

Hosken Consolidated Investments Limited

INTEGRATED ANNUAL REPORT 2011

TABLE OF CONTENTS

02	Corporate Administration
03	Group Financial Highlights
04	Board of Directors
08	Report of Chairman and Chief Executive Officer
10	Review of Operations
22	Business Segments
23	Shareholders' Information
25	Corporate Governance
31	Sustainability Report
40	Approval of Annual Financial Statements
40	Declaration by Company Secretary
41	Report of the Independent Auditor
42	Directors' Report
44	Income Statements
45	Statements of Other Comprehensive Income
46	Statements of Financial Position
48	Statements of Changes in Equity
50	Cash Flow Statements
51	Accounting Policies
66	Notes to the Financial Statements
132	Interest in Principal Subsidiary Companies
134	Notice to Members
	Salient features of The HCI Employee Share Trust (2001) (inserted)
	Proxy form (inserted)

CORPORATE ADMINISTRATION

DIRECTORS

Executive Directors

Marcel Jonathan Anthony Golding (Chairman)
Block B, Longkloof Studios
Darters Road, Gardens
Cape Town, 8001

John Anthony Copelyn (Chief Executive Officer)
Block B, Longkloof Studios
Darters Road, Gardens,
Cape Town, 8001

Theventheran Govindsamy Govender [Kevin]
(Financial Director)
Block B, Longkloof Studios
Darters Road, Gardens
Cape Town, 8001

Non-Executive Directors

Virginia Mary Engel
Block A, Longkloof Studios
Darters Road, Gardens
Cape Town, 8001

Rakesh Samjee Garach #
Block B, Longkloof Studios
Darters Road, Gardens
Cape Town, 8001

Mimi Freddie Magugu #
Block B, Longkloof Studios
Darters Road, Gardens
Cape Town, 8001

Dr Lynette Moretlo Molefi #
Block B, Longkloof Studios
Darters Road, Gardens
Cape Town, 8001

Velaphi Elias Mphande
Block B, Longkloof Studios
Darters Road, gardens
Cape Town, 8001

Jabulani Geffrey Ngcobo #
Block B, Longkloof Studios
Darters Road, Gardens
Cape Town, 8001

Yunis Shaik #
52 Troon Road
Greenside, 2193

Independent

WEBSITE ADDRESS

www.hci.co.za

COMPANY REGISTRATION NUMBER

1973/007111/06

SHARE CODE

HCI ISIN: ZAE000003257

COMPANY SECRETARY AND REGISTERED OFFICE

HCI Managerial Services (Pty) Limited
Block B, Longkloof Studios
Darters Road, Gardens,
Cape Town, 8001

Telephone: (021) 481 7560
Telefax: (021) 426 2777
P O Box 5251
Cape Town, 8000

AUDITORS

PKF (Jhb) Inc
Registration number 1994/001166/21
42 Wierda Road West,
Wierda Valley,
Johannesburg, 2196
Private Bag X10046,
Sandton 2146

BANKERS

First National Bank of Southern Africa Limited

SPONSOR

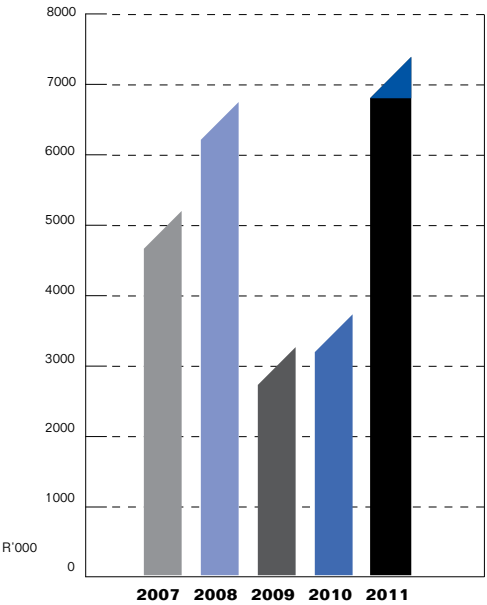
Investec Bank Limited
100 Grayston Drive
Sandton, Sandown, 2196

