014
	163,897,489	163,897,489

There were no changes in the authorised or issued share capital of the company during the year under review.

The entire shareholding of the company is held by the City of Johannesburg Metropolitan Municipality.

Unissued ordinary shares are under the control of the City of Johannesburg Metropolitan Municipality.

13. Revenue

Electricity	1,686,690	1,479,765
Public transport rental	491,446	731,717
Interest received - investment	1,413,608	735,004
Municipal grants	51,775,000	45,293,000
Sundry	3,580,423	2,006,357
Informal trader rental	5,261,211	4,928,996
Advertising revenue	3,480,939	2,085,998
Fair value adjustments	(161,056)	(513,399)
Miscellaneous other revenue	4,787,151	5,772,128
	72,315,412	62,519,566

The amount included in revenue arising from exchanges of goods or services are as follows:

Electricity	1,686,690	1,479,765
Public transport rental	491,446	731,717
Other income	3,480,939	2,085,998
Interest received - investment	1,413,608	735,004
Advertising revenue	3,580,423	2,006,357
Informal trader rental	5,261,211	4,928,996
Retail revenue	4,787,151	5,772,128
	20,701,468	17,739,965

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue

Municipal grants	51,775,000	45,293,000
Fair value adjustments	(161,056)	(513,399)
	51,613,944	44,779,601

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Figures in Rand	2012	2011
14. Service charges		
Sale of electricity	1,686,690	1,479,765
15. Municipal grants and subsidies		
Operational grant	51,775,000	45,293,000
16. Other Income		
BRT Management fee	2,860,755	1,048,694
Tender fees received	176,474	339,579
Sundry income	443,710	697,725
	3,480,939	2,085,998
17. Investment revenue		
Interest revenue		
Fair value adjustments of receivables	148,782	517,751
Bank	1,167,301	61,798
Interest charged on trade and other receivables	97,525	155,455
	1,413,608	735,004

The amount included in Investment revenue arising from exchange transactions amounted to R 1,264,826. (2011: R217,253)

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R 148,782 (2011: R517,751).

18. Fair value adjustments

Application of Practice Note 9 of 2006, Fair value of Revenue recognised where payment was not received according to normal credit terms.

Credit terms: Rental charged in advance on the 1st, payable by the last business day on or before the 7th.
Interest rate used: Treasury risk free rate of 5.53% (2011 5.24%)

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19. Employee related costs		
Employee related costs : Salaries and wages	17,809,749	15,722,070
Leave accrual	(1,732,158)	1,695,519
	16,077,591	17,417,589
Employee costs include:		
Remuneration of executive directors		
*Mr AX Sam (CEO)	1,234,366	1,068,809
*Mr AX Sam passed away on 27 June 2012.		
Remuneration of non executive directors		
Mr C Coovadia (Chairman)	17,193	-
Mr M Bahula	17,527	-
Dr K Dakile*	-	4,960
Ms D Dondur	77,606	163,710
Ms X Hloma (ex Chairman)	249,325	274,876
Ms R Kenosi (Independent audit committee member)	72,420	82,340
Mr M Luus*	-	34,720
Mr J Makgonye	17,527	-
Mr N Mametja	18,517	-
Ms F Matebane	10,912	140,672
Mr H Moolla (Independent audit committee member)	84,320	88,290
Mr J Nkele*	-	29,762
Mrs L Nxumalo**	95,234	124,000
Mr T Nzimakwe* (Past Chairman)	-	19,840
Mr N Rau	18,517	-
Ms F Segole	109,130	111,110
Ms N Singh	172,998	235,110
Ms B Skenjana	62,510	99,210
Mr R Theunissen (Independent audit committee member)	38,690	101,190
Mr T Tlhacoane*	-	39,680
Ms M van Eeden*	-	9,920
Mr L Vutula	12,567	-
	1,074,993	1,559,390
*These directors all retired in the first quarter of the 2010/11 financial period.		
** Mrs L Nxumalo was previously known as Ms L Mpuru in the 2010/11 financial period.		
Remuneration of acting chief executive officer		
*Mr MJ Mashele	844,586	594,717
*Mr MJ Mashele has acted as CEO from 4 April 2011 and is not a director of the company.		
Remuneration of chief finance officer		
*Mr V Kgopa	971,401	757,912
**Mr J Klopper (Acting CFO)	130,279	-
	1,101,680	757,912