TRANSFER SECRETARIES

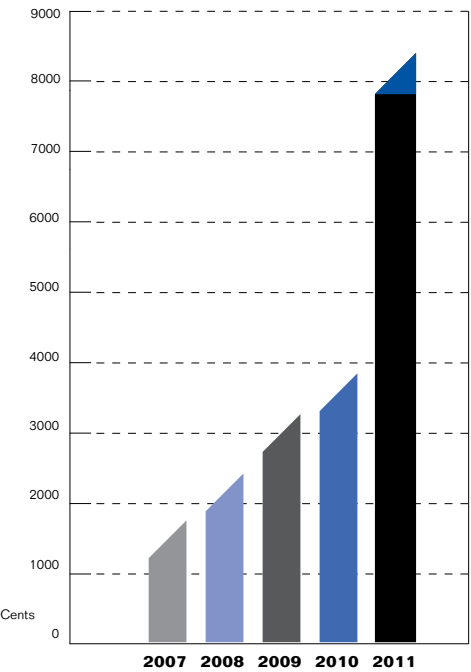
Computershare Investor Services Ltd
70 Marshall Street
Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

GROUP FINANCIAL HIGHLIGHTS

HEADLINE EARNINGS



NET ASSET CARRYING VALUE PER SHARE



FINANCIAL HIGHLIGHTS FOR THE YEAR

		2007	2008	2009	2010	2011
Dividend per share	- cents	50	60	0	60	75
Share price - high	- cents	6 200	9 000	7 850	8 195	8 699
- low	- cents	3 700	6 040	3 303	3 550	7 205
- at year end	- cents	6 035	7 700	4 021	7 880	7 799

FIVE YEAR REVIEW

	2007	2008	2009	2010	2011
Group Revenue ('Rm)	4 185	8 820	10 902	12 136	6 784
Net asset carrying value per share – cents	1 710	2 375	3 371	3 704	8 267
Shares in issue ('000) (net of treasury) – average	123 691	124 179	124 692	125 085	126 135
– at year end	123 896	123 851	124 909	125 254	127 089

BOARD OF DIRECTORS



JOHN COPELYN
Chief Executive Officer
B.A. [Hons] B.Proc

MARCEL GOLDING
Executive Chairman
B.A. [Hons]

JABU NGCOBO
Independent Non-Executive
Director

FREDDIE MAGUGU
Independent Non-Executive
Director

VIRGINIA ENGEL
Non-Executive
Director

KEVIN GOVENDER
Financial Director
B.Comm [Hons] B.Compt [Hons]

RAKESH GARACH
Independent Non-Executive
Director B.Comm CA (SA)

MORETLO MOLEFI
Independent Non-Executive Director
BSc MBChB Telemed [dip] SMP

YUNIS SHAIK
Independent
Non-Executive Director
B.Proc

ELIAS MPHANDE
Non-Executive Director
Elec. Eng. [dip]

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

JOHN COPELYN (61)

Chief Executive Officer
B.A. [Hons] B.Proc

John joined HCI as chief executive officer in 1997. Prior to this he was a member of parliament and general secretary of the Southern African Clothing and Textile Workers Union. He is chairman of e.tv, Seardel Investment Corporation, Tsogo Sun Holdings and the HCI Foundation.

MARCEL GOLDING (51)

Executive Chairman
B.A. [Hons]

Marcel joined HCI as chairman in 1997. Prior to this he was a member of parliament and deputy general secretary of the National Union of Mineworkers. He is chairman of Golden Arrow Bus Services and KWV Holdings.

KEVIN GOVENDER (40)

Financial Director
B.Comm [Hons] B.Compt [Hons]

Kevin is the financial director of HCI. He joined the HCI group in 1997 where he has also held the position of company secretary and chief financial officer from 2001. He holds directorships in several HCI subsidiaries and is a trustee of the HCI Foundation. He was appointed to the HCI Board as an executive director in June 2009.

NON-EXECUTIVE DIRECTORS

VIRGINIA ENGEL (61)

Non-Executive Director

Virginia is chief executive officer of the HCI Foundation. Previous to this she was the co-ordinator of the SACTWU Welfare Trust and private secretary to Nelson Mandela during the last two years of his presidency. She holds a non-executive directorship in Golden Arrow Bus Services. She was appointed to the Board of HCI as non-executive director in January 2004.