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Figures in Rand	2012	2011
19. Employee related costs (continued)		
*Mr V Kgopa resigned effective 30 April 2012.		
**Mr J Klopper was appointed on 20 April 2012.		
20. Depreciation and amortisation		
Property, plant and equipment	1,102,905	1,153,710
Intangible assets	100,359	229,115
	1,203,264	1,382,825
21. Impairment of assets		
Capital Work in Progress (WIP)	-	257,718
When capital projects are incurred on behalf of the City of Johannesburg Metropolitan Municipality, the expenses are debited to Capital Work in Progress. The claims submitted to the City of Johannesburg Metropolitan Municipality are then used to offset against the Work in Progress. Not all claims were accepted by the City and this resulted in the impairment.		
22. Finance costs		
Trade and other payables	845	189,021
Finance leases	164,711	576,840
Bank	31,662	350
Fair value adjustments on payables	113,445	(83,977)
	310,663	682,234
Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R153 521 (2011: R67,964).		
23. Bad debt		
Bad debts	283,012	1,535,307
Contributions to bad-debt provision	955,441	2,738,177
	1,238,453	4,273,484

The main contributors to the decrease in provision for doubtful debts are improved collection rates across all categories of debtors.

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24. General expenses		
Advertising	358,205	419,259
Agency fees	70,573	64,195
Auditors remuneration	713,955	961,053
Bank charges	78,603	53,152
Computer expenses	1,046,351	775,842
Conferences and seminars	194,953	138,609
Consulting and professional fees	1,719,787	2,081,737
Entertainment	18,714	44,491
General expenses	138,679	132,301
Insurance	411,608	403,480
Lease rentals on operating lease	482,740	405,857
Motor vehicle expenses	90,898	34,071
Pest control	380,480	434,505
Printing and stationery	470,767	343,941
Secretarial fees	166,540	-
Staff welfare	268,139	196,755
Subscriptions and membership fees	30,953	21,947
Telephone and fax	483,696	604,164
Training	179,484	150,236
	7,305,125	7,265,595
25. Taxation		
No provision has been made for 2012 tax as the entity has a significant accumulated loss. The estimated tax loss available for set off against future taxable income is R 290,587 (2011: R 6,200,266).		
26. Auditor's remuneration		
Fees	713,955	961,053
27. Cash generated from operations		
Surplus (deficit)	6,212,599	(2,349,021)
Adjustments for:		
Depreciation and amortisation	1,203,264	1,382,825
Finance costs - Finance leases	164,711	576,840
Impairment deficit	-	257,718
Debt impairment	1,238,453	4,273,484
Movements in operating lease assets and accruals	429,609	396,563
Impairment, Capital WIP	-	(108,000)
Changes in working capital:		
Receivables from exchange transactions	13,248,987	(4,856,806)
Bad debts provision	(1,238,453)	(4,273,484)
Payables from exchange transactions	(20,788,177)	6,017,352
VAT	506,783	462,020
	977,776	1,779,491

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Figures in Rand	2012	2011
28. Related parties		
Relationships		
Controlling entity	The City of Johannesburg Metropolitan Municipality	
Other members of the group	City Housing Company SOC Ltd City of Johannesburg Property Company SOC Ltd City of Johannesburg Metropolitan Municipality City Power Johannesburg SOC Ltd Johannesburg City Parks NPC Johannesburg Development Agency SOC Ltd Johannesburg Metropolitan Bus Services SOC Ltd Johannesburg Roads Agency SOC Ltd Johannesburg Tourism Company NPC Johannesburg Water SOC Ltd Pikitup Johannesburg SOC Ltd Roodepoort City Theatre NPC The Johannesburg Civic Theatre SOC Ltd The Johannesburg Fresh Produce Market SOC Ltd The Johannesburg Zoo NPC Fried shelf 128 SOC Ltd Greater Newtown Development Company SOC Ltd Constitutional Hill Development Company SOC Ltd Joshco JV	
Related party balances		
Amounts included in Loans, Trade and other receivables regarding related parties		
City of Johannesburg Metropolitan Municipality	12,414,721	53,584,913
City of Johannesburg- Sweeping account	27,056,908	-
	39,471,629	53,584,913
Amounts included in Loans, Trade and other payables regarding related parties		
City of Johannesburg Metropolitan Municipality	2,304,519	9,450,153
City of Johannesburg Metropolitan Municipality - Equity Loan	94,994,472	94,994,472
City of Johannesburg- Sweeping account	-	10,331,549
	97,298,991	114,776,174
Related party transactions		
Sales to related parties		
City of Johannesburg Metropolitan Municipality - Grants received	51,775,000	45,293,000
City of Johannesburg Metropolitan Municipality - BRT Management fee	2,861,122	1,048,694
	54,636,122	46,341,694
Purchases from related parties		
City Power Johannesburg SOC Ltd	1,843,744	111,973
City of Johannesburg Metropolitan Municipality	834,309	2,349,986
Johannesburg Water SOC Ltd	3,021,831	3,281,682
Pikitup Johannesburg SOC Ltd	2,584,290	1,236,866
	8,284,174	6,980,507
Interest paid to (received from) related parties		
City of Johannesburg- Sweeping account	(1,135,845)	(735,004)

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29. Risk management

Capital risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

At 30 June 2012, if interest rates on the Rand-denominated CoJ Sweeping account had been 0.1% higher/lower with all other variables held constant, post-tax surplus for the year would have been R 270,569 (2011: R 103,315) lower/higher, mainly as a result of higher/lower interest expense on the floating rate CoJ Sweeping account.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

30. Going concern

The City is conducting an institutional review and as a result, it has to be noted that a final decision has been made by the shareholder, the City of Johannesburg, to reintegrate MTC's operations back into the City. The integration will commence on the 1st of November 2012 with the entity ultimately being de-registered by the 30th of June 2013. The entity is currently operating uninterrupted and it is expected that the day to day operations will not be materially impacted by the reintegration. The entity is wholly dependent on the City of Johannesburg Metropolitan Municipality for the continued funding of the operations which they have undertaken and the entity has been allocated a budget for the 2012/13 budget period. There is no indication of significant or material impairments of the assets to be transferred, at market value, to City of Johannesburg. Taking into account the aforementioned, the annual financial statements are prepared on the basis that the entity is to be liquidated.

The ability of the company to continue as a going concern is dependent on the City of Johannesburg continuing to provide funding.

31. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	697,236	-
Fruitless and wasteful expenditure	645,215	697,236
	<u>1,342,451</u>	<u>697,236</u>

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31. Fruitless and wasteful expenditure (continued)

Lease payments of R392,878 (2011: R508,215) was made for Voice over internet protocol (VOIP) and WIFI installations. These systems were installed but there were no computers at the respective markets to use these services.

Cancellation fees for a venue booking of R 615.60

In 2011 Interest of R189,021 was paid on overdue accounts. 98% of this was interest paid on the overdrawn sweeping account. This account was overdrawn because MTC experienced cash flow problems because of its inability to collect inter company debtors. The process issues that caused these problems were resolved in the last quarter of the financial year.

Contract cancellation fee of R 62,700 paid to Zinia Wireless Telecoms for wireless data services not installed or utilised.