FREDDIE MAGUGU (51)

Independent Non-Executive Director

Freddie worked for the Southern African Clothing and Textile Workers Union from 1982, reaching the position of national organising secretary which he held from 1993 to 1998. He was the senior development manager at Unibank from 1999 to 2002. He was appointed to the board of HCI as a non-executive director in April 1998.

MORETLO MOLEFI (42)

Independent Non-Executive Director
BSc MBChB Telemed [dip] SMP

Moretlo is a businesswoman with interests in the health sector. Prior to this she was the director of the Telemedicine program at the Medical Research Council of SA; consultant for Aspen Pharmacare and COO of Safika Health. She currently serves as a board member of International Society for Telemedicine and eHealth and vice-president of SA Telemedicine Association. She was appointed to the board of HCI in December 2006.

JABU NGCOBO (60)

Independent Non-Executive Director

Jabu was the regional secretary for Africa of the International Textile Garment and Leather Workers Federation from 1999 to 2006. Prior to this appointment he held the position of general secretary of the Southern African Clothing and Textile Workers Union for 6 years from 1994 to 1999. Jabu was appointed to the board of HCI as a non-executive director in October 2004. He also serves on the board of Tsogo Sun Holdings and HCI Coal.

RAKESH GARACH (47)

Independent Non-Executive Director
B.Comm CA (SA)

Rakesh was chief operating officer for Deutsche Bank SA from 2005 to 2007. Prior to this appointment he was a senior partner within assurance services at Ernst and Young from 1999 to 2005. He has previously sat on the boards of Peu Investment Group and was a vice-president at Citibank,N.A (South Africa). He also serves on the boards of National Empowerment Fund and KZN Growth Fund Managers. He was appointed to the HCI board as a non-executive director in March 2008.

YUNIS SHAIK (53)

Independent Non-Executive Director
B.Proc

Yunis is an attorney of the High Court and presently in private practice. He is a former deputy general secretary of the Southern African Clothing and Textile Workers Union and a director of Workers' College. He has served as a senior commissioner to the CCMA in KwaZulu Natal. He was appointed to the HCI Board in August 2005 and as lead independent non-executive director of the HCI board in August 2010.

ELIAS MPHANDE (53)

Non-Executive Director
Elec. Eng. [dip]

Elias was the national organising secretary of the Southern African Clothing and Textile Workers Union from 1990 to 1995. He subsequently served as CEO of AUTA (1996 – 2000), marketing director of Viamax Fleet Solutions, a subsidiary of Transnet (2001-2005) and CEO of the Vukani Group (2006 – 2010). He served as chairman of Golden Arrow Bus Services for four years until 2010. He was appointed to the HCI Board in September 2010 as a non-executive director. He also serves on the board of Tsogo Sun Holdings, Vukani Gaming Corporation and e.tv.

REPORT OF CHAIRMAN



MJA Golding
Chairman

Last year we emphasised the significance of the merger transaction between Gold Reef Resorts and Tsogo Sun. The various conditions precedent for that merger were fulfilled and it was finalised in February 2011. The effect was to release several billion rand of profit through our income statement as a result of our equity accounting rather than consolidating Tsogo's results in HCl going forward. This change in accounting treatment dominated our results and had the effect of obscuring the underlying growth in the operational profitability of our subsidiaries.

REVIEW OF INVESTMENTS

Growth in profitability

Nevertheless, the current financial year has been a good year for HCl in several ways. Headline profits are up on last year by 97%. This was achieved by the group's major contributors (Tsogo and Sabido) improving their contribution to group headline profits on last year by 10,8% and several other investments turning in really excellent performances. Of these, Golden Arrow's improvement of 57% over last year's earnings is remarkable, particularly as the business might reasonably be regarded as "mature" given that this is its 150th year of providing passenger transport to the City of Cape Town. Also, Vukani's 35% uptick despite all its difficulties is most encouraging. Among the turnaround operations, Formex broke even after losing R122 million the previous year and Seardel turned in substantial profits from continuing businesses. Losses from discontinued operations in Seardel will not be ongoing and the underlying business going forward is significantly profitable. EBITDA from Montauk improved by approximately 30% for the year, allowing them to reduce their losses significantly. Amongst the start-up

businesses, unstoppable drive and enthusiasm from the management of Galaxy Bingo has resulted in it turning cash positive from December 2010, and systematic attention to detail by management in our mining subsidiary produced its first annual profit of R22 million.