32. Irregular expenditure

Analysis of expenditure awaiting condonation per age classification

Details of irregular expenditure – 2012

	Disciplinary steps taken/criminal proceedings	
No MDB 4 forms	Management has implemented the use of MBD4 forms to ensure that suppliers declare their interests	130,460
Takgalang Consulting	The matter is under investigation so that appropriate steps can be taken	872,100
Supplier Database	The matter is under investigation so that appropriate steps can be taken	100,507
Service Provider was appointed by the Project Manager. He then failed to pay the Service Provider. MTC settled the claim.	The matter is under investigation so that appropriate steps can be taken	20,422
No quotations attached	The matter is under investigation so that appropriate steps can be taken	322,734
Declaration and tax	The matter is under investigation so that appropriate steps can be taken	101,402
		<u>1,547,625</u>

Details of irregular expenditure – 2011

	Disciplinary steps taken/criminal proceedings	
No bid documentation (Waste removal agreement entered into 2005)	Tender was advertised when the situation came to the attention of management.	1,015,510
Awards to employees in service of the state	The matter is under investigation so that appropriate steps can be taken	122,021
No quotations attached	The matter is under investigation so that appropriate steps can be taken	215,080
Non compliance with SCM policy	The matter is under investigation so that appropriate steps can be taken	54,019
		<u>1,406,630</u>

33. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

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Net surplus (deficit) per the statement of financial performance	6,212,599	(2,349,021)
Adjusted for:		
Increases / (decreases) in leave accrual	(1,732,158)	1,695,519
Revenue	(790,407)	76,434
Expenses	(3,690,034)	577,068
Net surplus per approved budget	-	-

34. Deviation from supply chain management policies

Supply chain management policy

Section 19(1) of the Supply Chain Management Policy provides for deviation from the procurement policy under the following circumstances:

- Emergency or Exceptional cases;
- If such goods or services are produced or available from a single/sole provider only;
- For the acquisition of the special works of art or historical objects where specifications are difficult to compile;

The following were material deviations from the Supply Chain Management policy during the 2012 period:

2012	Demand management and SCMP deviations (Frequency)	Demand management and SCMP deviations (Value)
Deviation from the normal procurement processes (Exceptional Cases)	30	1,810,103
Emergency	3	29,374
Emergency (only one supplier responded)	52	703,267
	85	2,542,744

2011	SCMP Deviation (Frequency)	SCMP Deviation (Value)
Deviation from the normal procurement processes (Exceptional Cases)	3	2,592,616

35. Awards to family members of persons in service of the state

Supplier

Ncele Consulting & Projects	5,529	96,698
Interim Consulting	55,062	-
Bowman & Gilfillan	439,749	-
	500,340	96,698

Diana Sigcinele Mavuso, Dentist Grade 1 at Gauteng: Health is the wife of the member of Ncele Consulting & Projects

B Nwamadi, JE - Head of District at Gauteng: Education is a director at Interim Consulting

AJ Steenkamp, Judges - Labour Court at National Department of Justice is a director at Bowman & Gilfillan

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36. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Electricity	1,400,000	1,400,000	2,800,000	-	-	2,800,000	1,686,690	-	(1,113,310)	60 %	120 %
Interest received	730,000	730,000	1,460,000	-	-	1,460,000	1,413,608	-	(46,392)	97 %	194 %
Municipal grants	51,775,000	51,775,000	103,550,000	-	-	103,550,000	51,775,000	-	(51,775,000)	50 %	100 %
Other own revenue	13,020,000	(13,020,000)	-	-	-	-	17,440,114	-	17,440,114	DIV/0 %	134 %
Total revenue (excluding capital transfers and contributions)	66,925,000	40,885,000	107,810,000	-	-	107,810,000	72,315,412	-	(35,494,588)	67 %	108 %
Employee costs	(14,113,000)	(17,313,000)	(31,426,000)	-	-	(31,426,000)	(16,077,591)	-	15,348,409	51 %	114 %
Debt impairment	(2,750,000)	(1,750,000)	(4,500,000)	-	-	(4,500,000)	(1,238,453)	-	3,261,547	28 %	45 %
Depreciation and asset impairment	(1,122,002)	(1,148,992)	(2,270,994)	-	-	(2,270,994)	(1,203,264)	-	1,067,730	53 %	107 %
Finance charges	(113,998)	113,998	-	-	-	-	(310,663)	-	(310,663)	DIV/0 %	273 %
Other expenditure	(48,199,003)	48,199,003	-	-	-	-	(47,272,842)	-	(47,272,842)	DIV/0 %	98 %
Total expenditure	(66,298,003)	28,101,009	(38,196,994)	-	-	(38,196,994)	(66,102,813)	-	(27,905,819)	173 %	100 %
Total revenue (excluding capital transfers and contributions)	66,925,000	40,885,000	107,810,000	-	-	107,810,000	72,315,412	-	(35,494,588)	67 %	108 %
Total expenditure	(66,298,003)	28,101,009	(38,196,994)	-	-	(38,196,994)	(66,102,813)	-	(27,905,819)	173 %	100 %
Surplus/(Deficit)	626,997	68,986,009	69,613,006	-	-	69,613,006	6,212,599	-	(63,400,407)	9 %	991 %

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36. Statement of comparative and actual information (continued)							
Surplus (Deficit) after capital transfers and contributions	626,997	68,986,009	69,613,006	6,212,599	-	(63,400,407)	9 %
Surplus/(Deficit) for the year	626,997	68,986,009	69,613,006	6,212,599	[REDACTED]	(63,400,407)	9 %
							991 %

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37. New standards and interpretations

37.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2012 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions on the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2013.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

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37. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2012.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 103: Heritage Assets

Grp 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the entity; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grp 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

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37. New standards and interpretations (continued)

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grp 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grp 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

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37. New standards and interpretations (continued)

An entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, an entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an entity applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and

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37. New standards and interpretations (continued)

- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an entity in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned;

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37. New standards and interpretations (continued)

- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an entity provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
 - an entity's decision to terminate an employee's employment before the normal retirement date; or
 - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

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37. New standards and interpretations (continued)

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an entity to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an entity considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an entity subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another entity on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An entity measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

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37. New standards and interpretations (continued)

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An entity is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an entity can however designate such an instrument to be measured at fair value.

An entity can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an entity has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an entity has transferred control of the asset to another entity.

An entity derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an entity modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An entity cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an entity's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an entity is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An entity is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the amendment will have a material impact on the entity's annual financial statements.

GRAP 105: Transfers of functions between entities under common control

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37. New standards and interpretations (continued)

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The entity expects to adopt the standard for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the entity's annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the amendment will have a material impact on the entity's annual financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the amendment will have a material impact on the entity's annual financial statements.

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37. New standards and interpretations (continued)

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2013.

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37. New standards and Interpretations (continued)

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

The aggregate impact of the initial application of the statements and interpretations on the entity's annual financial statements is expected to be as follows:

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2012

2011

38. Non-Compliance with laws and regulations

Included below are material findings of non-compliance with specific requirements in key applicable laws and regulations.

Budget

- The annual budget of the municipal entity was not approved by the board of directors as required by section 87(4) of the MFMA.

Strategic Planning and Performance management

- The accounting officer of the municipal entity did not, by 20 January assess the performance of the entity during the first half of the financial year, taking into account the targets set in the service delivery agreement, business plan or other agreement with the entity's parent municipality as required by section 88(1)(a) of the MFMA.

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- The financial statements submitted for audit did not comply with section 122(1) of the MFMA. Material misstatements were identified during the audit; these were subsequently corrected by management.

Procurement and contract management

- Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
- Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
- Sufficient appropriate audit evidence could not be obtained that awards were to providers based on criteria that were stipulated in the original bid documents as per the requirements of SCM regulation 21(b) and 28(1).
- Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of Municipal SCM regulation 13(c).
- Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
- Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
- Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers that scored the highest points in the evaluation process as per the requirements of section 2(1)(f) of Preferential Procurement Policy Framework Act.
- Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that he/she is in the service of the state as required by SCM regulation 13(c).

Expenditure management

- The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure, as required by section 95(d) of the Municipal Finance Management Act.
- All payments due to creditors were not settled within 30 days from receipt of an invoice or statement, as per the requirements of section 99(2)(b).