Investment activity

The group was engaged in a wide variety of new business activity. We purchased a 34,9% stake in KVV and, subsequent to year-end, have obtained permission from the competition authorities to take control of the company. The business has not been performing well and we hope our entry into its shareholding will result in it developing a stronger vision of its participation in the liquor industry going forward. We believe, it is, in any event a good base for HCl to grow into that industry. We also started a new investment holding subsidiary in Australia following the decision of three key, former HCl employees to emigrate there.

Several other developments took place within the group's subsidiaries and associates during the year. As reported at our interim results, Sabido disposed of its interest in Viamedia, TIH bought back 25% of its shares formerly owned by Nafhold, and Seardel resolved to close Intimate Apparel.

Since that report we have successfully taken over a London-based global content distributor of films and TV series, Powercorp. During the year Tsogo concluded its reverse takeover of Gold Reef Resorts. This resulted in HCl's share in a major subsidiary being diluted to 41,3% and, whilst we remain very active in the company, we no longer consolidate the results. The merger itself resulted in the enlarged group becoming not only the central provider of hotel accommodation in South Africa but also the largest owner of casinos in South Africa. It has a strong balance sheet with relatively

AND CHIEF EXECUTIVE OFFICER

low debt levels, as a consequence of the merger having been achieved by a share swap, and we believe it is in the best position to take advantage of consolidation opportunities arising within its industries.

Montauk acquired a company called Viridis which produces some 30 megawatts of electricity from landfill gas and also developed a new electricity project on its own site at the McKinney landfill. This went into production in June 2011 on time and within budget. Seardel commenced the redevelopment of the large industrial property vacated by the vertical pipeline formerly operated by the Frame group. This substantial redevelopment will result in that group renting approximately 150 000 square metres of additional industrial property to third parties. The development is being done in phases and is expected to be completed in the second half of 2012. Seardel likewise has negotiated a long-term licencing agreement with the Mandela Children's Fund for clothing branded "46664". The range was launched in the local market in August 2011 and hopefully this can be extended internationally in due course.

The disposal of the Gallagher Convention business was achieved by leasing the premises with effect from 1 April 2011 to a third party accepted by the competition authorities. Most recently we have agreed to dispose of the Pan-African Parliament building at Gallagher Estate to various Nafcoc trusts in exchange for preference shares issued to them by TIH. The effect of this transaction is to reduce significantly the long term debt of the group incurred in the course of buying back the Nafhold stake in TIH.

Sustainability Report

This year the group has been obliged to concentrate on broadening its

focus on sustainability in line with the new reporting standards from King III, and has also participated on a voluntary basis in the Carbon Disclosure Project.

While detail of this is contained elsewhere in the report, it has been an eye-opener for senior management of the group to become aware that the group's emissions from its operations are equal to about a million tons of CO₂ per year, while the emissions saved from its operations in Montauk (other than CO₂ involved in carbon credits sold by the company) save the equivalent of some 2,5 million tons of CO₂ being emitted.

In truth, however, the Scope 3 emissions associated with the coal sold to Eskom by HCl Coal represents some 3,5 million tons and should our litigation over the Mbali mine and/or our mining right application at Nokuhle mine be successful, we intend to increase coal mining activity. To some extent the Scope 3 emissions issue is undoubtedly a double counting as it will also count as both a Scope 1 emission for Eskom and in consequence a Scope 2 emission (amongst others) for HCl. On the other hand, fossil fuel is part of the problem and it doesn't make sense to pretend one has no part in it because we do not directly consume the coal we mine.

To date we have not formulated sustainability policies for the group other than to encourage a concern to minimise emissions and to encourage our Foundation not only to consider welfare-orientated projects but also to broaden our CSI initiatives to include "green" projects. The first of these has been started in the form of focusing our housing-spend on a contribution to assisting with solar geysers for RDP homes.



JA Copelyn
Chief Executive Officer